



20 E Main St Suite 820
PO Box 1466
Mesa, Arizona 85211-1466

Date: December 13, 2011
To: Audit, Finance & Enterprise Committee
From: Jennifer Ruttman, City Auditor
Subject: Citywide Audit of the Use of State & Cooperative Contracts

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed an audit of the City's use of State and cooperative contracts. The final report is attached. Since there were no significant findings, no management response was required. Please feel free to contact me if you have any questions.

AUDIT REPORT

CITY AUDITOR

Report Date: December 13, 2011
Department: Citywide
Subject: Audit of Use of State & Cooperative Contracts

OBJECTIVES

The purpose of this audit was to determine whether State contracts and other types of cooperative contracts have been used only when doing so was in the best interest of the City.

SCOPE

Purchase orders referencing State or other cooperative contracts, dated between 7/1/2010 and 4/30/2011, with a total value of \$11.1M, were reviewed on a sample basis.

METHODOLOGY

While we acknowledge that many factors contribute to whether or not a purchase is in the City's best interest, for the purpose of this audit, we sought to answer the following questions:

- Did staff seek out multiple quotes prior to using a State or cooperative contract?
- Is there any evidence that better values existed when the contract purchases were initiated?
- Did staff ensure the City received the contract price at the time of payment?

To answer these questions, we interviewed City staff members responsible for purchasing; researched alternate sources and pricing for items purchased during the audit period; reviewed contracts, purchase orders, invoices and other payment documents; and performed other testing and analyses as necessary.

BACKGROUND

When another governmental agency or organization conducts a competitive evaluation process that results in a contract for goods or services, there is often a provision in the contract that allows other agencies to also use that contract. Historically, this has been accepted as an efficient procurement method that provides a competitive price without duplicating the cost and effort already expended by the first agency to conduct the competitive evaluation process. In addition, with limited time and resources available to conduct new evaluations, these contracts often provide an expedient option. However, in today's economic climate, it is reasonable to question whether a contract that was competitively awarded several years ago still provides the best possible value to the City.

Prior to May 2011, Management Policy 200 (MP200), Procurement Policy and Procedures, allowed staff to procure goods and services using a State or other cooperative contract without performing any additional steps to ensure the contract actually provided the best value. When MP200 was updated in May 2011, the following language was added:

"Due diligence should be performed to ensure the Cooperative Procurement was conducted in a manner consistent with Mesa's Competitive Selection requirements and provides the best value for the City."

OBSERVATIONS

Did staff seek out multiple quotes prior to using a State or other cooperative contract?

We found that, for the majority (73%) of purchases we tested, the staff members responsible did not gather any additional quotes prior to choosing to use the cooperative contract. The primary reason cited for this was that City policy did not require it. The staff members who initiated these purchases considered these contracts to be the most expedient and efficient means to procure the goods or services in question, and did not see the value in spending the time to gather other quotes. The staff members who did obtain other quotes reported that they chose to use the cooperative contract because it was ultimately the best value for that specific purchase.

Is there any evidence that better values existed at the time?

While it is difficult to determine at a later date whether a better value might have been available when a purchase was made, we were able to identify a very small number of instances in which the same items were purchased by more than one department within a few months of each other; and we found that the contract offered the lower cost for approximately 90% of these purchases. In addition, although there were an insufficient number of direct comparison opportunities available to consider this a statistically significant conclusion, when we looked at purchases that were similar, rather than exactly the same, we found only a minimal increase in the number of opportunities for savings through the alternative sources.

Did staff ensure the City received the contract price at the time of payment?

We found that, with one exception, vendor invoices were consistent with contract pricing. The one exception involved an error on the City's part, which resulted in the underpayment of a vendor. When this was discovered, the department identified the cause of the error and is implementing controls to prevent future occurrences.

CONCLUSION

In our opinion, the use of State and other cooperative contracts during the audit period was generally in the best interest of the City. Although there were occasional instances in which better values were available elsewhere, we anticipate that the due diligence explicitly required by the City's revised purchasing policy should ensure even better results in the future.