

Audit #17-08:

Contract Management

Detailed Audit Report

Office of the City Auditor and Clerk
Internal Audit

Prepared by:



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City Auditor and Clerk /

Chief Audit Executive

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www.sarasotagov.com





Date: February 15, 2018

To: Mayor Shelli Freeland Eddie
Vice Mayor Liz Alpert
Commissioner Jen Ahearn-Koch
Commissioner Hagen Brody
Commissioner Willie Charles Shaw

From: Pamela M. Nadalini, MBA, BBA, CMC, City Auditor and Clerk / Chief Audit Executive

Subject: Final Report #17-08: Contract Management Audit

Good afternoon, Mayor, Vice Mayor and Commissioners:

Attached for your information and review are copies of the detailed and executive summary audit reports.

If you have any questions, please do not hesitate to call me at (941) 954-4169.

Attachment(s):

Detailed Audit Report #17-08
Executive Summary Audit Report #17-08

c: Thomas Barwin, City Manager
Robert Fournier, City Attorney
D. Edward Daugherty, CPA, Manager Internal Audit
Hayden Gaston, Senior Internal Auditor
File



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Detailed Audit Report #17-08
Executive Summary Audit Report #17-08

c: John Lege, Assistant City Manager
Kelly Strickland, Director of Finance
David Boswell, Purchasing General Manager
Ed Daugherty, CPA, Manager Internal Audit
Hayden Gaston, Senior Internal Auditor
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BACKGROUND AND INTRODUCTION

The City of Sarasota's Purchasing Division (Purchasing) is responsible for the management of procurement of all goods and services, including construction and professional services for the City of Sarasota¹. Some of the major duties include the preparation of bid specifications, competitive sealed bidding, contract administration, project management, the acquisition and disposal of obsolete and surplus material.

Ordinance No. 12-5009, *City Procurement Code*, includes rules such as thresholds for price quotations and competitive bids and prohibitions on certain types of purchases. The major State Statutes pertaining to purchasing are 287.055, 287.057 and 255.05, all of which the City must adhere to.

The contract process from start to end involves multiple phases: contract procurement, the contract period, and the post-contract period. Each one of these phases involves various actions by Purchasing and, if applicable, the department seeking the contract.

The Purchasing General Manager has implemented multiple controls, throughout the procurement process designed to prevent errors and reduce risks to the City associated with contract management. Some of these controls include Department Director or designee review and approval, Purchasing approval, training among City staff and training for vendors.

During the period under audit there were approximately 320 active contracts.

AUDIT PURPOSE

This audit was performed to Assess the design and effectiveness of the management control framework in place to support contract procurement activities. This audit was included on the 2017 Audit Schedule.

AUDIT SCOPE

The scope of this audit included a review of the procurement of contracts by the Purchasing Division and the City. The audit focused on the policies, procedures, processes and controls over procurement that were in place during the audit period. The audit period was July 1, 2016 to June 30, 2017.

AUDIT OBJECTIVES

The audit focused on the following objectives:

- 1) Determine whether the City was in compliance with policies and procedures over the contract procurement process; and
- 2) Assess the adequacy, efficiency, and effectiveness of the Purchasing Department's organizational structure, systems, procedures and consistency of implementation over contract procurement.

¹ Purchasing is not responsible for the Public Art Committee, Firefighter's Pension Plan, or the Police Pension Plan procurement of goods or services.

AUDIT STANDARDS

The auditors conducted this audit in conformance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for findings and conclusions based on the audit objectives.

TESTING METHODOLOGY

In order to fulfill the audit objectives, Internal Audit:

- Interviewed appropriate personnel to gain an understanding of the contract monitoring process;
- Reviewed the training materials provided to staff by Purchasing;
- Reviewed supporting documentation for purchase transactions in the auditor's sample including invoices, price quotes, bid submissions, bid files, etc.;
- Conducted random site visits to observe the physical existence of purchased items in the departments;
- Reviewed and evaluated Ordinance No. 12-5009, *City Procurement Code*, and other related procurement rules and regulations; and
- Compared bid awards to total contract prices.

AUDIT CRITERIA

Conditions noted by Internal Audit during testing and fieldwork were compared to criteria noted in the following City rules and regulations. In determining the effectiveness of the administrative controls over the procurement program, the auditor also referred to professional literature regarding best practices for purchasing programs.

The following sources were used as audit criteria:

City of Sarasota

- Ordinance No. 12-5009 - City Procurement Code
- Florida State Statute 255.0525
- Florida State Statute 287.017
- Florida State Statute 255.05
- Florida State Statute 287.057
- Florida State Statute 287.055

NOTEWORTHY ACCOMPLISHMENTS

City Ordinance No. 12-5009, City of Sarasota Procurement Code, was thorough and comprehensive and appeared to include appropriate language that was in agreement with the various Florida State Statutes noted above under Audit Criteria. Internal Audit noted that the overall Ordinance for governing the procurement of goods and services is adequate.

Purchasing offers training to City employees throughout the year covering various aspects of the procurement process such as *Procurement Rules and Procedures, Preparing Your Bid, RFP Committee Member Training, Insurance and Risk Management – Protecting the City in Your Procurements and Developing a Single/Sole Source*. Providing training to current and new employees helps to refresh their understanding and knowledge of City procurement rules and processes. Additionally, it provides an opportunity for Purchasing to update staff on changes in the process or new State Statutes that need to be followed in the procurement process.

OBSERVATIONS AND RECOMMENDATIONS FOR IMPROVEMENTS

Observations and recommendations in this report are offered as independent guidance to management for their consideration in strengthening controls.

A complete list of Audit’s observations and recommendations is located on page 11 of this report. For information on priority levels assigned to audit recommendations, please see [Exhibit A](#). Our observations and recommendations are separated according to the specific audit objectives.

OBSERVATIONS & RECOMMENDATIONS FOR IMPROVEMENTS

Audit Objective #1

BACKGROUND

Purchasing employs several Purchasing Officials (Buyers) whose job functions include preparing and issuing requests for proposals, preparing legal notices, maintaining bid documentation, assisting city departments with bid specifications, bid submissions and the closeout of contracts. Buyers help to ensure that City Procurement Code along with State Statutes are followed during the contracting process. Additionally, bid requirements change depending on the cost of the contract and require additional procedures, steps, notices, approvals, etc. be performed to maintain compliance.

THE CITY WAS GENERALLY IN COMPLIANCE WITH POLICIES AND PROCEDURES OVER THE CONTRACT AND PROCUREMENT PROCESS

OBSERVATIONS, TESTING & RECOMMENDATION

Audit procedures performed over contracts include:

- **Supporting documents** (including competing price quotes) are required to be attached to sales receipts where a single transaction exceeds \$5,000. Contracts in excess of \$50,000 require competitive bids, unless one of the exceptions is met. Additionally, if costs exceed \$200,000 then it must be approved by

the City Commission. Of the contracts in the auditor's sample, there were no exceptions to compliance identified. Price quotes, City Commission approval, when required, and contract supporting documentation were appropriately obtained and maintained for all items in the auditor's sample.

- **Sales tax** should not be applied to purchases; the City's tax exempt number is printed on the front of the credit card to assist with obtaining the exemption. Additionally, a sales tax exempt certificate should be maintained by each employee making purchases and be provided to the vendors as needed. Audit testing of contract invoices did not identify transactions that included sales tax amounts.
- The auditor selected a sample of **tangible items** purchased to ensure they physically resided within the departments and appear to be in agreement with the contract. For the sample of selected items, the auditor was able to find the purchased items in the respective departments and the items appeared to be in agreement with the contract.

Based on auditor's testing of contracts, discussions with Buyers, review of bid files, legal notices, pay applications, invoices and meeting minutes it was noted that Purchasing appears to be procuring goods and services in compliance with the Procurement Rules and Regulations.

Audit Objective #2

BACKGROUND

The City's Procurement Code purpose and intent is to provide a "set of uniform rules that govern all purchases of goods and services by the City of Sarasota. The intent is to create a central procurement system in which all persons who wish to provide goods and services to the City are treated fairly and equitable, in which the City receives maximum value for its public dollars; and in which procurements are conducted in an open and competitive manner, free of arbitrariness or collusion."²

The Buyers provide uniformity and consistency within the City's procurement process through a series of Quote Sheets, Bid Checklists, Pre- Solicitation Worksheets, Bid Document Requirements, Bid Tabulation Records, etc. In addition to the procurement of goods and services, Purchasing is also responsible for establishing and maintaining programs to administer contracts and for acceptance of goods and services.³

Procuring of goods and services by the City's Public Art Committee, Firefighter's Pension Plan, and the Police Pension Plan is performed by these independent bodies and is not done through Purchasing.

INTERNAL CONTROLS OVER THE ADMINISTRATION AND MONITORING OF CONTRACTS WERE GENERALLY ADEQUATE WITH AN OPPORTUNITY TO ENHANCE SOME CONTROLS.

OBSERVATIONS, TESTING & RECOMMENDATION

- **Procurement documents** created to provide uniformity and consistency throughout the purchasing process noted above were maintained in the supporting documentation for the contracts selected in the audit sample. These documents appeared to be complete and help the Buyers comply with the City's Procurement Code.

² City Ordinance 12-5009 Sec. 2-351

³ City Ordinance 12-5009 Sec. 2-353(b)(3)

- **Purchasing's support** provided to various City departments in the procurement process was discussed as part of the audit process. Based on these discussions with personnel in various City departments, it appears Purchasing is generally available to provide support, input and guidance to City departments to help ensure the procurement of contracts is performed within City Procurement Code and State Statutes.
- **Monitoring and approval** of goods and services received is performed primarily at the department level. Some of the criteria used by a department receiving the goods or services are that what was received was in agreement with the contract, proper quality, installed correctly, meets expectations and is functioning as intended.

The department will agree invoiced items to items received and agree invoice costs to contract costs. Construction contract invoices, in addition to departmental review and approval invoices, are also reviewed by an employee in Purchasing and an employee in the Accounting Division. The auditor determined that their role is to certify fund availability and ensure purchases were properly recorded to the general ledger; neither of these employee's roles were designed to be controls over monitoring agreed contract pricing of items purchased. Based on discussions with employees in Purchasing and the Accounting Division it was noted that on occasion they will receive invoices or pay applications with costs that are not in agreement with the respective contract, at which point they send it back to the respective department for review and correction.

We recommend monitoring procedures and processes be created and implemented to provide departments with guidelines for administering contracts for compliance with City Ordinance 12-5009 Sec. 2-353(b)(3). The City does have Administrative Regulation No. 037.A006.0812, Invoice Payment Procedures, which notes, that before a department submits invoices for payment it should determine the amount invoiced is in compliance with any contract. This policy however, does not contain any procedures for the type or frequency of monitoring that should occur with City contracts. A monitoring policy should promote consistent, effective, and equitable vendor monitoring across all City departments. The policy could include a process for measuring the City's satisfaction of goods or services received along with a formal performance evaluation. Also, the policy could include external and internal training requirements for employees who are responsible for monitoring contracts. Having employees participate in real-world training and outcomes can help to put in context the reason behind the processes and controls in the monitoring procedures.

Monitoring and approval of goods or services received is one of the key controls in a successful procurement program. When the monitoring function is designed, implemented and operating effectively the City can benefit by identifying and correcting potential issues in a timely manner, having more accurate and reliable information to use in decision making, increasing efficiency and reducing costs.

- **Public Art Committee, Firefighter's Pension Plan, and the Police Pension Plan** follow their own process for procuring contracts and do not go through Purchasing for procurement. Firefighter's Pension Plan, and the Police Pension Plan each have Plan attorneys that regularly attend Board of Trustee meetings and review contracts, along with providing any input on the contract process and contract language. The Public Art Committee is not utilizing a professional with a procurement background to provide support during the procurement process. To ensure compliance with State Statutes and determining that contracts are procured following best practices to limit the City's risk or exposure to negative outcomes **we recommend** the Public Art Committee and any other City Committees that participate in processes or decisions where public funds are expended or impacted have individuals available to provide guidance during the procurement process.

AUDIT CONCLUSIONS

The City has designed and implemented strong controls over the contract procurement process. However, items have been identified above which may result in increased risk to the City from undocumented contract monitoring procedures. Additionally, the City can benefit by having an individual well versed in City Procurement Code and State Statutes participate in the contract procurement process for the Public Art Committee and any other City Committees. While none of the observations identified or indicated potential fraudulent activity, it is important that the City take steps to correct issues and ensure the procurement process is operating as intended across the entire City.

Centralizing Purchasing is a great way to be able to procure contracts in an effective and efficient manner. It also helps to reduce risks associated with noncompliance of State Statutes while maintaining best practices during the procurement process.

We would like to thank the Purchasing and Accounting Divisions along with the multiple City departments that provided their time and assistance during the audit.

AUDIT OBSERVATIONS AND RECOMMENDATIONS

#	Subject	Priority	Observation	Recommendation	Concur	Do Not Concur	Management Response	Committed Action Item Due Date
1	Monitoring Procedures	High	Contract monitoring procedures and processes are currently not documented.	<p>Monitoring procedures and processes should be created and documented that provide departments with, among other things, guidelines for administering contracts to be in compliance with City Ordinance 12-5009 Sec. 2-353(b)(3).</p> <p>A monitoring policy should promote consistent, effective, and equitable vendor monitoring across all City departments. The policy could include a process for measuring the City's satisfaction of goods or services received along with a formal performance evaluation. Also, the policy could include external and internal training requirements for employees who are responsible for monitoring contracts.</p>	Yes		<p>The Purchasing Division already has a performance evaluation systems in place. These evaluations are stored in the contracts database. However, these evaluation have been optional. The Purchasing Division is exploring training options for contract management. Once the contract management training is put in place then performance evaluations would become mandatory.</p>	10/1/2018
2	Procurement Oversight	High	The Public Art Committee does not go through Purchasing for procuring contracts. The Public Art Committee is not utilizing a professional with a procurement background to provide support during the procurement process.	<p>To ensure compliance with State Statutes and determining that contracts are procured following best practices to limit the City's risk or exposure to negative outcomes we recommend the Public Art Committee and any other City Committees that participate in processes or decisions where public funds are expended or impacted have individuals available to provide guidance during the procurement process.</p>	Yes		<p>The City has used Café (www.calforentry.org) for the 3 most recent Calls to Artists, and intends to continue as response has been very good. The use of Café is a cost effective and efficient method for issuing a Call to Artists as this website has a national following among artists. Once a Call to Artists is issued on Café, an artist can submit an art proposal at no cost. In addition, the steps below will be incorporated as part of the Purchasing Divisions review process.</p> <ol style="list-style-type: none"> 1. Purchasing reviews and approves a draft Call to Artists prior to it being reviewed and approved 	6/1/2018

#	Subject	Priority	Observation	Recommendation	Concur Do Not Concur	Management Response	Committed Action Item Due Date
						<p>by the Public Art Committee and City Commission.</p> <p>2. Purchasing reviews artists' submittals on the Café website using an administrative login to the system at the close of the Call to Artists. Once Purchasing approves of the submittals, the submittals can be forwarded to the Public Art Committee for review.</p> <p>3. Purchasing observes the Public Art Committee selection process/voting that occurs during public meetings. This will involve at least two meetings: 1st – consideration of all artist submittals and selection of 3 artists for in-person presentations; and 2nd – in-person presentations by 3 artists with recommendation of preferred artwork to the City Commission.</p>	

EXHIBIT A: AUDIT PRIORITY CLASSIFICATION SYSTEM

Internal Audit utilizes the following classification scheme applicable to internal audit recommendations and the appropriate corrective actions:

Priority Level ¹	Description	Implementation Action ³
High	Fraud or serious violations are being committed or have the potential to occur, security issues, significant financial or non-financial losses are occurring or have the potential to occur. ²	Immediate
Medium	A potential for incurring moderate financial or equivalent non-financial losses exists. ²	Within 60 days
Low	A low priority observation indicates that the controls reviewed at the time of the audit indicated a satisfactory or acceptable state of control however operation or administrative process may be improved if certain additional changes are implemented.	60 days to 6 months

¹The City Auditor and Clerk is responsible for assigning internal audit recommendation priority level categories. A recommendation that clearly fits the description for more than one priority level will be assigned the higher priority level.

² For an audit recommendation to be considered related to a significant financial loss, it will usually be necessary for an actual loss of \$25,000 or more to be involved, or for a potential loss (including unrealized revenue increases) of \$50,000 to be involved. Equivalent non-financial losses would include, but not be limited to, omission or commission of acts on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens.

³ The implementation time frame indicated for each priority level is intended as a guideline for establishing target dates. Determining proposed action dates is the responsibility of the Charter Official(s) over the area(s) or function(s) audited.

NOTE: Please note that this exhibit is a standard form which appears in every audit and is meant to be utilized to aid management in understanding the seriousness or potential seriousness of an audit observation. A "High" or "Medium" priority rating assigned to an audit observation should not be construed to mean that fraud or wrongdoing is, in fact, occurring but rather fraud or wrongdoing has the potential to occur in the absence of adequate internal controls.