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Date: March 7, 2012  
To: Audit, Finance & Enterprise Committee  
From: Jennifer Ruttman, City Auditor  
Subject: Follow-up Review of Purchasing RFP/B Process Audit

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed a follow-up review of the Purchasing RFP/B Process Audit. The final report is attached, along with management's response.

We will perform a second follow-up review in approximately 1 year, to verify that the planned corrective actions have been implemented effectively.

Please feel free to contact me if you have any questions.

## **FOLLOW-UP REVIEW**

**CITY AUDITOR**

**Report Date: February 16, 2011**  
**Department: Business Services – Purchasing Division**  
**Subject: RFP/B Process**

### **OBJECTIVE**

The objective of this review was to determine whether the Purchasing Division has effectively implemented the corrective action plans presented in their response to our 2010 RFP/B Process audit.

### **SCOPE & METHODOLOGY**

To meet this objective, we:

- Reviewed Management Polices and specific City Code sections revised since the audit.
- Reviewed departmental policies and procedures revised since the audit.
- Reviewed new purchasing reports created since the audit.
- Reviewed and analyzed a sample of council reports issued in the last year.
- Interviewed Purchasing Division staff members.

### **BACKGROUND**

In October 2010, we issued a report on our audit of the Purchasing Division's Request for Proposal/Bid (RFP/B) Process. That audit report included six corrective action plans (CAPs) with fourteen recommendations to address opportunities for improvement related to the procurement of materials, supplies, equipment and selected services exceeding \$25,000. The recommendations were designed to help ensure compliance with policies and procedures, adequate staff training, and effective monitoring and analysis of citywide purchasing activity, while providing the best value for the City. Management responded with specific action plans, which were presented with the 2010 audit report.

### **CONCLUSION**

The Purchasing Division has effectively implemented the majority of the corrective action plans presented in response to the audit. However, additional effort is still needed on a few of the individual action items. These include:

1. **CAP #2, items 1 and 2:** The original action plans contained specific steps to improve internal (Purchasing staff) compliance with policies and procedures. As of November 2011, some of these action plans, such as process checklists and departmental training, had not been fully completed. Procurement Rules have been improved, but they don't provide controls to ensure internal compliance.
2. **CAP #4, item 1b:** The original action plan called for development of a reporting process to document reviews, issues found, and contracts established. A process has not been fully developed to include all of these elements. Significant improvements have been made in the current environment, and more will become possible when the City's new

financial system is in place; however, a documented, substantive reporting and review process has not yet been established.

3. **CAP #5, items 1 and 3:** The recommendations called for ensuring the accuracy and completeness of Council Reports prepared by the Purchasing Division, and obtaining Council approval when required. Our follow-up review focused specifically on Council Reports related to contract renewals, as these were our primary area of concern at the time of the original audit. A sample of these reports issued in the last year shows that Purchasing has made significant improvement in obtaining Council approval when required; however, improvement is still needed to ensure accuracy and consistency in the way information is presented.

A complete list of the original recommendations and responses, along with the implementation status of each one at the time of this review, is included in Appendix A. Updated recommendations, based on the conclusions listed above, are listed below.

### **RECOMMENDATIONS**

1. The Purchasing Division should continue to work on developing controls to ensure internal compliance with Procurement Rules, policies, and procedures.
2. The Purchasing Division should continue to improve its reporting and review processes as the tools to do so become available. In addition, these processes should be documented to ensure continuity of this activity into the future.
3. The Purchasing Division should develop improved tools and/or procedures to be used when preparing purchase-related Council Reports. These tools and/or procedures should be carefully designed to ensure that all relevant information is gathered and presented in a uniform, consistent, and accurate manner.

## Appendix A CAP Implementation Status

Recommendations & Responses	Implementation Status
<b>CAP #1: Revisions to Management Policy 200 (MP200)</b>	
<p>1a. Recommendation: Services – professional and non-professional – should be clearly defined.</p> <p><b>Oct/2010 Response: General Services and Professional Services have been defined in the update to MP200.</b></p>	<b>Implemented</b>
<p>1b. Recommendation: Non-professional services over \$25,000 should be subject to a competitive evaluation process.</p> <p><b>Oct/2010 Response: A \$25,000 Competitive Selection threshold for General Services is included in the update to MP 200. There is a provision for the City Manager or Designee to exempt specific procurements when not practicable or advantageous.</b></p>	<b>Implemented</b>
<p>1c. Recommendation: Professional services should not be categorically excluded from all procurement rules. The requirements may differ from other types of services and commodities, but the policy should contain an appropriate procedure to mitigate the intrinsic vulnerability of these types of purchases.</p> <p><b>Oct/2010 Response: Competitive Selection for Professional Services is recommended to the extent practicable and advantageous to the City. The dollar threshold for this item will likely be between \$25,000 and \$100,000.</b></p>	<b>Implemented</b>
<p>1d. Recommendation: The time frame and other criteria defining “Purchases in Excess of \$25,000” (and other key thresholds) should be clearly stated.</p> <p><b>Oct/2010 Response: Purchases will be looked at on a rolling annual basis for the purposes of determining the procurement process when possible and reasonable.</b></p>	<b>Implemented</b>
<p>1e. Recommendation: Use of the Invoice for Payment (IFP) form should be discontinued. Purchases should not be processed on any form that segregates data and prevents comprehensive reporting.</p> <p><b>Response: One of our goals for the CityEdge solution will be to accommodate the need for payments that do not require a Purchase Order while keeping all payment data together.</b></p>	<b>Implemented</b>

Recommendations & Responses	Implementation Status
<p>1f. Recommendation: Outdated department names and staff titles should be revised.</p> <p><b>Oct/2010 Response: Department names and job titles have been updated in the MP200 update.</b></p>	<p><b>Implemented</b></p>
<p>1g. Recommendation: The Purchasing Division should be designated as having both the authority and responsibility to appropriately monitor all purchasing activities for policy compliance and for opportunities for improvement in efficiency and value.</p> <p><b>Oct/2010 Response: This is included in the update to MP200 - Purchasing for non-construction and Engineering for construction procurements.</b></p>	<p><b>Implemented</b></p>
<p><b>CAP #2: Non-compliance with Procurement Policies and Procedures:</b></p>	
<p>1. Recommendation: The Purchasing Division's internal procedures for the RFP/B process should be revised to include adequate controls to ensure compliance.</p> <p><b>Response: In addition to the items below, a process checklist consistent with the new policies and processes is being developed for each type of solicitation to verify compliance with all requirements before being finalized.</b></p>	<p><b>Not Fully Implemented</b></p> <p>Procurement Rules have been updated, but as of this review, new process checklists for each type of solicitation had not yet been implemented.</p>
<p>2. Recommendation: Purchasing Division staff should be trained on all applicable procedures, and supervisors should monitor activity to ensure consistency and compliance.</p> <p><b>Oct/2010 Response: A series of weekly meetings took place this summer to introduce all Purchasing division staff to the policy revisions. More training will happen as the new policies are implemented. We also delegate certain RFP evaluations to departments. We will ensure that they have been trained on proper procedures and work under buyer supervision.</b></p>	<p><b>Not Fully Implemented</b></p> <p>As of this review, additional training efforts were still needed to ensure internal (Purchasing Division) compliance with policies &amp; procedures.</p>
<p>3. Recommendation: An improved training program should be implemented for all City staff with purchasing responsibilities. The program should be designed to ensure consistent purchasing practices citywide. Refresher courses should be offered as frequently as is necessary to meet demand, and should be continually updated to address any problem areas or weaknesses.</p> <p><b>Oct/2010 Response: The Purchasing Basics class will be offered no less than quarterly with the option of separate classes for individual departments. The curriculum was expanded to</b></p>	<p><b>Implemented</b></p>

Recommendations & Responses	Implementation Status
<p><b>include several issues raised in a separate review and will be updated periodically as the need arises. We will also develop a separate refresher class.</b></p>	
<p>4. Recommendation: The Purchasing Division's procedures should be revised to include requirements and procedures for obtaining and reviewing lease documents.</p> <p><b>Oct/2010 Response: Management Policy 207, Leasing, is being rescinded. Leasing and Rental is being folded into Management Policy 200. Reviewing lease and rental documents for purchases over \$5,000 is included in the policy.</b></p>	<p><b>Implemented</b></p>
<p><b>CAP #3: Lack of Reliable, Comprehensive Data:</b></p>	
<p>1. Recommendation: The Purchasing Division should ensure that their database includes the results of all bids processed and contracts awarded.</p> <p><b>Oct/2010 Response: We are evaluating the benefit of changing the approach to our database and whether we will begin to enter [the results of all bids processed and contracts awarded] with the start of the 2011 contract year. A comprehensive database of solicitations, responses and awards is part of the CityEdge solution.</b></p>	<p><b>Implemented</b></p>
<p>2. Recommendation: The Purchasing Division should improve the vendor list by a) conducting a one-time clean-up process to eliminate redundancies and standardize data entry conventions; b) developing procedures and training staff to use standard conventions for all future entries and to conduct effective searches of existing vendors before entering new ones; and c) actively monitoring the list and making corrections immediately when problems are found.</p> <p><b>Oct/2010 Response: The current vendor database is being cleaned-up in preparation for the CityEdge implementation. We will update our standardization guidelines and train staff. This initiative is required for CityEdge.</b></p>	<p><b>Implemented</b></p>
<p>3. Recommendation: Develop reports which provide relevant, useful data for monitoring and analyzing all purchasing activity, including the ability to review expenditures by vendor without having to look to multiple sources for the information.</p> <p><b>Oct/2010 Response: The Data is downloaded from the purchasing system in three different reports. The new CityEdge solution should pull this data together.</b></p>	<p><b>Implemented</b></p>

Recommendations & Responses	Implementation Status
<b>CAP #4: Monitoring of Citywide Purchasing Activity:</b>	
<p>1a. Recommendation: The Purchasing Division should take a more active role in monitoring and analyzing purchases citywide.</p> <p><b>Oct/2010 Response: We have developed a list of commodities as part of our strategic initiatives for which we are working toward establishing contracts.</b></p>	<b>Implemented</b>
<p>1b. Recommendation: Specific monitoring and analysis procedures should be developed and assigned to specific employees. This should include a component of accountability, such as periodic reports to management.</p> <p><b>Oct/2010 Response: We will review this finding and develop a reporting process that documents our reviews, issues found and new contracts established.</b></p>	<p><b>Not Fully Implemented</b></p> <p>While periodic reviews are now done by the Business Services Dept. Director, there is no written procedure or structured process for staff within the Purchasing Division to perform routine reviews, identify issues, communicate them to management, or track these activities.</p>
<p>1c. Recommendation: Develop procedures for ensuring that all leases are obtained &amp; reviewed in accordance with policy; and that leases are used only when in the best interest of the City.</p> <p><b>Oct/2010 Response: Leasing and Rental is being folded into MP 200. Reviewing lease and rental documents where the value is over \$5,000 is included in the policy.</b></p>	<b>Implemented</b>
<p>2. Recommendation: All purchasing activity, regardless of payment method, should be included in the data population subject to review by the Purchasing Division.</p> <p><b>Oct/2010 Response: This is currently being done today to the extent possible considering data comes from three separate sources. The CityEdge solution should put this data together and provide greater detail to accomplish this goal.</b></p>	<b>Implemented</b>
<b>CAP #5: Accuracy of Council Reports and Obtaining Required Council Approval:</b>	
<p>1. Recommendation: The Business Services Department Director should ensure that all City Council Reports submitted by the Purchasing Division are accurate and complete.</p> <p><b>Oct/2010 Response: We will increase oversight, specifically to the recommendations below.</b></p>	<p><b>Not Fully Implemented</b></p> <p>A review of Council Reports related to contract renewals showed that improvement is still needed to ensure accuracy of calculations and other information. This includes ensuring that</p>

Recommendations & Responses	Implementation Status
	vendors and/or items on the original contract are consistent with those on the proposed renewal.
<p>2. Recommendation: The Business Services Director should ensure that, prior to a significant change being made to a Council approved contract, (i.e. increase of more than \$25,000; vendor change) the Council is informed of and approves the proposed change.</p> <p><b>Oct/2010 Response: Staff has been reminded that they need to check cumulative increases to term contracts before processing/approving increases. The Purchasing Administrator will be more diligent in reviewing increases before approving them.</b></p>	<b>Implemented</b>
<p>3. Recommendation: When smaller increases, transfers or other changes are made to a Council approved contract, those changes should be cumulatively disclosed to Council on any future communications regarding that contract, particularly when they are asked to approve an increase or renewal.</p> <p><b>Oct/2010 Response: When taking items to Council for action, we will indicate the last Council approved amount as well as any administrative increases.</b></p>	<b>Implemented</b>

Recommendations & Responses	Implementation Status
<b>CAP #6: Use of Local Bid Preference:</b>	
<p>1. Recommendation: In order to ensure transparency and consistency of purpose and application, and to minimize the related risks, we recommend that the City a) establish a fixed number of allowable points and use this same number every time a local bid preference is used; b) establish formal definitions for all criteria to be used when awarding these points, and c) ensure that staff members participating in the evaluation process are trained in how to fairly and consistently apply these points.</p> <p><b><u>Purchasing</u></b></p> <p><b>Oct/2010 Response: Staff will work to gain specific policy direction on the issue of local bid preference.</b></p> <p><b><u>Engineering</u></b></p> <p><b>Oct/2010 Response: Engineering will allocate 5 points out of a total of 100 points for local Mesa based firms. If the firm has a Mesa business address (excluding Post Office Boxes) all 5 points will be awarded to the firm.</b></p>	<b>Implemented</b>



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BUSINESS SERVICES  
DEPARTMENT

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**To:** Jennifer Ruttman, City Auditor  
**From:** Ed Quedens, Business Services Director  
**Date:** March 6, 2012  
**Subject:** Audit Follow-Up – Request for Proposal/Bid Process Audit

Our response to the follow-up audit recommendations is attached.

As you know, the policy updates that we have enacted in the last 18 months have been a monumental task and they continue as we change old habits and culture. I am very pleased that we were able to implement nearly all of the improvements recommended in the original audit. The remaining items have already been implemented or are being worked now with implementation very soon.

I want to thank you and Ms. Steadman for all your efforts on this audit.

cc: Patricia Sorensen  
John Albin

**AUDIT RESPONSE FORM**  
**Purchasing RFP/B Process Follow-Up Review**

Rec #	Agree Or Disagree	Brief Summary of Implementation Plan (NOTE: If recommendation will not be implemented, please explain your alternative plan to address the observation.)	Estimated Implementation Date (Month/Yr)
<b>1.</b>	The Purchasing Division should continue to develop controls to ensure internal compliance with Procurement Rules, policies, and procedures.		
	Agree	<p>A process/compliance checklist was finalized and was placed in use on February 20, 2012</p> <p>Since the beginning of January, we have been having weekly meetings with the Buyers and Buyer Aides to discuss policies, procedures and questions and issues that come from procurements that are coming through.</p> <p>Other efforts will continue including the functionality of Advantage.</p>	<p>Checklist Completed 2/20/2012</p> <p>Advantage Go-Live July 1, 2012</p> <p>Other Efforts Ongoing</p>
<b>2.</b>	The Purchasing Division should continue to improve its reporting and review processes as the tools to do so become available. In addition, these processes should be documented to ensure continuity of this activity into the future.		
	Agree	<p>Reports of purchases are distributed to the Purchasing division and to all department heads.</p> <p>The Business Services Director reviews reports of all purchases. Contact is made with the department head where there seems to be a violation. Once a new Purchasing Administrator is hired, this responsibility will be pushed down to the Administrator.</p> <p>We will formalize our process putting issues found in a spreadsheet and documenting the review and resolution process.</p>	<p>Beginning with the March, 2012 end of month reports</p>
<b>3.</b>	The Purchasing Division should develop improved tools and/or procedures to be used when preparing Council Reports. These tools and/or procedures should be carefully designed to ensure that all relevant information is gathered and presented in a uniform, consistent, and accurate manner.		
		<p>The finding discovered in the original audit regarding information included in dollar limit increase requests reports was not repeated.</p> <p>The follow-up audit uncovered that Buyers are calculating the percent increase/decrease for renewals in different manners. We have agreed on one method and have developed a spreadsheet template to make the calculation consistent.</p> <p>The follow-up audit uncovered another issue with renewal line items that hadn't been resolved by our policy updates. We have met with the Purchasing staff to ensure that items are renewed only with the vendors that were originally awarded those items.</p> <p>We are looking at options to improve Council Report template to help make the reports more consistent.</p>	<p>Price change calculation standardization Complete February 9, 2012</p> <p>Renewal process clarification Complete February 23, 2012</p> <p>Council Report revisions In Progress</p>