



Office of the City Auditor and Clerk

Sole Source Purchases

Detailed Audit Report

Audit #10-06

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Background and Introduction

Sole source purchasing is a form of noncompetitive procurement and is exempt from normal purchasing rules and regulations. According to a pamphlet (*Keys to the City of Sarasota's General Services Department*) prepared and distributed by the Division of Purchasing and Central Stores, a sole source purchase is defined as, "a procurement method whereby only one vendor possesses the unique and singularly available capability to meet the requirement of the solicitation, or the ability to deliver at a particular time."¹

Administrative Regulation No. 024.A007.0195 allows an exemption from competitive bids for sole source purchases when the following conditions are met:

- Purchasing Manager and/or requesting department head determines in writing that there is only one available source for the item,
- Purchasing Manager takes reasonable steps to insure that specifications for an item are developed to permit competition, when possible, and
- Purchases in excess of \$25,000 are approved by the City Manager or his/her designee.

For the period January 1, 2008 through September 30, 2009, 38 valid sole source requests were submitted to the Purchasing Manager for review and approval. Of those 38 requests, the auditor was able to obtain evidence that 35 requests were approved.

The table below provides an overview of the total number of approved requests and the total dollar values for each of the departments that submitted sole source requests during the audit period.

Requesting Department	# of <u>approved</u> sole source requests <small>(1/1/08- 9/30/09)</small>	Department % of total # of requests	Total dollar value of <u>approved</u> sole source requests <small>(1/1/08- 9/30/09)</small>	Dollar value % of total requests
City Auditor and Clerk	2	5.7%	\$ 6,795.00	0.5%
Neighborhood and Development Services	2	5.7%	\$ 13,400.00	0.9%
Police	7	20.0%	\$ 186,255.31	12.5%
Public Works	22	62.9%	\$ 1,115,970.20	74.6%
Van Wezel Performing Arts Hall	2	5.7%	\$ 172,825.00	11.6%
	35	100%	\$ 1,495,245.51	100%

Audit Purpose

The purpose of this audit was to ensure that sole source purchase requests were adequately justified and appropriately reviewed and approved prior to the City obtaining any good(s) and/or

¹ "Sole source" differs from "single source" where the latter is a request for original manufacturer, licensed, patented goods or services. These requests are for existing equipment, software, goods and services. Single source requests were not included as part of this audit.

service(s) and issuing payment. This audit was not originally included on the 2009-2011 Audit Schedule. Since this area has not been audited before, nor was it included in the 2009 City-wide Risk Assessment, Internal Audit determined that this audit should be conducted as part of the unallocated schedule time.

Scope

The scope of this audit included all sole source purchase requests received by the Purchasing Division from January 1, 2008 to September 30, 2009. For the purposes of this review, all sole source requests were included regardless of whether the request resulted in a final approval or purchase.

Audit Objectives

In accordance with Administrative Regulation No. 024.A007.0195:

1. Determine whether sole source designations were supported by adequate justification documentation and support; and
2. Determine whether sole source designations were properly reviewed and approved by the appropriate officials prior to obtaining or paying for any service.

Audit Standards

The Internal Audit Department will have a peer review within the next three years by the Institute of Internal Auditors (IIA). While the Internal Audit Department strives to follow the guidance included in the IIA's International Professional Practices Framework, the *Standards* do not allow the department to note that the department is in accordance with IIA *Standards* until the peer review indicates such compliance.

Testing Methodology

Internal Audit testing included interviews and discussions with management and staff, review of documents, process walk-throughs and testing of available documentation.

Audit Observations

Observations and recommendations in this report are offered as independent guidance to management for consideration in strengthening controls. A full list of observations and recommendations begins on page 6 of this report. For information on priority levels assigned to audit recommendations, please see [\(Exhibit A\)](#).

Internal Audit determined through fieldwork and testing:

1. **Sole source requests were, in the majority of instances, justified through adequate documentation and support.** Based on research of other entities and jurisdictions, the auditor noted an opportunity to enhance the City's current request form to collect more consistent and detailed information from requestors to further strengthen the sole source request process.
2. **Internal controls related to review and approval of sole source requests did not always function as intended,** which represents opportunities for improvement. The auditor noted instances in which City departments ordered or received goods/services prior to obtaining all necessary approvals (Purchasing Manager and/or City Manager authorization). Further, some requests were approved prior to the completion of the full public advertisement period while others had associated purchase orders approved for expenditure prior to obtaining all approvals.

3. **Auditor Statement on Risks:**

Department management may have overlooked risks associated with procurement methods, including sole source procurement, as no risks were identified for this particular area in the 2009 Risk Assessment.

Department management should consider the addition of procurement risks, particularly those associated with noncompetitive purchasing, to the Purchasing Division's Risk Matrix.

Auditor Statement on Controls:

The auditor noted that while no controls were specifically identified by the department during the 2009 Risk Assessment, there were several which appeared to be functioning effectively in most instances tested by the auditor. **Controls associated with noncompetitive purchasing should be included in future updates to the Purchasing Division's Risk Matrix.**

A few of the controls noted included: Purchasing Manager and/or City Manager approvals, documented justifications for sole source requests, and public advertisement of requests to identify any alternative vendors.

Noteworthy Accomplishments

Swift Management Action in Addressing Audit Items- After meeting with the auditor at the close of audit fieldwork, department management took immediate action to address audit recommendations. As a result, two of the recommendations are not included in this document as they were implemented prior to the release of this report.

Audit Observations and Recommendations

Issue #	Subject	Observation	Recommendation	Concur	Do not concur	Management Response	Committed Action Item Due Date
1	Management took action to address audit item #1 prior to the release of this report.						
2	Completeness and Adequacy of Sole Source Request Forms	<p>The auditor reviewed 38 valid sole source requests and noted four requests that were incomplete or inadequate in relation to the requirements noted by the Purchasing Manager.</p> <p>All four of these requests were approved, as were nine other requests that did not contain the signatures of the respective department directors.</p>	<p>To ensure appropriateness and proper authorization of each sole source request, requests submitted with missing or inadequate information should not be approved by the Purchasing Manager until all necessary information and signatures have been received.</p> <p>Priority: High</p>	X		All required information is being incorporated into a single/sole source request form to ensure all proper information is obtained prior to approval.	12/31/2009
3	Delegation of Purchasing Manager Responsibilities	<p>Of the total 35 approved sole source requests, the auditor was able to determine that 28 had associated purchasing activity as of the end of audit fieldwork. Of those 28, 15 requests had purchase orders that were approved by a Purchasing Division staff member other than the Purchasing Manager from January 14, 2008 to March 9, 2009.</p> <p>Pursuant to Administrative Regulation No. 024.A007.0195, the Purchasing Manager is the only person authorized to approve/ disapprove of purchase requisitions. The auditor was unable to obtain written evidence that staff members were appropriately delegated the responsibility of approving purchase orders, per delegation requirements in the Administrative Regulation.</p>	<p>To ensure compliance with City rules and regulations, pursuant to Administration Regulation No. 024.A007.0195, ensure that any delegation of the Purchasing Manager's responsibilities to staff members includes approval by the City Manager.</p> <p>Priority: High</p>	X		Currently the delegation of authority for approving in the absence of the Purchasing Manager is in the job description of the Senior Procurement Specialist. A memo will be sent to the City Manager for approval of the delegation of authority.	1/8/2010
4	Purchase Order Approvals	Two sole source requests had associated purchase orders which were approved and payment issued without documented evidence of the City Manager's approval; another one request had an associated purchase order approved prior to obtaining the Purchasing Manager's approval.	<p>To ensure compliance with purchasing regulations and prevent unauthorized purchasing activity, purchase orders should not be approved in FMS and payment not issued until all necessary approvals (Purchasing Manager and City Manager, where required) have been obtained.</p> <p>Priority: High</p>	X		The new single/sole source request form will incorporate all required signatures on the first page and will be scanned into FMS prior to purchase order approval.	12/31/2009
5	Management took action to address audit item #5 prior to the release of this report.						
6	Approval/ Disapproval of Sole Source Requests	Four sole source requests were approved prior to completion of the full public advertising process (7 days).	<p>To encourage full compliance with sole source requirements, the Purchasing Manager should provide approvals/ disapprovals for requests only after all steps in the sole source request process have been fully completed.</p> <p>Priority: Medium</p>	X		The new single/sole source request form will require a minimum of seven days for advertising on all sole sources. Staff will post the service or commodity advertisement prior to providing form for Purchasing Manager's signature.	12/31/2009

List of Exhibits

Exhibit A Description of Internal Audit Recommendation Priorities

Exhibit A- Description of Internal Audit Recommendation Priorities

Description of Internal Audit Recommendation Priorities

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

Priority Level¹	Description	Implementation Action³
High	Fraud or serious violations are being committed (or have the potential to occur), security issues, significant financial or non-financial losses are occurring. ²	Immediate
Medium	A potential for incurring moderate financial or equivalent non-financial losses exists. ²	Within 60 days
Routine	Operation or administrative process will be improved.	60 days to 6 months

¹ The 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 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.