OCALA

September 22, 2017

To: The Honorable Brent Malever, President of the Council
            The Honorable Matthew Wardell, President Pro Tem
            The Honorable James Hilty
            The Honorable Jay Musleh
            The Honorable Mary Sue Rich
            The Honorable Kent Guinn, Mayor
            John Zobler, City Manager

Re: Procurement Contracting Process - Project No. 2017-05

We have conducted an audit of the Procurement and Contracting Department, as scheduled per the FY 2017 Internal Audit Plan. The purpose of the audit was to determine whether the contract vendor selection process is objective and results in fair and open competition. The audit was conducted by Alice Garner.

We conclude that the contract vendor selection process is objective and results in fair and open competition. However, during the course of our audit, we found some opportunities for improvement, including the following:

- Justification for sole source purchases is not documented by the using department.
- Training on the procurement policy and contract management is inconsistent among contract managers.
- The contract management module in Eden is lacking key information.
- Expired contracts remain active in Eden.
- An adequate vendor evaluation system is not in place.

Alice Garner, CPA, CGAP, CIGA
Internal City Auditor

OCALA

September 22, 2017

To: Tiffany Kimball, Director of Contracts and Procurement

From: Alice Garner, Internal City Auditor *ag*

Re: Procurement Contracting Process - Project No. 2017-05

We have conducted an audit of the Procurement and Contracting Department, as scheduled per the FY 2017 Internal Audit Plan. The objective of the audit was to determine whether the contract vendor selection process is objective and results in fair and open competition. The audit was conducted by Alice Garner.

To accomplish our objective, we analyzed the contract population, selected samples of various contract types, examined sole source letters, surveyed contract managers, inquired with Procurement and Contracting staff and assessed the vendor evaluation system. We also reviewed contracts, change orders, council reports, invoices, requisitions, bid documents and quotes.

Our audit included such tests of records and other auditing procedures, as we considered necessary in the circumstances. Our audit period was October 1, 2015 through December 31, 2016. However, transactions, processes and situations reviewed were not limited by the audit period.

Based on our work performed, we conclude that except for the needed improvements as noted in the report, the contract vendor selection process is objective and results in fair and open competition.

We appreciate the cooperation and assistance provided by the Procurement and Contracting Department staff and other City employees contacted during the course of our audit.

Cc: John Zobler, City Manager
      Bill Kauffman, Assistant City Manager

BACKGROUND:

Procurement for the City of Ocala is a centralized function managed by the Procurement and Contracting Department. According to Procurement Policy, "The mission of the City's procurement program is to: provide City departments with numerous sources of supplies, services, and equipment benchmarked for best value in order to operate efficiently and effectively to provide comprehensive public services to the citizens of Ocala; provide products and services through a variety of competitive pricing methods, purchase contracts, and procurement actions; [and] to support City Council goals and objectives." The Procurement and Contracting Department currently has nine employees including the director, a procurement manager, four buyers, a vendor relations manager, a procurement analyst and a contract specialist. Together they are responsible for functions such as implementing policy, creating standard operating procedures, facilitating the solicitation process, assisting departments in contract development and execution, contract negotiations and review, managing vendor relations, and analyzing purchases.

Any procurement of goods and/or services generally results in a contractual document depending on the amount of risk involved. For example, a contract is required anytime a vendor will be performing a service or working on City property and purchases of goods require a contract if there is also a service or performance requirement. Some exceptions do apply.

The standard operating procedures for contractual purchases can be divided into the following categories:
- Purchases under $5,000,
- Purchases $5,000 to $15,000,
- Purchases $15,000 to $50,000, and
- Purchases over $50,000.

Purchases under $5,000 may be made directly by the user department, with or without competitive bidding; local vendors are strongly encouraged. Purchases from $5,000 to $15,000 require three formal, written quotes solicited and documented by the user department. Purchases from $15,000 to $50,000 require a formal quoting process hosted by the Procurement and Contracting Department. Exceptions can be made by the buyer to waive the hosting requirement; in those cases, the user department may manage the quote using the Procurement and Contracting Department's approved Request for Quotation document. Finally, purchases that exceed $50,000 require a formal sealed bid or solicitation hosted by the Procurement and Contracting Department; the using department must obtain Council approval for these purchases.

OPPORTUNITIES FOR IMPROVEMENT:

Our audit disclosed certain policies, procedures and practices that could be improved. Our audit was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

1. **Justification for sole source purchases is not documented by the using department.** According to standard operating procedure, a sole source is a situation created due to the inability to obtain competition because only one vendor possesses the unique ability or capacity to meet the particular requirements of the procurement. To determine whether there was evidence documenting no other product or service will suffice, we inquired with procurement staff on the sole sourcing process. During our discussion, we learned that although justification is obtained, it is not documented with a formal request from the using department. Rather, the documentation is posted online for public view.

   The sole sourcing process typically begins with the user department calling the Procurement and Contracting Department to verify whether the desired purchase is actually a sole source; procurement staff make the determination through a series of interview-like questions. If the responses are satisfactory, procurement staff direct the using department to obtain a sole source letter from the vendor; if not, staff may first require additional information. Procurement staff do not obtain written documentation from the using department justifying the need to sole source nor do they document their approval of the verbal request. Because the discussion, justification and determination are not documented, there is no evidence that the using department needs the specific sole source.

   We recommend management require the using department to submit a written sole source request to Procurement and Contracting Department justifying the need for a sole source purchase. Any additional justification or clarification obtained should be included with the request.

   > **Management Response:** Concur. The Procurement and Contracting Department will create a Sole Source Request Form for department use, and the existing standard operating procedures for sole sources will be revised and posted on the City intranet by September 10, 2017.

2. **Training provided on the Procurement Policy and contract management is inconsistent among the assigned contract managers.** We surveyed the contract managers for 30 contracts and found that many said that they have received some form of training on the City's Procurement Policy and contract management techniques; however, the level and quality of the training received varies among the contract managers. To ensure that contract managers

understand various aspects of the policy and contract management, it is important for the basis of the training to be consistent.

We recommend management provide standard operating procedures on contract management and basic business skills to all contract managers. Contract managers should be required to review the City of Ocala Procurement Policy and the contents of the Procurement and Contracting intranet page on a regular basis. Contract managers should also be required to sign-off they understand the requirements and responsibilities of being a city contract manager.

> **Management Response:** Concur. Contract management training was provided multiple times previously to City department staff engaged in contracts. However, based on this Internal Audit survey, additional and updated training will be provided to contract managers, and any newly assigned managers. This will include training on our financial system, Eden, which tracks contractual spend, and on our contract management/project management software program, Wrike, which tracks expiration dates, tasks and milestones. Contract managers will be required to sign-off they understand the requirements and responsibilities of being a city contract manager. Contract management standard operating procedures will be posted to the Procurement and Contracting intranet page for reference. These actions will be completed by December 31, 2017.

3. **The contract management module in Eden is lacking key information.** While we were reviewing the information for each contract, we found that many of the contract records in the City's financial system, Eden, were incomplete. Specifically, we noted the following:
   - 92/283 or 32.5% = Number of contracts with no assigned contract manager
   - 24/133 or 18.1% = Number of contracts >$50,000 with no award date
   - 52/283 or 18.4% = Number of contracts with no expiration date

Also, during our work, we found that the contract manager listed in the system isn't always correct. While the award date and expiration date can be obtained by reviewing the contract or other documents, the assigned contract manager information cannot. The Procurement and Contracting Department has issued an SOP titled Adding Contracts in Eden which specifically instructs department users to add the project manager's contact information to the contract record. A review of each record's completeness prior to approving a requisition would ensure that this key information is not missing.

We recommend the user departments ensure that the contract records in Eden are complete and up-to-date.

> **Management Response:** Concur. All city departments will be required to update their contract records with all specified information mentioned above in the Eden system by September 30, 2017, and maintain contracts effectively moving forward. Thereafter, a bi-weekly report will be run to identify any contracts with missing data. Departments will be immediately notified and instructed to comply. Department Director performance in this regard has been added to their Business Plans. Additionally, all department heads will be required to assign each contract a manager who will be ultimately responsible for all aspects of contract management. A standard operating procedure will be written as a guide for maintaining contract records correctly, and will be completed by October 1, 2017. All contract managers will be required to have Eden and Wrike access, and to personally input contract details in those software programs.

4. **Expired contracts remain active in Eden.** We reviewed a sample of 30 contracts and noted that all of the contracts, including those that were expired, were in an active status in the Eden system. According to procurement staff, it is the responsibility of the using department to request closure; however, this has not always been done. When a contract is expired but still in an active status, a risk exists that invoices can still be applied and paid against the contract.

We recommend the user departments put a process in place to ensure that all expired contracts are properly closed in the Eden system.

> **Management Response:** Concur. The Procurement and Contracting Department will create a standard operating procedure to ensure correct contract close-out processes are followed by city department contract managers. All contracts will be required to be closed-out within 90 days of contract end. Monthly reports will be run to verify compliance. This will be completed and effective by October 1, 2017.

5. **An adequate vendor evaluation system is not in place.** City contracts include a clause stating that "At the end of the contract, the City may evaluate the Vendor's performance. This evaluation will become public record." We inquired with procurement staff to determine what processes were in place with respect to evaluating vendors. According to procurement staff, the system is not fully developed or implemented because completed vendor evaluation forms have not been received. Contract managers have been aware that a vendor evaluation form must be completed at the end of every contract since December 2016. During our audit work, we found 22 contracts that expired between December 1, 2016 and April 30, 2017 and include the performance evaluation clause; however, only two forms have been received by the Procurement and Contracting Department. Even if procurement staff were to perform a monthly review of contract end dates, this would not work because the contract managers do not always include an end date in the Contract Management module of the financial system, as

noted in opportunity for improvement number 3. Documentation of vendor performance issues would be a valuable tool when issuing subsequent contracts.

We recommend the user departments ensure that vendor evaluations are completed and submitted to the Procurement and Contracting department.

Management Response: Concur. Departments' assigned contract managers will be required to submit a completed Vendor Evaluation Form within 30 days of contract end. Additionally, for ease-of-use, the Procurement and Contracting Department has revised and streamlined the Vendor Evaluation Form posted on the City's internal intranet page. The requirement to submit a Vendor Evaluation Form on each completed contract will be effective October 1, 2017. Reports will be run to verify that departments are in compliance with this requirement and those department directors found not in compliance will be held accountable.