

# FINAL AUDIT REPORT



## A Report to the City Commission

### Mayor

Lauren Poe

### Mayor-Commissioner Pro Tem

Adrian Hayes-Santos

### Commission Members

David Arreola

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Helen K. Warren

## City of Gainesville Office of the City Auditor

Carlos L. Holt – City Auditor

## Small Business and Service-Disabled Veteran Business Purchasing Compliance

July 19, 2018

## EXECUTIVE SUMMARY

July 19, 2018



### Why We Did This Audit

The audit was included in the City Auditor's 2017 Fiscal Year Audit Plan as a follow-up to the 2016 audit of the Small and Service-Disabled Veteran Business process audit and to meet the requirement of including at least one program of Office of Equal Opportunity in each year's audit plan. This audit was subsequently carried over to the 2018 plan since it was not yet finished.

### What We Recommend

Management should take action to implement a checklist to ensure that all process steps are completed.

# Small and Service-Disabled Veteran Business Purchasing Compliance

## BACKGROUND

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The City's purchasing departments for General Government and Gainesville Regional Utilities (GRU) serve to provide expertise during the procurement process. City purchasing policies and procedure manuals are important to ensure that the City of Gainesville obtains the most competitive prices. In addition, local small businesses are given assistance to ensure they successfully participate in City procurement opportunities, and thereby enhancing overall economic development of the City. City staff provide programs to educate and certify local small businesses and maintain Small Business Vendor Listings available to departments and the public.

## OBJECTIVES

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The objectives of the audit were to determine the following:

- Were policies and procedures effective to ensure bid quotes for purchases between \$2,000 and \$50,000 were obtained and documented in accordance with the Small and Service-Disabled Veteran Business policy?

## WHAT WE FOUND

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General Government and GRU purchasing departments effectively provide support to their respective operating departments in the the acquisition of goods and services for the City. Although General Government uses a decentralized system while GRU uses a centralized system, we believe sufficient efforts are made to include small or service-disabled veteran businesses into the purchasing process. We found that each process works except for several minor exceptions in our sample of purchases between \$2,000 and \$50,000.

- In General Government, we noted three exceptions where vendor quotes were not obtained.
- In GRU, we found five exceptions where vendor quotes were either not obtained or lacked adequate documentation.

## GOVERNANCE

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The Gainesville City Commission determined that an objective of City government should be to encourage the development of local minority businesses and local small businesses. It is the policy of the City of Gainesville to create significant opportunities for eligible minority businesses and eligible local small businesses to participate in nondiscriminatory business transactions of the city. Specific programs are designed to encourage the maximum utilization of local small businesses in all aspects of the City's procurement activities. The Office of Equal Opportunity manages certain aspects of the programs including workshops for small businesses who wish to do business with the City of Gainesville and Gainesville Regional Utilities.

## SCOPE AND METHODOLOGY

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This engagement concentrated on the process of operational departments for purchases ranging from \$2,000 to \$50,000 for fiscal year 2016 and fiscal year 2017 only through June 30, 2017<sup>1</sup>. During the engagement, we attended meetings, interviewed key personnel, observed and mapped processes, examined documents, recalculated figures, compared program reports to known data, and conducted analytical tests.

Note: Transactions made via purchase cards are being sampled and examined as part of the citywide P-Card audit underway at this time.

## RELATED FACTS AND FIGURES

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City purchases with an anticipated cost of \$50,000 or less, but greater than \$2,000 must have at least three written quotes, including one from a certified small and/or service-disabled veteran business, if one exists within the commodity category. Purchasing Divisions may waive competitive bidding requirements for the first time order with a small or service-disabled veteran business, if \$10,000 or less, as long as the business' capabilities are in accordance with required standards. When preparing to procure an item or service, purchasing personnel search the Small Business Listings for certified small businesses either by name or commodity code to distinguish the type of service the business provides. The listings, produced separately by GRU and General Government, contain vendor contact information for sending quote requests. Small and Service-Disabled Veteran Business Enterprise Program administrators assist key purchasers with identifying certified businesses upon request. Purchasing guidelines for General Government and GRU key purchases are as follows:

**Figure 1: Purchasing Guidelines Snapshot**

Items Costing:	Require:
<b>\$2,000 or less</b>	Verbal Quotation
<b>\$2,000.01 to \$50,000</b>	Three (3) Written Quotations, which one quote must be from a certified small or service-disabled veteran program vendor, if one exists
<b>Greater than \$50,000</b>	Formal solicitation (five percent points if qualified)

Source: City Purchasing Policy

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<sup>1</sup> Some procurement limits were changed as of July 10, 2017

## **OBJECTIVES AND CONCLUSIONS**

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1. Were policies and procedures effective to ensure bid quotes for purchases between \$2,000 and \$50,000 were obtained and documented in accordance with the Small and Service-Disabled Veteran Business Policy?

**Generally Yes.**

A) General Government

We sampled purchases and found the majority to be in compliance except for three items. One purchase had no supporting documentation of vendor quotes or documentation for conducting a sole source purchase; one department inadvertently spent over \$2,000 due to a miscommunication and did not obtain the required quote documentation; one purchase had only quotes in a spreadsheet and none from a vendor.

B) Gainesville Regional Utilities

We sampled purchases and found the majority to be compliance except for five items. Two purchases did not have adequate supporting documentation of vendor quotes or justification for conducting a sole source purchase. Two purchases had the work performed prior to a purchase order being created. Lastly, we found that one purchase did not obtain quotes with other vendors or justification for renewal of the current vendor.

We found in both sets of samples that adequate supporting documentation of quotes was obtained from a Small or Service-Disabled Veteran businesses when required. The process requires that staff look for suitable competitors in the area and refer to the Small Business Directory (SBD) of local vendors list maintained by the Office of Equal Opportunity. One department provided a map of competing businesses and then cross referenced them with the SBD local vendors list. If a small or minority businesses is found, an invitation is made to the Small or Service-Disabled Veteran business to provide a quote for the procurement.

## AUDIT OBSERVATIONS

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Internal control helps entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework (2013 Framework)*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environments, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observations listed are offered to help management fulfill their internal control responsibilities.

### ***Observation A: Procedures not always not followed***

#### ***Condition: (describes what we found)***

General Government: Vendor quotes were not consistently obtained. Based on a population of purchases ranging from \$2,000-\$50,000 during October 1, 2015-June 30, 2017, we statistically sampled General Government purchase transactions using ACL Analytics. The sample was filtered for purchases that were greater than \$2,000 but did not exceed \$50,000. We found three exceptions: one purchase had no supporting documentation of vendor quotes or documentation for conducting a sole source purchase; one department inadvertently spent over \$2,000 due to a miscommunication and did not obtain the required quote documentation; and, one purchase had only quote.

Gainesville Regional Utilities: A statistical sample of purchases was selected from the GRU purchase transactions using ACL Analytics. These records were sampled from a population of purchases ranging from \$2,000-\$50,000 during October 1, 2015-June 30, 2017. We found that two purchases did not have adequate supporting documentation of vendor quotes or justification for conducting a sole source purchase. Two purchases had the work performed prior to a purchase order being created. Lastly, we found that one purchase did not obtain quotes with other vendors or have justification for renewal of the current vendor.

#### ***Cause: (explains why the condition occurred)***

- Departmental practices do not always fully align with the policies and procedures.
- There is not an established monitoring procedure in place over the purchasing control activities to ensure all steps are completed according to policies and procedures.

#### ***Criteria: (describes what “should be” based on principles, policies, procedures, etc.)***

- Procedures Manuals: General Government (Sections 41-210 and 41-421) and GRU (Section 11, page 1).
- The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*, Control Activities – Principle 12 – “The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.”
- The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*, Control Activities – Principle 16 – “The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.”

***Effect: (describes the potential impact and any adverse results)***

- Noncompliance with applicable policies and procedures
- Reducing the pool of eligible vendors
- Risk of loss, fines/penalties and potentially nonperformance by allowing vendors to perform work prior to establishing a purchase order.

***Risk: (describes the major risks or exposure to the City)***

- Incomplete and unreliable procurement process.
- Noncompliance with policy and procedures during the procurement process.

***Recommendation: (describes corrective action needed to resolve the condition and the cause)***

Management implement a checklist to ensure that all purchase process steps are completed.

## **GOVERNMENT AUDITING STANDARDS COMPLIANCE**

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We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that 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 our observations and conclusions based on our audit objectives.

## **AUDIT TEAM**

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Carlos L. Holt, CPA, CFF, CIA, CGAP, CFE, City Auditor  
Eileen M. Marzak, CPA, CFE, Assistant City Auditor  
Ronald Ison, IT Auditor

# Memo



**To:** Carlos Holt, City Auditor  
**Via:** Anthony Lyons, City Manager *AL*  
**From:** Christopher Quinn, Finance Director *CQ*  
**Date:** May 29, 2018  
**Subject:** Small Business and Service-Disabled Veteran Business Purchasing Compliance  
Audit Report dated May 3, 2018

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Thank you for the opportunity to comment on the recently completed audit of compliance with the Small and Service-Disabled Veteran Business procurement policy. We appreciate the time and effort expended by the City Auditor's office in conducting the audit. We are pleased to see the audit indicated that the procurement department is effective in providing departmental support to ensure compliance with the policy. Additionally, we appreciate the recognition of the educational efforts provided to local small businesses. We have reviewed the recommendation to implement a check list and offer the following response.

We are in full agreement with the necessity of a monitoring procedure to ensure practices align with policy. With recent changes in the approval levels and other procurement division internal procedural changes, a new procurement approval process is scheduled to be rolled out to the departments on August 1, 2018. Training on the new process is being developed by the Budget and Finance department to be provided to the departments prior to implementation. Departments will be educated on the lack of documentation that will result in rejected purchase orders.

The procurement division has created a check list to be used in the new procurement approval process which includes a requirement that the department attach a signed Quotes Compliance statement with purchase orders over \$5,000.00.\* Non-submittal of the statement results in rejection and return of the purchase order to the department. The checklist also requires that quotes be attached to the purchase order.

Again, thank you and your team for the valuable feedback and the recommendation for enhancing our performance in ensuring eligible local small and minority businesses are provided the opportunity to competitively participate in the City's procurement process.

\*It should be noted that the City Commission adopted a revised Procurement Policy in Resolution No. 170116 effective July 10, 2017 to change the threshold for obtaining three written quotes, including one from a small or service-disabled veteran business, when feasible, from \$2,000.01 to \$5,000.01.

## APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

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**INTEROFFICE COMMUNICATION**

General Manager

DATE: June 6, 2018

TO: Carlos Holt, City Auditor

FROM: Edward J. Bielarski, Jr., General Manager for Utilities 

SUBJECT: Management Response to Audit of the Small and Service-Disabled Business Purchasing Compliance

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Utilities Purchasing staff has reviewed the recommendations of your office and find that they are reasonable and applicable. The recommended checklist will be added as an additional control.

The attached response was compiled by Utilities Purchasing staff and submitted to me by Utilities Purchasing Manager James Frampton. Mr. Frampton is available to answer questions or provide additional information as needed.



## APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing responses to our recommendations.

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<i>Recommendations for Management (GG, GRU):</i>		
A. GG Management implement a checklist to ensure that all purchase process steps are completed.	<b>Agree/Partially Agree/Disagree</b> Agree. Implemented.	N/A
B. GRU Management implement a checklist to ensure that all purchase process steps are completed.	<b>Agree/Partially Agree/Disagree</b> Partially agree because what we have at GRU should be sufficient. At GRU we currently have a written procedure in place and a quick reference guide on GRUPERENET. We will also create the recommended checklist and provide refresher training to the buyers.	8/1/2018