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Date: October 19, 2010

To: Audit and Finance Committee

From: Jennifer Ruttman, City Auditor 

Subject: Audit of Request for Proposal/Bid (RFP/B) Process

cc: Bryan Raines, Deputy City Manager
Ed Quedens, Business Services Department Director
Jim Ruiz, Purchasing Administrator
Beth Huning, City Engineer

Pursuant to the Council-approved audit plan, we have completed an audit of the City's Request for Proposal/Bid (RFP/B) Processes. The final report, which includes 6 Corrective Action Plans (CAPs), is attached. Due to the large number of recommendations, the departments' responses have been incorporated into the report for ease of reference and continuity.

We will perform a follow-up review in approximately one year, to determine whether the planned corrective actions have been effectively implemented.

If you have any questions or comments about this audit, please feel free to contact me at x3767, or Tami Steadman at x5059.



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AUDIT REPORT

CITY AUDITOR

Report Date: October 19, 2010
Department: Business Services Department/Purchasing Division
Subject: Audit of Request for Proposal/Bid (RFP/B) Process

OBJECTIVES

The objectives of this audit were to determine whether the request for proposal/bid process:

1. Complies with applicable policies and regulations.
2. Includes adequate controls to prevent or detect non-compliance, errors, fraud, or abuse.
3. Is designed to effectively provide the best value for the City.
4. Encourages Mesa businesses to bid on City contracts and other purchases.

SCOPE & METHODOLOGY

To accomplish our objectives, we:

- Reviewed applicable policies, procedures, laws, and other established guidance.
- Interviewed City staff members.
- Observed Purchasing Division operations and processes.
- Observed RFP/B processes independently conducted by other departments.
- Reviewed and analyzed data and source documents maintained by Purchasing, Budget & Research, and Accounting Services.

BACKGROUND

The Mesa City Charter requires the use of public, competitive processes for the procurement of materials with a cost exceeding \$25,000. According to Management Policy 200, the Purchasing Division is responsible for obtaining the required competitive proposals/bids for purchases of materials, supplies, equipment and other commodities, as well as insurance and selected services, exceeding \$25,000; and the Engineering Department is responsible for obtaining the required competitive bids/proposals for Capital Improvement projects exceeding \$25,000. For most other purchases, with the exception of the procurement card program, a decentralized process is used citywide, with little or no involvement by the Purchasing Division.

CONCLUSION

With regard to the objectives noted above, our findings are as follows:

1. The RFP/B processes are designed to comply with applicable policies and regulations; however, these processes are not always administered appropriately and are not always followed by City staff.
2. There are insufficient controls present in the City's policies and procedures to ensure that all procurement is subjected to the RFP/B processes when required. There is a lack of adequate training of City staff responsible for procurement; and there is no effective monitoring or analysis of citywide purchasing activity to detect other policy violations, errors and/or fraudulent activity.

3. The RFP/B processes are designed to provide the best value for the City, but cannot do so if they are not used. Additional controls and accountability are needed to ensure the processes are used as intended.
4. Attempts are being made to encourage Mesa businesses to bid on City contracts and other purchases. However, there is a need for greater consistency in the application of preference points awarded to local businesses during bid evaluations.

RECOMMENDATIONS

Included with this report are six Corrective Action Plans (CAPs), which contain detailed findings and recommendations for improvement. For reference purposes, the following is a brief overview of the content of each CAP:

CAP #	Finding(s)	Recommendation(s)
<u>CAP #1</u>	The Purchasing policy contains vague terms, inconsistencies, and other control weaknesses.	Revise Management Policy 200, to address risks, define key terms, remove contradictions, and strengthen controls.
<u>CAP #2</u>	Non-compliance with procurement policies and procedures, including Purchasing Division’s internal procedures.	Revise internal procedures to strengthen controls; enhance both internal and citywide training efforts.
<u>CAP #3</u>	Lack of reliable, comprehensive data.	Improve the quality and completeness of data to enable more useful reporting.
<u>CAP #4</u>	Purchasing Division does not adequately monitor or analyze citywide purchasing activity.	Create and regularly review reports designed to detect non-compliance and identify opportunities for improvement in efficiency and cost savings; assign monitoring and analysis duties to specific employees; include all purchasing activity in the oversight process.
<u>CAP #5</u>	Contract was awarded to different vendors than those approved by Council, and for different purchase amounts. Subsequent Council reports regarding this same contract were inaccurate.	Ensure all Council reports are accurate and complete; and ensure that Council approval is sought before making substantial and material changes to Council-approved awards.
<u>CAP #6</u>	Local bid preference points for certain contracts have been applied inconsistently by the Engineering Department during the bid evaluation process.	Specify the allowable number of points awardable for a local bid preference, and define the criteria to be used in the application of those points.

CAP #1: Purchasing Policy is Unclear and Has Control Weaknesses

Observations: There are numerous control gaps, vague terms, and inconsistencies in Management Policy 200: Purchasing Policy and Procedures, including but not limited to the following:

1. The definition of services is overly broad and makes no distinction between professional services and other services. Different types of services are referenced and handled differently in various sections of the Policy, and all professional services are completely excluded from competitive evaluation.
2. There are specific rules for "purchases in excess of \$25,000", but this term is not defined. While it is generally agreed that multiple purchases of the same items within a 12-month period should be considered under this category, this is interpreted and applied differently by departments across the City.
3. The policy requires staff to use different forms for different types of purchases, yet there are conflicting rules regarding which form to use. In addition, we found no valid purpose for one of these forms, the Invoice for Payment (IFP) form. Purchases processed on an IFP are not subject to Purchasing Division review, which allows them to escape scrutiny that might otherwise ensure compliance with purchasing rules.

Risks:

- Inconsistent purchasing practices across departments.
- Inability to ensure that we are providing the best value for the City.
- Fraud, waste or abuse in the procurement cycle.

Comments: It is important for the City's purchasing policy to clearly distinguish between professional and non-professional services, because most non-professional services are good candidates for the competitive evaluation process.

The rules for "Purchases in Excess of \$25,000" are silent regarding the time frame for these purchases – one time purchase, or repeated purchases over a certain period. The Purchasing Division has interpreted the \$25,000 threshold as applicable to one time purchases and also to repeated purchases of the same item over a 12-month time frame. Many departments across the City do not comply with this interpretation and make repeated purchases of the same items – totaling well over \$25,000 annually – without going through the RFP/B process. Without this competitive process, there is no assurance of getting the best value for the City. The Purchasing Division has had difficulty convincing some departments to use the formal RFP/B process for these repeated purchases, partly due to the lack of clear guidance and definitions in the policy.

The Purchasing policy establishes the use of two different payment forms – Purchase Orders (includes Limited, Regular, and Blanket POs) and Invoice For Payment (IFP) forms. A large percentage of the City's non-payroll-related expenditures are processed on IFPs, yet the Purchasing Division does not review or monitor this activity in any way. We could not find any other organization, or any professional literature, that supports the use of two different payment forms in this way. Rather, the best practice is to ensure that all purchasing activity is routinely monitored and analyzed in order to reduce the risk of fraud, waste, and abuse in the procurement cycle.

Because the Purchasing Policy includes vague terms and definitions, contradictory guidelines, and outdated references, departments across the City interpret the policy differently and have different procurement processes in place.

Recommendations:

1. Management Policy 200 should be revised to address key risks in the procurement cycle, define key terms, and remove contradictions. Specifically:

- a. Services – professional and non-professional – should be clearly defined. [Dept Response](#)
- b. Non-professional services over \$25,000 should be subject to a competitive evaluation process. [Dept Response](#)
- c. 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. [Dept Response](#)
- d. The time frame and other criteria defining “Purchases in Excess of \$25,000” (and other key thresholds) should be clearly stated. [Dept Response](#)
- e. 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. [Dept Response](#)
- f. Outdated department names and staff titles should be revised. [Dept Response](#)
- g. The Purchasing Division should be designated as having both the authority and the responsibility to appropriately monitor all purchasing activities for policy compliance and for opportunities for improvement in efficiency and value. [Dept Response](#)

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Business Services Department/Purchasing Division Response:

CAP 1 Rec #	Agree Or Disagree	Brief Summary of Implementation Plan	Estimated Implementation Date (Month/Yr)
Rec #1a	Agree	General Services and Professional Services have been defined in the update to Management Policy 200 currently being finalized.	1/1/2011
Rec #1b	Agree	A \$25,000 Competitive Selection threshold for General Services is included in the update to Management Policy 200. There is a provision for the City Manager or Designee to exempt specific procurements when not practicable or advantageous.	1/1/2011
Rec #1c	Agree	In the update to Management Policy 200, Competitive Selection is recommended to the extent practicable and advantageous to the City. The dollar threshold for this item is still being determined will likely be between \$25,000 and \$100,000. The City Manager or Designee may exempt specific procurements when not practicable or advantageous.	1/1/2011
Rec #1d	Agree	Looking at individual purchases rather than a bigger picture has been a long-standing interpretation of this City policy. With the update to Management Policy 200, purchases will be looked at on a rolling annual basis for the purposes of determining the procurement process when possible and reasonable.	1/1/2011
Rec #1e	Agree	Agreed to an extent. Invoice for Payments are currently used for purchases of services and non-purchase payments. We are currently working to move <u>purchases</u> out of the IFP system to different types of purchase orders. All payments using IFP's do not require a purchase order or the efforts of the purchasing staff that goes along with them. Appropriate IFP payments include payments to other government entities, utility payments, employee reimbursements and the like. Purchase Orders and IFP's have been transitioned to new systems in the last 4 years, IFP's just last year. They are in the same database but because the data fields were not the same, the data was not able to be combined. There will always be payments that do not require a purchase order as well as purchases from procurement cards and one of our goals for the CityEdge solution will be to accommodate this need while	1/1/2011

CAP 1 Rec #	Agree Or Disagree	Brief Summary of Implementation Plan	Estimated Implement- ation Date (Month/Yr)
		keeping the data together.	
<u>Rec #1f</u>	Agree	Department names and job titles have been updated in the Management Policy 200 update.	1/1/2011
<u>Rec #1g</u>	Agree	This is included in the update to Management Policy 200 - Purchasing for non-construction and Engineering for construction procurements. This is a significant change in Mesa's decentralized model moving more responsibility from individual department management to Purchasing and Engineering. Much of the ability to implement this will be based on the data available for the purpose and will benefit from some of the CityEdge initiatives.	1/1/2011

CAP #2: Non-compliance With Procurement Policies and Procedures

- Observations:** During audit test work, we found multiple instances of non-compliance with procurement policies and/or procedures. Examples include:
1. Commodity purchases and contract increases over \$25,000 that were not approved by Council and/or were not procured according to policy.
 2. Failure to use the RFP/B process when required by policy.
 3. Purchases split to avoid competitive evaluation requirements.
 4. Incomplete bid files.
 5. Forms missing required signatures.
 6. Proposal evaluation processes not overseen by Purchasing Division staff.
 7. Evaluation Committee Member Statements not obtained.
 8. Inadequate training of City staff members with purchasing responsibilities.
 9. Lease documents not obtained or reviewed by Purchasing Division staff.

- Risks:**
- Fraud – kickbacks, bid manipulation, unauthorized expenditures, etc.
 - Waste – the City may not be providing the best value to the taxpayers.
 - Abuse – repeated policy violations, split purchases, conflicts of interest.
 - Bid challenges and/or other liabilities arising from lack of oversight of the evaluation process.

Comments: The Purchasing Division has established procedures for the RFP/B process, to ensure compliance with policies/regulations, prevent/detect inappropriate activities, and to provide the best value for the City. However, these procedures are not routinely followed, indicating that they do not include adequate internal controls. For example, the Purchasing Division does not oversee the evaluation and award recommendation process for selected City departments. Allowing staff to determine if and/or when to follow procedures undermines internal controls.

Among the Purchasing Division's internal procedures are requirements for providing training to City staff members with procurement responsibilities. However, despite the high demand for this training, it is offered very infrequently. In our opinion, the Purchasing Division has not been proactive enough with citywide training, assistance, and enforcement with regard to procurement activities.

- Recommendations:**
1. The Purchasing Division's internal procedures for the RFP/B process should be revised to include adequate controls to ensure compliance. Dept Response
 2. Purchasing Division staff should be trained on all applicable procedures, and supervisors should monitor activity to ensure consistency and compliance. Dept Response
 3. 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. Dept Response

4. The Purchasing Division's procedures should be revised to include requirements and procedures for obtaining and reviewing lease documents. Dept Response

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Business Services Department/Purchasing Division Response:

CAP 2 Rec #	Agree Or Disagree	Brief Summary of Implementation Plan	Estimated Implement- ation Date (Month/Yr)
Rec #1	Agree	In addition to the items below, a process checklist consistent with the new policies and processes is also being developed for each type of solicitation to verify compliance with all requirements before being finalized.	1/1/2011
Rec #2	Agree	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.	6/2/2010 and ongoing
Rec #3	Agree	The Division's Purchasing Basics Class was resurrected in 2009 after a two-year absence. It was given this year in March, September and another is scheduled for November of 2010. It will be offered no less than quarterly in the future with the option of separate classes for individual departments. The curriculum was expanded this year to include several issues raised in a separate review and will be updated periodically as the need arises. We will also be developing a separate refresher class. As the new procurement policies are implemented, we anticipate conducting training starting in December 2010 or January of 2011.	Ongoing
Rec #4	Agree	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.	1/1/2011

CAP #3: Lack of Reliable, Comprehensive Data

Observations: We found that there is a lack of comprehensive, reliable data related to purchasing activity, including the RFP/B process. This data is necessary for the purpose of monitoring and analyzing purchasing activity, trends, compliance, etc. For example:

1. Purchasing does not maintain adequate historical data on the results of all bids processed and contracts awarded.
2. The City's vendor database contains numerous occurrences of multiple entries for the same vendor (i.e. different spellings/naming conventions).
3. No comprehensive, reliable report exists for expenditures by vendor.

Risks:

- Undetected violations of policies and regulations, such as bid manipulation, vendor favoritism, etc.
- Inadequate monitoring, resulting in ineffective management.
- Missed opportunities for volume discounts.
- Erroneous or misleading information provided to decision-makers, i.e. City management, City Council, and taxpayers.

Comments: The Purchasing Division maintains a database which includes all of the contracts handled through the RFB/P process; however, for many of those contracts, the winning vendor and award data is not entered into the database. This information is only entered for term contracts.

In order to effectively monitor and analyze the City's purchase activity on a global basis, reports must be obtainable from a comprehensive, accurate, reliable database. Currently different types of purchases are recorded in different places, making it almost impossible to obtain comprehensive data reports.

Recommendations: The Purchasing Division should:

1. Ensure that their database includes the results of all bids processed and contracts awarded. Dept Response
2. Improve the vendor list by:
 - a. Conducting a one-time "clean-up" process to eliminate redundancies and standardize data entry conventions. Dept Response
 - 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. Dept Response
 - c. Actively monitoring the list and making corrections immediately when problems are found. Dept Response
3. 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. Dept Response

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Business Services Department/Purchasing Division Response:

CAP 3 Rec #	Agree Or Disagree	Brief Summary of Implementation Plan	Estimated Implement- ation Date (Month/Yr)
<u>Rec #1</u>	Agree	This database was developed to issue contract numbers and track term contracts allowing Purchasing to generate reports on current term contracts, upcoming expirations to plan rebids and renewals. It has been modified since to track insurance, licenses, initiation dates, bid release dates, bid opening dates and dollar limits for term contracts as well as to provide numerous other reports. It was never intended to provide comprehensive bid result information. The contract file contains this data and we have not had a need to produce reports in this manner and therefore we have not incorporated one-time purchase contract award data into this database. We are evaluating the benefit of changing the approach to the database and whether we will begin to enter this data with the start of the 2011 contract year. A comprehensive database of solicitations, responses and awards is part of the CityEdge solution.	1/1/2011 or 7/1/2012 depending on the approach
<u>Rec #2a</u>	Agree	Certain redundancies exist intentionally because the current system does not have parent-child relationships possible. Others are errors in part caused by staff turn-over, the inability to do wildcard searches, weak standardization guidelines and non-compliance with those that do exist. The current vendor database is being cleaned-up in preparation for the CityEdge implementation.	6/30/2012
<u>Rec #2b</u>	Agree	We will update our standardization guidelines and train staff. The current system does not provide wildcard searches which would prevent many of the duplications. The current vendor database is being cleaned-up in preparation for the CityEdge implementation. This initiative is required for our CityEdge implementation.	2/1/2011
<u>Rec #2c</u>	Agree	Staff does fix problems when they are found. But there is no ability to report on adds/updates and there is not staff available to double-check every add/change that is completed. The current vendor database is being cleaned-up in preparation for the CityEdge implementation.	Ongoing
<u>Rec #3</u>	Agree	Data is downloaded today from the Purchasing system to provide expenditure information. Because the data isn't similar there are three reports, one for purchase orders, one for Invoice for Payments and one for procurement card purchases. There are also a small number of payments that don't show up in either of these databases. The new CityEdge solution should pull this data together.	7/1/2012

CAP #4: Purchasing Division Does Not Adequately Monitor Citywide Purchase Activity

- Observations:**
1. The Purchasing Division does not routinely analyze citywide purchasing activity. As a result, numerous policy violations, split purchases, and opportunities for volume discounts have gone undetected and/or unaddressed by the Purchasing Division.
 2. The Purchasing Division does not review any purchases processed on Limited Purchase Order (LPO) or Invoice For Payment (IFP) forms. As a result, a large percentage of expenditures are not subject to independent oversight and analysis.
 3. The Purchasing Division does not monitor or oversee leasing activity unless departments independently request assistance.

- Risks:**
- Undetected violations of policies and regulations.
 - Undetected fraud, waste or abuse.
 - Missed opportunities for volume discounts.
 - Management may not make the most cost-effective lease/purchase decisions.

Comments: City of Mesa purchasing activity is not centralized. Most departments only seek assistance from the Purchasing Division when a single materials or commodity purchase greater than \$25,000 must be made. Therefore, the Purchasing Division has no involvement in, and no oversight of, a significant percentage of the City's purchasing activities.

While there are internal controls within the payment process itself, there are many problems that are more effectively detected and managed through oversight and analysis conducted by a centralized Purchasing Division. Without this critical function, there is a much higher likelihood that incidents of noncompliance or malfeasance would remain undetected, and that opportunities for improvement in efficiency and cost-savings would be overlooked.

One of the most common issues we found is that many departments use LPOs on an on-going basis to purchase the same item or types of items, when the total amount purchased annually exceeds \$25,000. In many of these cases, it would be in the best interest of the City to award a supply contract through the RFP/B process. If the Purchasing Division were to routinely monitor city-wide purchase activity and look for these patterns, they could then work with the departments to establish supply contracts through the RFP/B process when feasible and beneficial.

Since different types of purchases are recorded using different processes, the Purchasing Division has been able to exclude a large number of purchases from their review. In fact, a significant percentage of non-payroll dollars spent by the City are processed through methods that prevent them from ever being seen, monitored or analyzed by the Purchasing Division.

Management Policy #207 requires all lease documentation to be forwarded to Purchasing. However this is often not done and the Purchasing Division has no way of knowing what kind of leasing activity is going on in the City. Therefore, no central oversight is taking place to ensure these leases are in the City's best interest.

- Recommendations:**
1. The Purchasing Division should take a more active role in monitoring and analyzing purchases citywide, including but not limited to the following:
 - a. Create and regularly review reports that are designed to:
 - Ensure that purchases are subjected to applicable RFP/B processes as required.
 - Detect other policy violations, errors and/or fraudulent purchases.
 - Identify opportunities for improvement in efficiency and cost savings. [Dept Response](#)
 - b. 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. [Dept Response](#)
 - c. Develop procedures for ensuring that all leases are obtained and reviewed in accordance with policy; and that leases are used only when in the best interest of the City. [Dept Response](#)
 2. All purchasing activity, regardless of payment method, should be included in the data population subject to review by the Purchasing Division. This will enable them to identify purchasing errors or irregularities that might otherwise go undetected. [Dept Response](#)

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Business Services Department/Purchasing Division Response:

CAP 4 Rec #	Agree Or Disagree	Brief Summary of Implementation Plan	Estimated Implementation Date (Month/Yr)
Rec #1a	Agree	Purchasing has in the past been hampered by a lack of data due to old systems, weak policies and department resistance. We have been making strides in mitigating these issues. We do have reports of purchase order activity, Invoice for Payments and procurement card purchases that are reviewed on a monthly basis, though detailed information is still limited. We have developed a list of commodities as part of our strategic initiatives for which we are working towards establishing contracts. The overall accomplishment of this recommendation pulls heavily on limited resources and may take several years to fully implement and move to a maintenance mode.	Ongoing
Rec #1b	Agree	We do have reports of purchase order activity, Invoice for Payments and procurement card purchases that are reviewed on a monthly basis, though detailed information is still limited. We are not staffed to assign this task to anyone other than the Purchasing Administrator and the Business Services Director. We will review this finding and develop a reporting process that documents our reviews, issues found and new contracts established.	1/1/2011
Rec #1c	Agree	Management Policy 207, Leasing is being rescinded. Leasing and Rental is being folded into Management Policy 200. Reviewing lease and rental documents where the value is over \$5,000 is included in the policy.	1/1/2011
Rec #2	Agree	This is currently being done today to the extent possible considering data comes from three separate sources (purchase order data, Invoice for Payment data and procurement card data). The CityEdge solution should put this data together and provide greater detail to accomplish this goal.	7/1/2012

CAP #5: Accuracy of Council Reports and Obtaining Required Council Approval

Observations:

1. Significant changes to a Council-awarded contract were not approved by Council. Throughout the course of the contract, money was transferred from vendor to vendor; and at each of the 2 annual renewals, blanket purchase orders were issued for vendors and amounts that did not reflect what was originally approved and awarded by Council.
2. When the Council was asked to approve a \$74,000 limit increase, information presented in the Council Report was inaccurate.

Risks:

- Violations of purchasing policies and management override of internal controls increase the risk of fraud and create the appearance of impropriety in purchasing practices, leading to loss of public trust.
- The City Council may make decisions based on incomplete, inaccurate, or misleading information.
- The City Council may lose trust in reports presented by staff.

Comments:

In March 2007, the Council approved the awarding of a 3-year supply contract for an annual total of \$817,835 to five specific vendors for specific amounts of seven different chemicals. Within a few weeks of this approval, two vendors not on the original request were given contracts for two of the chemicals. Council was not informed of the changes.

In October 2009, toward the end of the initial 3-year contract term, the Purchasing Division requested Council approval for a \$74,000 limit increase for one of the chemicals. In that Council Report, Purchasing stated that "seven vendors were awarded portions of this contract." The two added vendors were referenced by name as having been part of the original contract, although they were not.

In addition to the \$74,000 increase noted above, increases of \$25,000, \$24,999, and \$20,000 were made during the contract term. Also over the same time period, we noted 8 transfers, ranging from \$24,000 to \$85,000, of purchase order dollars between vendors of different chemicals. At the end of the original 3-year term, the vendor with lowest annual award, \$61,467, had been paid an average of \$151,873 per year; and a vendor who was not awarded any portion of the original contract had received an average of \$173,700 per year, the largest percentage of the total award.

To comply with Management Policy 356, Delegation of Signature Authority and Agreement Approval Process, the Purchasing Division should have submitted the vendor changes and large transfers to the City Council for approval; or, if in doubt, they should have consulted the City Attorney's Office on the issue. When we asked, the City Attorney concurred that the use of non-awarded vendors and changes to the amounts awarded in this case should have been brought to Council for action.

In our opinion, even if under \$25,000, all interim increases, transfers and/or vendor changes should be cumulatively disclosed if/when a request for a larger increase on the same contract is later brought to Council.

- Recommendations:**
1. The Business Services Department Director should ensure that all City Council Reports submitted by the Purchasing Division are accurate and complete. [Dept Response](#)
 2. The Business Services Department 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. [Dept Response](#)
 3. 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. [Dept Response](#)

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Business Services Department/Purchasing Division Response:

CAP 5 Rec #	Agree Or Disagree	Brief Summary of Implementation Plan	Estimated Implementation Date (Month/Yr)
Rec #1	Agree	We will increase oversight, specifically to the recommendations below.	Immediately
Rec #2	Agree	The audit found an instance from 2007 where a multi-award contract was approved by Council, the vendor for two of those line items was unable to perform and those lines were reawarded to the next low bidder at the same amount but by staff and not Council. That was an accepted practice at the time however it is not practiced today and is specifically prohibited in the Procurement Rules that are being implemented. There was also an instance where on a multiple vendor award, staff did not catch that the cumulative administrative increases exceeded the \$25,000 threshold. Staff is checking all term contracts to see if this happened anywhere else and has been reminded that they need to check this before processing/approving increases. The Purchasing Administrator will be more diligent in reviewing increases before approving them.	Immediately
Rec #3	Agree	The audit found when certain items were taken back to Council for action, administrative dollar limit increases, were not called out separately but were included in current dollar limit. In the future, we will indicate the last Council approved amount as well as any administrative increases.	Immediately

CAP #6: Use of Local Bid Preference

Observation: A local bid preference has been included in various RFQs, using the term “local composition of team.” However, the same number of points is not always used, and the criteria used to apply them have not been defined. Therefore, inconsistent application of these points has occurred.

- Risks:**
- Potential for non-compliance with procurement statutes.
 - The integrity of the evaluation process may be questioned when unclear criteria are used to allocate points to a bidder.
 - Increased risk of bid challenges, which could result in penalties and fines, and/or loss of public trust.

Comments: In order to incorporate local bid preference criteria into the RFQ process, the term “local composition of team” has been used and varying numbers of points have been awarded. However, this term is not well-defined and, therefore, the related points have been applied inconsistently during the evaluation process.

- Recommendations:**
1. 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.
 - c. Ensure that staff members participating in the evaluation process are trained in how to fairly and consistently apply these points.

Dept Response

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Engineering Department Response:

CAP 6 Rec #	Agree Or Disagree	Brief Summary of Implementation Plan	Estimated Implementation Date (Month/Yr)
Rec #1	Agree	<p>The City Council requested that a local preference be given to Mesa based companies for contract work being awarded and completed for the City. Engineering was not sure how this could legally be implemented into the contractor selection process. A few local contractors were concerned about how this rating criteria would be evaluated and the local office of the Associated General Contractors (AGC) was made aware of this concern. The AGC called Engineering staff and stated their concerns with this preference and we assured the AGC the City would be equitable in the process. Engineering decided to include a rated criteria in projects that are advertised for Construction Manager at Risk (CM@R) contractors and large design projects.</p> <p>The Engineering Department agrees with the above finding and recommends consistency in the rating criteria between projects. To achieve this goal, Engineering will implement the following guidelines:</p> <ol style="list-style-type: none"> a. Use five (5) points out of 100 possible points for local Mesa based firms and use this same number on every advertised selection process for contractors/consultants. This includes CM@R construction contracts, and design contracts where the architecture fee is more than \$250,000 and engineering fee is more than \$500,000. b. If the firm has a Mesa business address (excluding Post Office Boxes) all five (5) points 	October 2010

CAP 6 Rec #	Agree Or Disagree	Brief Summary of Implementation Plan	Estimated Implement- ation Date (Month/Yr)
		<p>will be awarded to the firm.</p> <p>c. Engineering management will provide a discussion/training on how the selection criteria is to be applied to the selection panel to ensure all panel member(s) apply this criteria equally and consistently.</p>	