



Procurement Audit – Informal Purchase of Supplies - #871

Executive Summary

Why CAO Did This Review

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the City's informal procurement process for supplies, which includes supplies with an estimated value less than \$65,000. The City recently implemented a new system for processing informal purchases; therefore, we thought it was important to conduct an audit of the new processes. Pursuant to Section 126.102 (g) of the Municipal Code, procurement of supplies with an estimated value of less than \$65,000 is done in accordance with regulations established by the Chief of Procurement.

Chapter 24 Part 6 of the City's Municipal Code established the Procurement Division to "... purchase or obtain, by lease or rental, for use of the City the necessary and appropriate supplies, materials, equipment, personal property, contractual services, printing facilities and warehouse operations, and insurance and surety bonds." Chapter 126 of the City's Municipal Code is the City's Procurement Code. This Chapter requires the Procurement Chief (upon approval of the Mayor) to establish regulations for informal purchases. These regulations are encapsulated in the Procurement Manual that is created by the Procurement Chief (as required by the Section 126.106 of the Municipal Code). The Procurement Manual provides regulations and procedures related to the formal and informal procurement processes.

What CAO Found

While the Procurement Division generally processed requests for informal purchases of supplies in a manner that was consistent with the Municipal Code and Procurement Manual, we did find several, including some significant, issues with the controls surrounding the process. Specific issues noted included:

- Various issues with the Procurement Manual including unwritten, incomplete, and outdated policies and procedures.
- Requisitions could bypass the Procurement Division and therefore purchase orders created without following proper processes.
- System access issues
- Gaps in procurement data (e.g., requisition numbers).
- Exempt records not properly protected.

What CAO Recommends

We recommend that the procurement manual be updated, and that it include items referenced in our report that were not covered or needed additional detail. Additionally, we recommend that:

- The Procurement Division update forms in the system to prevent requisitions from bypassing them.
- The Procurement Division work with appropriate parties to address system access issues that enabled users to purchase items from funding sources they should not have access to as well as those that enabled users to complete all aspects of a purchase without separate approval.
- The Procurement Division work with the Information Technologies Division to better understand what caused the gaps in procurement data to ensure no data is being lost.
- The City ensure exempt data is properly protected at all times.



Council Auditor's Office

**Procurement Audit
Informal Purchase of Supplies**

June 26, 2023

Report #871

EXECUTIVE SUMMARY

AUDIT REPORT #871

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OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



June 26, 2023

Report #871

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the City's informal procurement process for supplies. Based on Section 126.102 (g) of the Municipal Code, formal purchases of supplies are those with an estimated value in excess of \$65,000. Pursuant to Section 126.205 informal supplies are those not classified as formal and are made in accordance with regulations established by the Procurement Division Chief and approved by the Mayor. Therefore, supplies with an estimated value of less than \$65,000 were the focus of our audit.

Chapter 24 Part 6 of the City's Municipal Code established the Procurement Division to "... purchase or obtain, by lease or rental, for use of the City the necessary and appropriate supplies, materials, equipment, personal property, contractual services, printing facilities and warehouse operations, and insurance and surety bonds." Chapter 126 of the City's Municipal Code is the City's Procurement Code. This Chapter requires the Procurement Chief (upon approval of the Mayor) to establish regulations for informal purchases. These regulations are encapsulated in the Procurement Manual that is created by the Procurement Chief (as required by the Section 126.106 of the Municipal Code). The Procurement Manual provides regulations and procedures related to the formal and informal procurement processes.

The Division provided us with various written standard operating procedures. Section IV of the Procurement Manual specifically addressed informal purchases. Part B of Section IV, Solicitation Procedures, identified the Procurement Division's Buyers as responsible for soliciting using agency requests to purchase goods and services estimated to exceed \$2,500, and stated the using agencies were responsible for soliciting requests that were \$2,500 or less. Part C, Review and Approval Requirements, required Buyer approval of each informal purchase and in addition the Manager in Procurement approval of any that exceeded \$30,000.

On February 29, 2020, the City implemented a new financial system that replaced the previous system used for informal purchases. To request an informal purchase of supplies in the system, using agency staff submit an electronic document called a requisition that the system processes by obtaining electronic approval from one or more designated users in the using agency before delivering the approved requisition to the Buyers in the Procurement Division for review. If the estimated cost is more than \$2,500, the Buyer approves the using agency's request by submitting a second electronic document in the system, which is a negotiation where they are soliciting responses from suppliers for the requested goods and services. The minimum number of required

suppliers solicited varies from one to four depending upon the estimated dollar amount. If the estimated cost is less than \$2,500 the Procurement Division solicitation process can be skipped by the Buyer. After the solicitation process, the Buyer will create a purchase order (or a purchase agreement) with the acceptance of a bid by the using agency. Purchase agreements are for purchases that involve multiple orders that are issued over a period of time and an electronic document called a purchase order release initiates each of those orders.

On March 13, 2020, the City's Mayor issued an emergency executive proclamation to declare a state of emergency related COVID-19. Based on the proclamation and the Mayor's directives, nonessential employees did not report to work from March 14, 2020 through May 31, 2020. Given the timing of these events, some of the issues noted in the report were at least partially the result of the timing of these events along with the implementation of the new system on February 29, 2020.

STATEMENT OF OBJECTIVE

To determine whether the Procurement Division processed requests for informal purchases of supplies in a manner that was consistent with the Municipal Code and Procurement Manual.

STATEMENT OF SCOPE AND METHODOLOGY

To understand the Procurement Division's processes related to the procurement of supplies that were less than the threshold for formal purchases (i.e., informal purchases), we reviewed the Procurement Division's internal operating procedures, interviewed personnel, performed observations, analyzed risk factors, and applied various procedures to assess internal controls. We also reviewed the applicable laws, rules, and regulations. Based on our understanding, we designed procedures to test whether the Procurement Division's processes were operating as intended and in compliance with the relevant requirements.

We chose to audit the period of February 29, 2020, through June 30, 2021, since the City switched to a new procurement system for informal purchases on February 29, 2020.

Due to how we split the population up for testing as outlined below, we decided to judgmentally select the sample size for each of the specific tests. Although not all samples can be purely projected to the population, we do believe that the results allow us to ultimately draw our conclusions based on the results of all our testing. Additionally, for proper context we have presented information concerning the value and/or size of the items selected for testing compared to the overall population and the value and/or size of the exceptions found in comparison to the items selected for testing.

Main Testing - Competitive Solicitations of Supplies

Our main testing was of 205 sample items to determine whether they were properly approved, solicited, and awarded, and otherwise complied with relevant laws, rules, and regulations.

- *Test of Informal Solicitations by Using Agencies:* We selected for testing a random sample of 100 from the 7,862 orders that were estimated to be \$2,500 or less and were solicited by the using agency.
- *Test of Informal Solicitations by the Procurement Division:*
 - We selected a random sample of 100 from the 1,016 orders that were estimated to cost more than \$2,500 but \$65,000 or less and appeared to result from a Buyer's solicitation.
 - We selected a random sample of 5 from 15 purchase agreements that were associated with a competitive solicitation number.

Other Testing – Orders Exempt from Competitive Solicitation

We tested 43 sample items to determine whether they complied with the relevant laws, rules, and regulations related to the applicable procurement code exemption from competitive solicitation.

- *Test of Exempt Purchase Orders:* We selected a sample of 40 from the 96 orders that appeared to be exempt due to being over \$2,500 but less than \$65,000 in estimated value and not having a solicitation.
- *Test of Exempt Purchase Agreements:* We identified and selected for testing all 3 purchase agreements that were \$65,000 or less and did not appear to be associated with a competitive solicitation number.

Other Testing - Purchase Order Releases from a Purchase Agreement

We selected a sample of 40 purchase order releases from 198. The set of 40 included 8 we selected because they were associated with a purchase agreement in a sample from a different test and 32 others that we randomly selected from the remaining 190. Test criteria included whether they were properly approved, consistent with the corresponding purchase agreement, and otherwise complied with the relevant laws, rules, and regulations.

Other Testing - Change Orders

We selected all change orders (37) associated with other purchase orders selected for testing in other steps that impacted the dollar value of the order and all change orders (11) associated with purchase agreements selected for testing in other steps. Our testing consisted of determining whether the 48 change orders were properly approved, properly supported, and otherwise complied with the relevant laws, rules, and regulations.

Other Testing - Informal purchases over \$2,500 without a solicitation in the system

We identified 422 orders that appeared to require a solicitation by the Buyers but lacked evidence of solicitation. They either lacked a competitive solicitation number or an automated data field indicated they did not result from the typical solicitation process. We selected random samples of 25 and 10, respectively, and added one that was unique because it had an unusual solicitation number for a total sample of 36. Test criteria included whether the lack of a competitive solicitation was appropriate for the purchase order and whether it otherwise complied with the relevant laws, rules, and regulations.

Other Testing - Tests of Informal purchases without requisitions

We identified 166 informal purchases that did not have a requisition number in the data. We selected a sample of 38 for testing. Test criteria for the sample included whether the purchase orders were based on a using agency request. For any sample items we identified as an emergency

purchase order during testing we also tested whether they were properly approved and otherwise complied with relevant laws, rules, and regulations that were specific to emergency purchase orders.

In addition to the tests outlined above, we applied other various analytical procedures that included reviewing the available data for reliability and researching unusual trends or other anomalies that could have indicated noncompliance (e.g., investigating solicitations that resulted in an award that significantly exceeded the estimated amount), fraud or abuse (e.g., comparing certain employee details to the City's record of supplier registration details and the State of Florida's official online business entity index), or an internal control weakness (e.g., reviewing orders delivered to a questionable address, solicitations that did not result in an award).

REPORT FORMAT

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objective(s). Internal control is a process implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the internal controls or is an area in which there are currently no internal controls in place to ensure that management's objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

STATEMENT OF AUDITING STANDARDS

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 findings and conclusions based on our audit objectives.

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from Dustin Freeman, Chief of the Procurement Division within the Finance and Administration Department, on June 21, 2023 and Ken Lathrop, Chief of the Information Technologies Division within the Finance and Administration Department, on June 13, 2023.

AUDIT CONCLUSION

While the Procurement Division generally processed requests for informal purchases of supplies in a manner that was consistent with the Municipal Code and Procurement Manual, we did find several, including some significant, issues with the controls surrounding the process.

AUDIT OBJECTIVE

To determine whether the Procurement Division processed requests for informal purchases of supplies in a manner that was consistent with the Municipal Code and Procurement Manual.

Internal Control Weakness 1 – Various Issues with the Procurement Manual

Section 126.106 of the City’s Municipal Code required the Procurement Chief to prepare and maintain a current Procurement Manual. Per that section, “*the manual shall:*

- a) *Prescribe the operation of the City's Procurement system to be followed by using agencies.*
- b) *Prescribe internal operations to be followed by the Division.*
- c) *Prescribe the City's procurement regulations and policies to be followed in its relations with the business community.*
- d) *Prescribe specifications for standardized items purchased by the City and using agencies. The Chief shall issue the manual and shall secure compliance therewith by the using agencies. The regulations and procedures shall represent a complete plan of operation for the City's purchasing system.*
- e) *The Chief shall prepare and publish rules and regulations governing bid protests.*
- f) *Nothing in this Section shall be construed as limiting or superseding the provisions of Section 126.201.”*

Audit procedures disclosed issues related to the Procurement Manual. Some processes the Procurement Division established in practice were not written, other processes were described in one or more separate written procedures but not addressed in the Procurement Manual, and some written procedures omitted critical details. Specific issues noted included:

- Separate Policies and Procedures (Not referenced in Procurement Manual):
 - How using agencies should begin the procurement process.
 - How using agencies and Buyers should process contract encumbrances.
 - How using agencies and Buyers should apply Buy American Preference per Section 126.114 of the Municipal Code.
 - How Buyers should process using agency complaints about a supplier.
 - How newspaper advertisements need to be developed and maintained.
 - How Buyers should handle requests for emergency purchases related to the City’s Emergency Operations Center.
- Unwritten/Incomplete Policies and Procedures
 - How Buyers should process change orders submitted by using agencies.

- How using agencies should obtain and what steps a Buyer should take to process an administrative award.
- How Buyers and purchasing analysts should respond to inquiries on solicitations that they oversee.
- How Buyers should choose which suppliers to directly invite to a solicitation.
- How Buyers should process solicitation results.
- How Buyers should obtain approval from the Procurement Chief for a single source purchase after all facts are known as required by the Procurement Manual.
- What steps to take if the recommended award crosses a threshold that may change the type of purchase.
- How many suppliers Buyers needed to invite to solicitations with unspecified estimated amounts like \$0 or unsupported amounts.
- How and when Buyers should notify participating suppliers that they will not receive the award.
- How Buyers should manually create a purchase order when the using agency will not be submitting a requisition, including:
 - Which users were authorized to create manual purchase orders
 - Which circumstances warranted a manual purchase order
 - What supporting documentation Buyers should attach in lieu of a requisition
 - How to prevent suppliers from duplicating services when a manually created purchase order was issued to facilitate payment for an existing order the using agency previously placed outside of the system
- Who was responsible for ensuring local business taxes and required insurance documentation was provided by suppliers after an award.
- How Buyers and Managers should handle unauthorized purchases not reported by the respective using agency and initiate notice per Section 126.106(b).
- Outdated (or Inconsistent) Policies and Procedures
 - Authorized agents for a vendor were not required to sign a quote in practice.
 - An outdated version of how to process encumbrances in the system was the most recent version that had been distributed to City employees.
 - The Procurement Division did not require administrative awards for most informal purchases in practice, contrary to the requirement from Section IV of the Procurement Manual which, as written, required one for each informal purchase.

The Municipal Code also required informal purchases to comply with regulations established by the Procurement Chief and approved by the Mayor. For the period under audit, although there was a Procurement Manual created by the Procurement Chief that included regulations on informal purchases, there was no evidence the Procurement Manual was approved by the Mayor. While we were completing testing, an updated Procurement Manual was instituted that was approved by the Mayor.

Recommendation to Internal Control Weakness 1

Overall, we recommend that the Procurement Division update the Procurement Manual by adding significant details that are missing and remove details that are no longer relevant. The Procurement Division could incorporate details from separate procedures by adding a reference in the Procurement Manual to the appropriate document. This would avoid having to change the manual

for every procedure change. Also, the Procurement Division needs to continue to ensure the Procurement Manual is properly approved by the Mayor as required by the Municipal Code.

Procurement Response to Internal Control Weakness 1

Agree Disagree Partially Agree

The Procurement Division will continue to review and refine the Procurement Manual and will publish revisions on an as needed basis. A signed documented approval for release page will be included and updated as needed for any changes modifying the informal purchasing table within the Quick Reference Guide or any substantive changes to the informal procurement rules and/or procedures that require Mayor approval (see procurement manual versions 2/3). The Procurement Division updated the Procurement Manual in April 2022 to reflect specific processes in use since the implementation of the 1Cloud system and as a result to this audit. Another update to the manual, version 3 was just released, June 2023.

Internal Control Weakness 2 – Requisitions Could Bypass the Procurement Division

Requisitions could bypass the review and approval of the Procurement Division due to the set-up of the requisition forms in the procurement system or an option on the form that enabled the using agencies to designate their requisition as previously negotiated. This in turn resulted in the system automatically generating a purchase order based on the request. Examples we found included:

- 5 requests coded as “Purchase Order Releases from a Contract Purchase Agreement” ranging from \$3,970 to \$13,013;
- 1 request coded as an “Exempt Purchase” totaling \$22,868;
- 1 request coded as an “Administrative Award” totaling \$64,121; and
- 1 request coded as a “Requisition Line” designated as an emergency purchase totaling \$13,257.

We also found a similar issue with requisitions generated from an electronic supplier catalog that interfaced with the system. Specifically, we found two requisitions, totaling \$3,683 and \$3,502, that bypassed the Procurement Division because a catalog setting that designated all the catalog prices as previously negotiated was enabled, even though not all items were addressed in the contract. Therefore, the system-wide setting noted above automatically generated purchase orders without going through the approval of the Procurement Division and the competitive solicitation process.

These issues appear to at least partially be the result of employees not understanding the technical impact of some choices made when creating the requisition forms in the procurement system.

Recommendation to Internal Control Weakness 2

We recommend that the Procurement Division ensure the configuration settings have been updated in a way that will ensure compliance with the intended review and approval requirements and other applicable laws, rules, and regulations. The Procurement Division should ensure that written

requirements are consistent with system requirements. Additionally, addressing Internal Control Weakness #6 below should help avoid these issues.

To help avoid these types of issues, we recommend that the City's Information Technologies Division develop a comprehensive document that details which Departments and Divisions are responsible for the different controls of the 1Cloud system. This document should at a minimum make clear protocols related to the responsibilities of each area and provide a an explanation of what is expected of the staff of each area (e.g., need to document changes to system and how to test changes to prevent these type of issues).

Procurement Response to Internal Control Weakness 2

Agree Disagree Partially Agree

Procurement will work with the City's Information Technologies Division to develop such documents for system controls. The 1Cloud system has been configured to require buyer approval for all informal requisitions exceeding \$4,500 (\$2,500 at time of audit) as currently required by the Procurement Manual. Any informal orders exceeding \$30,000 require management level approval in addition to the Buyer's review and approval. An additional review and approval by the Chief of Procurement is required for all orders above \$65,000. Please see Procurement Manual Informal Purchase Section 5.0 page 13.

Information Technologies Response to Internal Control Weakness 2

Agree Disagree Partially Agree

ITD will work with Procurement, Accounting, and other departments to implement the recommendation.

Internal Control Weakness 3 – Lack of Clear Policy on Per Unit Price Control

Written procedures identified two types of purchase agreements. The blanket purchase agreement provided detail lines to facilitate the system enforcing per-unit prices and the contract purchase agreements did not. The procedures indicated that contract purchase agreements were for purchases the City would pay for based on an overall dollar amount cap (as opposed to per-unit prices). Both of these are useful purchasing mechanisms; however, the blanket purchase order provides better cost control because it provides per-unit cost enforcement.

We found that of the 205 solicitations tested, 29 of the purchases that could have a per-unit price enforcement were issued in a manner that rendered the system unable to enforce each awarded per-unit price. Upon inquiry, the Procurement Division indicated using agencies sometimes requested to receipt delivered supplies in dollars instead of quantity, and the contract purchase agreement effectively provided that format by design. However, issuing a contract purchase agreement for an award that includes multiple per-unit prices circumvents controls built into each detail line of a blanket purchase agreement to enforce the agreed-upon per-unit prices.

Recommendation to Internal Control Weakness 3

We recommend that the Procurement Division establish a clear policy on when to use blanket purchase agreements and when to use contract purchase agreements. Consideration should be given to the cost control benefit of a blanket purchase agreement while also considering the ease of use of the contract purchase agreement.

Procurement Response to Internal Control Weakness 3

Agree Disagree Partially Agree

The Procurement Division updated the Procurement Manual in April 2022 to reflect when to use these types of agreements. Another update to the manual, version 3 was just released June 1, 2023. Please see Procurement Manual Section 2.0 Definitions, and Section 3.0 Initiating the Procurement Process beginning on page 8 through 11.

Internal Control Weakness 4 – System Access Rights Issues

Procurement Division staff were assigned one or more procurement-specific role based on the employee's position which, in general, can be an effective way to prevent unauthorized transactions. However, our review of the details for roles assigned to Procurement Division employees disclosed the roles, alone or in combination with other circumstances, provided some users with inappropriate access.

- 16 Procurement Division employees could create a supplier, issue a purchase without secondary approval (\$2,500 or less), and facilitate the payments by submitting invoices and receipts.
- 1 Procurement Division employee could create supplier accounts in the live system without submitting a request. We identified one questionable account created for the employee that was active in the live system that appeared to result from this role. In response to our inquiries, the Procurement Division explained the employee created the account for testing purposes; however, the system included a testing module which rendered a test account in the live system unnecessary.
- 12 Procurement Division employees could delete data.
 - Two roles enabled 8 employees to be able to delete the City's solicitation records and existing assignments of a manager.
 - One role enabled 4 employees to delete contract documents and supporting documents.
- 12 Procurement Division employees (who were not Buyers) could initiate a procurement request from a funding source that they should not have access to request from due to being assigned the combination of two different roles.
- 5 Buyers lacked corresponding access to enable them to place a requisition in the correct workflow for approval if inputting a request for a Department.

A limited review of role assignments for non-Procurement Division employees disclosed that 13 users were unintentionally granted access to process requisitions and receipts for all areas of the City due to how roles were set-up. Additionally, 35 other users did not have access to all cost

centers but did have access to select any non-departmental cost center through a similar issue. All of these issues, enabled a purchase to potentially be charged to the wrong area.

Lastly, the Procurement Division configured the system to apply workflows for requisitions to follow based on the position of the user who submitted the requisition and which business unit they selected for the requisition without consideration of the selected cost center. This setup made it so certain approvers could approve a request to purchase supplies from a funding source they were not authorized to approve.

Recommendation to Internal Control Weakness 4

We recommend that the Procurement Division segregate the various role assignments across the Procurement Division staff in a way that limits each individual user’s capabilities and thereby the opportunity to complete a purchase singlehandedly. If there are instances where the Procurement Division cannot eliminate the excessive access (e.g., due to operating needs or system limitations), we recommend they establish a method to reduce the risk it creates (e.g., implement monitoring procedures) and ensure that as few employees as possible have that access.

Procurement Response to Internal Control Weakness 4

Agree Disagree Partially Agree

The Procurement Division will continue to work with the City's Information Technologies Division System Security Role function to test system capabilities in limiting a buyer’s ability to submit a requisition under \$4,500 (\$2,500 at time of audit), while approving the same requisition. If the system presents limitations in doing this, the Procurement Division will update Procurement Division Procedure: PD-01-22 Supply Contract - Invitation to Bid/Quote to establish a method external to the system to monitor and reduce risk.

For city employees outside of the Procurement Division, procurement will establish an internal verification process, involving Requesting Agencies, Accounting, and Information Technologies Division System Security, and Human Resources to verify Procurement Module/Requisition Application access requests are granted for the correct business unit, cost centers, fund codes, system roles and job functions, as to reduce the risk of an employee having unauthorized system capability.

Internal Control Weakness 5 – Lack of Organization Method for Authorization Records for Access Rights

There was not a system in place to document authorizations for access rights being granted/requested by using agencies. To configure the workflow in the new system, a Procurement Manager distributed lists of users authorized to initiate or approve requisitions in the existing system to each respective using agency by email asking them to respond by either confirming the list was accurate or returning an updated version. The various using agency responses represented the City’s authorization record on file for procurement requisitions. However, when the Procurement Division updated the system workflow for any subsequent using agency adjustments

(e.g., change in roles, terminations, new hires) there was no centralized location where the authorizations were maintained. Therefore, it was difficult, if not impossible, to determine who was properly authorized in some instances since the records could be maintained in various email accounts, folders, or there was no documentation at all if processed based on a phone call.

The test of 205 informal solicitations disclosed that authorization records for 130 were not readily available. As a result, we were unable to confirm that individuals that requested or approved 63% of the purchases in our sample were appropriately authorized. To assess whether each questionable approver seemed to be an appropriate candidate for requesting the purchase, we performed a limited review of the City’s online directory and other available records to verify the requester and approved appeared reasonable. That review did not identify any obvious issues, which indicates this might be limited to a record retention issue.

Additionally, the system included a workflow feature that allowed authorized users to delegate their assignment to a different user and the system recorded the delegation activity details. However, the data appears to be purged after a set amount of time.

Recommendation to Internal Control Weakness 5

We recommend that the Procurement Division, along with any other City division responsible for setting up system access rights, develop and maintain a comprehensive record of each using agency’s documented authorization. This should include establishing a process to effectively update the record for changes while retaining the historical record in accordance with the City’s records retention schedule, at a minimum. There should also be periodic requests to using agencies to verify the accuracy of the current access rights similar to what is done with the current human resource and payroll system.

Procurement Response to Internal Control Weakness 5

Agree Disagree Partially Agree

The Procurement Division will work with the City's Information Technologies Division, and other using agencies to establish an agreed upon process/procedure for seeking approval for the systems Advanced Procurement Requestor Role and Procurement Agent Access (the only system access roles that procurement controls). The City does have an Enterprise Resource Planning Security Request Application that documents these requests and provides an approval workflow for these requests. The iCloud system also tracks changes to system rights and the City's Information Technologies Division maintains a record of authorization.

Internal Control Weakness 6 – Issues with Set-up of Standard Request Forms

Within the system, there were 25 different forms requesters could select to initiate an informal purchase. We noticed the following issues, which likely contributed to inconsistencies or errors noted in other parts of this report.

- 24 of the 25 forms were customized to serve as templates for a specific type of procurement. Some of the 24 forms customized failed to capture all information the Buyers needed to properly process the type of procurement they were customized for.
- The remaining form was located above the customized forms and appeared to be able to be used for any type of purchase. This form appeared to be used by the Department quite often since it was simpler than sorting through to identify the specific form that was created for their particular situation. Although most information required by any given form was consistent with information the other forms required, the generic form was not designed to obtain all information Buyers needed in all instances.

In addition, the Procurement Division’s written instructions identified an alternative to submitting one of the 25 forms that allowed requesters to select supplies from electronic supplier catalogs that interfaced with the system. However, the instructions lacked details related to how a requester should decide the appropriate form/method.

Overall, the way the Procurement Division presented instructions on how to navigate the system made it difficult to locate the guidance for any particular using agency task. For example, instructions for creating requisitions included over 50 training documents and it was not readily apparent who each document was for and how each fit into the overall process for creating a requisition.

Recommendation to Internal Control Weakness 6

We recommend that the Procurement Division consolidate similar requisition forms to streamline the process for using agencies and Buyers and to simplify future maintenance responsibilities related to requisition forms. We also recommend that the Procurement Division clarify in written procedures which forms should be used and when (e.g., using only the template for emergency requisitions for emergency requisitions).

Lastly, we recommend that the Procurement Division organize the various instructions for navigating the system in a way that allows using agencies to quickly identify which document could assist with a specific task. An example would include separating the instructions for Buyers from the instructions for using agencies.

Procurement Response to Internal Control Weakness 6

Agree Disagree Partially Agree

The updated Procurement Manual addresses the process for using agencies to follow, and which forms to use. The Procurement Division will be working with the Human Resources Training Division to provide training and instruction on how to use the ICloud system tailored for specific target audiences for training. The Procurement Division is also currently working with Oracle for

Formal Implementation and are exploring further efficiencies with the Smart Forms and Solicitation Templates. Please see Appendix I in the updated Procurement Manual.

Finding 1 – Gaps in Data

The procurement system created sequential numbering for various procurement documents generated within the system. Our review of the numbering sequences in the data disclosed gaps that the Procurement Division and the City’s Information Technologies Division could not definitively explain. Examples included purchase orders, negotiation, and requisition numbers. It was not always clear what caused the issues. We did determine some issues were caused by draft requisitions that are canceled did receive numbers that would not show up in our data, which would contribute to gaps. It is likely that this type of issue caused issues with the other categories, but we were not able to validate this was the cause in all instances.

In general, gaps in data raise questions as to data reliability and whether there is anything being concealed. Additionally, public records retention law requirements could become an issue if data that needs to be retained is not being properly retained in a retrievable manner.

Recommendation to Finding 1

We recommend the City gain a better understanding of what the system is and is not saving. The City then needs to determine if there are conflicts between what is being retained and applicable public records retention laws and good business practices.

Additionally, nothing should be truly deleted from the system unless it is going to cause a significant issue. If that is the case, then the deletion should be documented as well as the steps taken to ensure there are no violations of public records retention laws.

Procurement Response to Finding 1

Agree Disagree Partially Agree

Procurement will work with the City’s Records Retention Officer, Information Technologies Division and Oracle to get a better understanding of the numbering sequences within the system. If determined that the system is limited in its capability, procurement will look for products complimentary to the system to remove unnecessary internal processes not needed in a financial system of record.

Finding 2 – Exempt Records Not Properly Protected

The City’s process for maintaining the protected status of supplier bank account numbers and protected taxpayer identification numbers (in instances a social security number was used) included restricting access from most users. For example, most users saw asterisks on their screen instead of numbers if they encountered fields that contained a supplier bank account or protected taxpayer identification number. However:

- The system’s reporting function included a shared catalog of user-generated reports, and we noticed that one user with access to view the non-redacted bank account numbers saved a report with bank account numbers in the shared catalog. This enabled more employees than intended to have access to the non-redacted information.
- The City’s supplier registration process included obtaining an electronic copy of an Internal Revenue Service form the supplier completed and uploaded as a portable document file (PDF) attachment to their registration request. Unlike the system data, PDF attachments were not redacted, and many users could access the documents.

Recommendation to Finding 2

We recommend that the Procurement Division work with the Information Technologies Division to enhance their efforts to protect confidential data by establishing a method to prevent exposure through the system’s shared catalog feature of the reporting function and non-database files like PDFs.

Procurement Response to Finding 2

Agree Disagree Partially Agree

Procurement records are mostly public records and subject to public records request. The Procurement Division is making efforts to have suppliers submit two proposal responses with one redacted copy and one unredacted copy to protect any data submitted with a claim for exemption to public records request to protect confidential data. Procurement will work with the City's Information Technologies Division to establish a procedure for redacting Individual Supplier Social Security Numbers when such suppliers are registering in the City's Supplier Portal.

Finding 3 – Lack of Using Agency Concurrence Documentation

Overall, the City’s records often lacked evidence that the relevant using agency agreed with the award the Procurement Division issued.

Informal Purchases Over \$2,500

The test of 105 informal solicitations by the Procurement Division disclosed that the records for 71, or 68%, did not include a documented recommendation from the using agency as required by the Procurement Manual. Our inquiries disclosed that the Procurement Division did not establish a method to ensure Buyers consistently incorporated using agency recommendations into the City’s record of the purchase. To verify whether the lack of a consistent method for obtaining the using agency recommendation was the cause of us not being able to locate the support, we asked the Procurement Division to try and locate a recommendation for 6 of the sample items that did not have a recommendation. The Procurement Division was able to provide an appropriately dated recommendation for each. Based on this, the issue appears to be that the records are not stored in a consistent manner, rather than Procurement not obtaining the recommendation from the using agency.

In addition, 8 of the 105 purchases in the test of solicitations by the Procurement Division were based on a re-solicitation. All 8 lacked a documented recommendation to explain why the Procurement Division did not issue a purchase order or purchase agreement to a supplier that responded in the previous round(s).

The Procurement Manual further required Buyers to secure using agency concurrence when supplies recommended for purchase did not conform precisely to the using agency's criteria and obtain written concurrence specifically through a using agency Chief for any purchase that exceeded \$15,000. In the test of 105 solicitations by the Procurement Division, 43 of the 105 purchases required one or both types of concurrence; however, we were unable to locate appropriate concurrence for 24 of the 43.

Informal Purchases Under \$2,500

The test of 100 informal solicitations by a using agency included 10 purchase orders for supplies that did not conform precisely to the using agency's requisition and all 10 lacked evidence the using agency concurred with the variances. Most omitted details from the quote the using agency attached to the requisition without explanation.

Recommendation to Finding 3

We recommend that the Procurement Division establish a procedure to ensure Buyers consistently obtain and incorporate a record of the using agency's recommendation and/or concurrence in a consistent manner. If possible, this would best be achieved with an electronic approval process. Otherwise, the Procurement Division needs to have a clear policy on how this information is retained in an easily retrievable manner.

We also recommend that managers incorporate a step in their review process for informal purchases that exceed \$30,000 to verify the respective Buyer properly obtained the using agency recommendation and concurrence, when required, and incorporated it in the City's record.

Procurement Response to Finding 3

Agree Disagree Partially Agree

The Buyers are required to obtain concurrence for informal solicitations exceeding \$30,000 and attach the memo or email to the respected 1Cloud Purchase Order so documentation is preserved. Please see Procurement manual page 15 D. Using Agency Concurrence, and Procurement Division Procedure: PD-01-22 Supply Contract - Invitation to Bid/Quote.

For any informal agency requests, concurrence/approval will be captured via the systems solicitation messaging platform and will be kept as historical reference.

This concurrence will also be required for any changes to the original scope requested for any informal purchase less than \$30,000. This language will be reflected in the next procurement manual revision.

Finding 4 – Conflict of Interest Forms

The Procurement Manual required all solicitations to include a completed conflict of interest form to be completed by the responding vendors. This form included a statement under oath disclosing the names of all officers and employees of the City who may have a private financial interest, directly or indirectly, in the purchase being awarded to that supplier. We found 9 of the 105 purchases solicited by the Procurement Division did not include a completed conflict of interest form (8 purchase orders and 1 purchase agreement). Additionally, we found no conflict of interest forms for the 100 purchases solicited by a using agency (estimated costs less than \$2,500).

Recommendation to Finding 4

We recommend that the Procurement Division ensure all conflict of interest forms are received prior to award. This would include implementing and documenting a process to enforce conflict of interest requirements for requisitions of \$2,500 or less, which does not appear to be occurring at all.

Procurement Response to Finding 4

Agree Disagree Partially Agree

The Procurement Division is working on implementing Formal Solicitation Templates and revised informal Solicitation templates that will be introduced in 2024. Suppliers will be required to document either no conflict of interest exists or attach the appropriate form for review and approval with all of their solicitation responses.

Finding 5 – Issues with Procurement’s Solicitation Process

The test of 105 solicitations disclosed various other issues related to solicitations.

- 20 (or 19.0%) purchases the Procurement Division solicited were issued based on solicitations that were inconsistent with a quote the using agency provided without explanation.
- 6 (or 5.7%) purchases the Procurement Division solicited lacked details that seemed necessary for a prospective supplier to understand the nature and extent of the supplies the City needed.
- 4 (or 3.8%) purchases the Procurement Division solicited were based on a solicitation with details that seemed unfair to one or more suppliers. Specifically, 3 solicitations revealed pricing obtained from the supplier who provided the quote the using agency attached to their requisition and 1 other solicitation described the supplies in a way that would most likely result in only one supplier being able to respond.

Recommendation to Finding 5

We recommend that the Procurement Division ensure solicitations are clear and consistent with requisitions and quotes. Intended differences should be clearly documented.

Procurement Response to Finding 5

Agree Disagree Partially Agree

The Procurement Division will continue to work with Using Agencies to ensure all solicitation documents are clear and consistent with requisitions. Any questions requiring clarification will be released by an addendum after consultation with the requesting agency.

Finding 6 – Change Order Records

A change order is a modification to an existing purchase order, contract, or agreement. Section V of the Procurement Manual required using agencies to include in their request for a change order a detailed written description of the change to the purchase order and a reasonable explanation as to why the change was necessary. Section V also required justification from the vendor or a form of competition for the requested increased amount.

Within our samples we identified 37 change orders that impacted the original award amount. Our review of the City’s records disclosed the following issues.

- 4 of the change orders that increased an award did not appear to meet the requirements related to a justification from the vendor or a form of competition as required in the procurement manual or specific purchase order. The total increase of the change orders was \$3,028.
- 5 of the 37 change orders (14%) lacked documented evidence that the relevant using agency requested the change orders. These change orders resulted in a net decrease of \$40,053 to the original purchase order amounts.

Recommendation to Finding 6

We recommend that the Procurement Division enhance the existing written policies and procedures related to change orders. This would include:

- How using agencies should initiate a change order in the system.
- How the requested increase amount factors into the requirement from the Procurement Manual related to obtaining source justification and/or competition.
- How Buyers should incorporate the relevant supporting documentation into the City’s record of the change order.

We also recommend that, when possible, Buyers instruct the using agencies on how to request a change order in the system. In instances where a using agency cannot submit a change order request and the Procurement Division must initiate the change order, we recommend that the Procurement Division ensure the Buyers incorporate evidence of the using agency’s request in the City’s record of the change order (e.g., attach a copy of the relevant email correspondence or an electronic copy of the paper memorandum).

Procurement Response to Finding 6

Agree Disagree Partially Agree

The updated Procurement Manual addresses the process for using agencies to follow and which forms to use. The Procurement Division will be working with the Human Resources Training Division to provide training and instruction on how to use the ICloud system tailored for specific target audiences for training.

Opportunity for Improvement 1 – Enhance Data Reliability

It would benefit the Procurement Division to improve procurement data reliability in a way that improves how useful it is to management. This includes but is not limited to:

- Implementing controls to prevent or detect the following issues noted during the audit which would enable the items to be investigated and corrected.
 - Missing, incomplete, or inaccurate solicitation numbers
 - Missing, incomplete, or inaccurate procurement code exemption references
 - Missing requisition numbers for replacement purchase orders
 - Missing designations in the established field for emergency purchases
 - Missing designations in the established field for purchases with unique thresholds
- Convert uploaded attachments to information directly input into the system, when possible (e.g., single source requisition memos).

Recommendation to Opportunity for Improvement 1

We recommend that the Procurement Division implement controls to enforce accurate and reliable data. This could include updating system configuration settings to automatically enforce a valid entry on the fields identified above like how the system is configured to enforce valid commodity codes and delivery addresses.

We also recommend that the Procurement Division periodically run and review reports by type of procurement to detect, investigate, and correct anomalies. This should be done in a manner that documents the review in a way that identifies the reviewer, an explanation for each anomaly, any corrective action taken, and the date completed.

Procurement Response to Opportunity for Improvement 1

Agree Disagree Partially Agree

The Procurement Division will continue to seek process improvements to this newly implemented Enterprise Resource Planning System, and quality control enhancements in coordination with Oracle System Patch Enhancements to minimize the opportunities for errors to occur.

Opportunity for Improvement 2 – Review and Selection of Commodity Codes

We found issues with the commodity codes selected by the using agencies and that Buyers were not reviewing and questioning the commodity codes being selected for items by the using agency. These issues could lead to not all appropriate suppliers being notified since the commodity codes impact the suppliers that are notified about solicitations.

When suppliers were setting up their account, they could select commodity codes to identify which supplies they could provide. They could also select to be notified of all solicitations that include a commodity code that they selected. Buyers enter commodity codes from a requisition in the system to generate a list of eligible suppliers for that purchase based on the commodity codes selected by the using agency. Buyers chose suppliers from the system generated list and, in response, the system sent an electronic notification inviting each chosen supplier to compete to be awarded the purchase by pricing the supplies listed in the solicitation.

Recommendation to Opportunity for Improvement 2

The Procurement Division should provide training to using agencies to assist them in selecting the correct commodity codes. Buyers should then review commodity codes when processing the request. If issues are identified, they should be fixed in a manner that ensures the using agency has agreed to or initiated the change.

Procurement Response to Opportunity for Improvement 2

Agree Disagree Partially Agree

The Procurement Division will be working with the Human Resources Training Division to provide training and instruction on how to use the ICloud system tailored for specific target audiences for training.

Opportunity for Improvement 3 – Disqualified/Probationary Vendor List

The City’s process to debar or remove a supplier included adding the supplier to a list the Procurement Division maintained titled, “Disqualified/Probationary Vendors List.” Buyers were responsible for preventing ineligible suppliers from participating by comparing each supplier recommended for an award to the list before issuing a purchase order or purchase agreement.

There was not a process put in place to prevent the debarred vendor from bidding. We compared the City’s Disqualified/Probationary Vendors List to supplier registration records in the system and found two accounts that matched by name and taxpayer identification number. Records indicate the accounts were created after the new system but they had been on the ineligible list since 2015 and 2010. Although we did not identify orders or agreements associated with those accounts, these vendors should not be in the system, or should at least be tagged in a way that would prevent an award.

Additionally, the Procurement Division was not checking the State of Florida Department of Management Services list of companies convicted of public entity crimes and discrimination.

Recommendation to Opportunity for Improvement 3

We recommend that the Procurement Division investigate whether the City’s system could automatically prevent ineligible suppliers from participating in the City’s procurement process, which could alleviate Procurement Division employees from having to manually review the Disqualified/Probationary Vendors List for each award. If not possible, periodic reports should be run to see if there are any issues.

We also recommend that the Procurement Division implement a process to periodically review and update the list of ineligible suppliers for accuracy and look at including the listing from the State of Florida Department of Management Services.

Procurement Response to Opportunity for Improvement 3

Agree Disagree Partially Agree

The Procurement Division has explored system capabilities with Oracle and has concluded that the best way to monitor disqualified/probationary suppliers is manually by deactivating the suppliers in the supplier portal. The Procurement Division will codify this process in the next revision to the procurement manual under Section 20.0 Debarment of Suppliers.

We appreciate the assistance and cooperation we received from the Procurement Division throughout the course of this audit.

Respectfully submitted,

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