



CITY OF TAMPA

Pam Iorio, Mayor

Internal Audit Department

Wayne Boytim, Acting Internal Audit Director

January 20, 2005

Honorable Pam Iorio
Mayor, City of Tampa
1 City Hall Plaza
Tampa, Florida

RE: Purchasing – Legal Compliance, Audit 04-17

Dear Mayor Iorio:

Attached is the Internal Audit Department's report on Purchasing – Legal Compliance.

We thank the management and staff of all the City of Tampa departments for their cooperation and assistance during this audit.

Sincerely,

Wayne Boytim
Acting Internal Audit Director

cc: Gregory Spearman, Purchasing Director
Bonnie Wise, Revenue and Finance Director
Darrell Smith, Chief of Staff

**PURCHASING DEPARTMENT
LEGAL COMPLIANCE
AUDIT 04-17
JANUARY 20, 2005**

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Auditor

Acting Audit Director

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INTRODUCTION

Section 2-276 of the City of Tampa's Ordinances identifies the requirements of the Purchasing Division for obtaining goods and services. All purchases \$100,000 or more require approval from City Council based on a recommendation from the Mayor and only after a formal competitive bidding process has been completed.

The Director of the Purchasing Department is authorized to make purchases requiring expenditures of less than one hundred thousand dollars (\$100,000.00) without the approval of the City Council. However, these purchases are required to follow the competitive bid process.

Effective November 1, 2003, the City of Tampa became a participant in DemandStar. DemandStar is a program that facilitates providing bid documents to interested vendors, at no cost to the City of Tampa. The interested vendor is required to register, via the Internet, with DemandStar at a fee; however, for vendors that either have no computer access or are not interested in registering, the bid information is still available for a nominal fee. The implementation of this service eliminated the former \$25 fee paid by vendors.

The Purchasing Card program and Consultants' Competitive Negotiation Act (CCNA) are reviewed as separate audits.

STATISTICS

The Purchasing Department currently has a staff of 53 full and part-time positions, which includes its Inventory personnel. Below is a chart that details the number of purchase orders that were posted and the total dollar amounts of those purchase orders.

	<u>FY03</u>	<u>FY04</u>
Number of purchase orders*	25,270	25,724
Total dollar amount of purchase orders*	\$168,509,400	\$191,130,052

* - dollar amounts are rounded and exclude insurance, utility services, petty cash and employee reimbursements.

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Department's FY04 Audit Agenda. The objectives of this audit were to ensure that:

1. All purchases for \$100,000 or more obtained City Council approval and were properly processed through competitive bidding.
2. Purchases less than \$100,000 were in compliance with established policies and procedures.
3. Department controlled purchases were in compliance with established Purchasing guidelines and included the proper number of quotes.

STATEMENT OF SCOPE

Based on the work performed during the preliminary survey and the assessment of risk, the audit period covered Purchasing activities from October 2003 through June 2004. Source documentation was obtained from Purchasing as well as various departments. Original records and copies were used as evidence and verified through physical examination.

STATEMENT OF METHODOLOGY

Government Auditing Standards require auditors to determine if computer processed data are sufficiently reliable to be used in the audit process. Purchasing uses an on-line bidding system known as DemandStar to disseminate information to the public of procurement opportunities. We performed certain procedures to assess the reliability of the information produced by DemandStar. Based on the results of our analysis, we concluded that the information produced by the system was reliable.

The sample size and selection were statistically generated using a desired confidence level of 90%, expected error rate of 10% and a desired precision of +/- 10%. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. Overall, purchases for \$100,000 or more obtained City Council approval and were properly processed through competitive bidding. However, improvement was required for the timeliness of printing the legal advertisement and documenting the bid opening by departmental contract administration areas.
2. Overall, purchases less than \$100,000 were in compliance with established policies and procedures. However, there was no written policy for issuing direct vouchers as the method of payment for goods and services.
3. Department controlled purchases were not always in compliance with established Purchasing guidelines to include the required number of quotes.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Purchasing Department, they do present risks that can be more effectively controlled.

DEPARTMENTAL PURCHASES (REPEAT COMMENT)

City of Tampa purchasing requirements state that all purchases less than \$1,000 should have at least one telephone quote from the vendor / bidder and purchases between \$1,000 and less than \$2,000 require at least two telephone quotes. Additionally, if a Woman/Minority Business (WMBE) vendor is available, the quote(s) should include the WMBE. A sample review of 20 purchase orders processed through the departments, disclosed that:

- five did not document the proper number of quotes based on the dollar amount of the purchase, and
- six did not document a quote from a WMBE for those commodities that had certified businesses per the WMBE directory.

RECOMMENDATION 1

The Purchasing Department, through the Chief of Staff, should remind all user departments to comply with the bid solicitation requirements listed in the Purchasing Procedures Manual, paragraph 3.3.

AUDITEE RESPONSE

The Purchasing department concurs with this finding. As an incentive to get using departments to seamlessly comply with the written procedures, the Purchasing Department would like to propose raising the informal bid limit from \$1,000 to \$5,000, provided that all user departments utilize the DemandStar system for soliciting informal bids. This action would:

1. Eliminate the need for user departments to remember to contact at least one (1) WMBE supplier;
2. Meet (and in most cases, exceed) the minimum number of quotes required for informal purchases at the \$1,000 and \$2,000 limits respectively;
3. Improve efficiency and effectiveness at the user department level by eliminating time spent on the telephone obtaining quotes at \$1,000 and \$2,000 respectively; and
4. Provide documentation of compliance for items 1 and 2 above.

Departments who chose not to utilize DemandStar would have to: (1) send the informal quote requests to Purchasing to process or (2) provide written evidence to Purchasing that all requirements have been followed, supported by the appropriate documentation.

DIRECT VOUCHERS

A discussion with Purchasing Department Management disclosed that disbursements are made that do not post to the Purchasing System (ADPICS) and are identified as direct vouchers. A June 2004 report of direct vouchers disclosed more than 1,900 transactions totaling more than \$11 million that had been processed. The items processed varied but appeared to include commodities that should have been procured through ADPICS. Direct vouchers do not follow the competitive bid process or the requirement to obtain quotes.

A discussion with the Chief Accountant disclosed there were no written criteria of the types of expenses to be processed by direct vouchers or the required approval level.

RECOMMENDATION 2

Revenue and Finance Management should develop a policy that clearly identifies those circumstances under which a direct voucher can be issued. The level of approval required should be included in the policy.

AUDITEE RESPONSE (REVENUE AND FINANCE)

In response to recommendation 2 addressing direct vouchers, Revenue & Finance Management is in agreement that a formal written policy needs to be developed identifying the circumstances under which a direct voucher can be issued.

In addition, the level of approval required will be clearly included in the policy. Once a new policy has been established, we will forward a copy to Internal Audit.

LEGAL ADVERTISEMENT

A review of eight bid files disclosed three instances where the legal advertisement was printed in the newspaper after the date of the scheduled pre-bid conference. Although the City Code only requires notification five days prior to opening of the bid responses, the information provided at pre-bid conferences should be available to all bidders at the same time.

RECOMMENDATION 3

Management should ensure that the legal advertisement is printed in sufficient time to ensure all prospective responders have the opportunity to attend the pre-bid conference, if applicable.

AUDITEE RESPONSE:

Purchasing concurs with the recommendation.

BID OPENING PROCEDURES

A review of bid documents for four purchase orders processed through departmental contract administration areas disclosed that there was inadequate documentation that the bids were opened in the presence of two people. The formal bid process procedures identified in the purchasing manual state that “on the scheduled opening day after the opening time, the Buyer and an assistant will publicly open the bids and complete a Bid Tabulation form indicating the receipt of bids.”

RECOMMENDATION 4

At a minimum, departmental contract administration areas should follow the same procedures as the Purchasing Department.

Contract Administration within Public Works, Wastewater and the Water Department is currently being re-organized and should ensure this issue is included in their procedures.

AUDITEE RESPONSE (PUBLIC WORKS AND UTILITY SERVICES ADMINISTRATOR)

The audit references the pending re-organization of Contract Administration in Public Works, Wastewater, and Water Departments and recommends that Purchasing Department procedure for procurement of goods and services should be incorporated into the procedures for the new department. This office is in agreement with this recommendation.