Procurement Process Audit

June 23, 2017

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The Procurement Process Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2016 Annual Audit Plan.

Audit Objectives

The objectives of this audit were to determine whether the:

- procurement process is efficient and effective; and,

- City complied with competitive bidding requirements and other applicable procurement guidelines.

Audit Scope

Our audit covered the period from October 1, 2013 through August 31, 2016.

Opportunities for Improvement

Maintenance of audit trails

BSO user access rights

Master vendor file maintenance

Tracking of bid documentation

Vendor non-performance tracking

Updated policies and procedures

Executive Summary

The Department of Internal Audit conducted an audit of the City of Fort Worth's Procurement Process. We concluded that the City's Purchasing Division complied with state and local requirements related to competitive bidding and Minority Women and Business Enterprise (M/WBE) solicitations. However, we identified the following areas where internal controls could be strengthened to further improve the City's overall procurement function.

The BuySpeed Online (BSO) software does not maintain an audit trail of all vendor profile changes. Only information related to the latest update is maintained.

We identified an inadequate segregation of duties related to system access granted to one of the two Vendor Administrators within the Financial Management Services Department. We also determined that inappropriate BSO access was granted to departmental users. Inappropriate BSO access gives users the ability to create requisitions, and once approved by Purchasing, create purchase orders and input invoices for departments in which they do not work.

Audit testing indicated that 68.6% of the City's "active" vendors within the Master Vendor File had no purchasing activity in the last 24 months. Also, "Receipt of Bid" forms were not date/time-stamped, were incomplete, and/or were not used.

While BSO has a 'Vendor Performance' tab to record vendor performance, the tab is not working. Instead, vendor performance/non-performance is manually tracked and is filed in individual purchasing files within the Purchasing Division, resulting in inefficiencies and ineffectiveness.

As of the end of audit fieldwork, the Purchasing Manual was outdated and did not include information considered necessary for consistent application of procurement policies and procedures.

These findings are discussed, in further detail, within the Detailed Audit Findings section of this report.

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Background

Purchasing, a division of the Financial Management Services Department (FMS), provides procurement support for all City departments, and facilitates disposal of obsolete, surplus and/or confiscated property. The City of Fort Worth's (CFW) purchasing process is decentralized. Operating departments are responsible for preparing bid specifications, ordering and receiving goods and/or services, and initiating the invoice payment process. Each operating department is also responsible for ensuring compliance with purchasing policies and procedures outlined in state statutes, and the CFW's City Code, Financial Directives, and Purchasing Manual.

The Purchasing Division assists departments with bid solicitations. However, the Transportation and Public Works, Aviation, and Water Departments, and Code Compliance's Environmental Division manage their own construction procurement, building renovation/repair and capital improvements. In conjunction with other operating departments, these departments also prepare their own bid specifications; issue and evaluate bids; and recommend awards of contracts.

The following chart summarizes the CFW's procurement guidelines.

Purchases Up To $3,000

- No competitive bidding is required
- Departments are encouraged to use procurement cards unless not accepted by the vendor

Purchases > $3,000 , But ≤ $50,000 (Informal Bidding)

- Competitive bids or proposals are required (*unless the project qualifies as an exception*)
- At least two Minority and Women Business Enterprise (M/WBE) vendors shall be solicited, when there is availability.
- No City Council approval required. (T*he City Manager can execute contracts.   The Purchasing Manager can approve Purchasing Agreements*)
- To initiate the purchase, a requisition must be entered into Buyspeed (BSO), which gets routed to the Purchasing Division
- Vendors may submit bids on paper or electronically (via email or BSO) to the Purchasing Division

Purchases Over $50,000 (Formal Bidding)

- Competitive bids or proposals are required (*unless the project qualifies as an exception*)
- Must be approved by City Council (*purchases over $100,000, effective as of January 1, 2017*)
- To initiate the purchase, a requisition must be entered into BSO. The requisition then gets routed to the Purchasing Division
- M/WBE Office must issue either a subcontracting goal or waiver
- Vendors must personally drop-off or mail bids in to the Purchasing Division

Sources: Purchasing Manual, Financial Directive FD15, City Code and Purchasing Division staff interviews

On December 13, 2016, the Fort Worth City Council adopted Ordinance No. 22556-12-2016 to increase the threshold amount of the City Manager's delegated authority for execution of contracts, purchase agreements, contract amendments and temporary or permanent easements. The City Manager's delegated authority was increased from $50,000 to $100,000. This change became effective January 1, 2017.

On January 31, 2017, the City Council adopted rules governing the receipt of electronic bids and proposals. As of March 1, 2017, the City can electronically accept formal bids and proposals for procurements over $50,000. However, the option to use electronic bidding for construction projects is not expected to be available until later in the calendar year. Prior to Council's 2017 action, only informal bids could be received electronically.

Objectives

The objectives of this audit were to determine whether the CFW's:

- procurement process is efficient and effective; and,
- City complied with competitive bidding requirements and other applicable procurement guidelines.

Scope

The scope of this audit included a review of activity for the period from October 1, 2013 through August 31, 2016.

Due to the Budget and Performance Office conducting a performance review of the Purchasing Division, our audit was limited to evaluating the City's compliance with applicable state and local purchasing requirements. While this audit included a review of bid solicitations to M/WBEs, a review of actual M/WBE participation in City contracts will be considered in risk assessments for future audits.

Methodology

To achieve the audit objectives, the Department of Internal Audit performed the following:

- conducted interviews with the Purchasing Division and other pertinent Financial Management Services Department staff;
- performed unannounced observations of public bid openings;
- reviewed the Purchasing Division's procurement files;
- reviewed the master vendor file;
- compared vendor addresses to City employees addresses;
- reviewed applicable sections of the Texas Local Government Code, Fort Worth City Code, CFW Financial Directives, and Purchasing Manual;
- observed the receipt and storage of sealed bid packets;
- reviewed M/WBE waivers; and,
- reviewed BSO user access rights.

We conducted this 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.

Audit Results

Based on our audit results, the Purchasing Division complied with state and local requirements related to competitive bidding and M/WBE solicitations. Bids were advertised in the City's official newspaper, on the City's website, Twitter, etc.

BSO was used to systematically generate bid notifications to vendors registered with the City of Fort Worth. Internal Audit also observed the securing of formal sealed bids upon receipt, and then the public opening of those bids. We concluded that lowest bid contracts were awarded to the lowest responsive bidders, and that staff complied with criteria established for contracts using the best value procurement method.

Businesses have the option to self-register as a vendor with the City of Fort Worth through the City's Purchasing webpage. City policy requires that self-registering vendors provide an IRS W-9 form for validation. In reference to M/WBE participation, the City's M/WBE Office was responsible for ensuring that vendors, certified as M/WBEs through the North Central Texas Regional Certification Agency (NCTRCA), were noted as such in City procurements.

The Department of Internal Audit identified the following areas where internal controls could be strengthened to further improve the City's overall procurement function.

- BSO does not to track all vendor profile changes within an audit trail. Instead, the audit trail is limited to the last update and user ID of the person making the most recent change.

- BSO user access rights were not adequately controlled. For example, one Vendor Administrator had the ability to create purchase orders and maintain the vendor master file. Additionally, 96 BSO users had the ability to create procurement records in departments other than the departments in which the employees work. We identified 34 BSO users with access to more than 20 departments, and two (2) terminated employees with an "active" BSO status.

- Testing revealed that 17,168 (68.6%) of the 25,009 vendors in 'active' status had no purchasing activity in the last 24 months.

- 'Receipt of Bid' Forms were incomplete, not date/time stamped, and sometimes not on file.

- Vendor non-performance is not being tracked efficiently or effectively, as the BSO 'vendor performance' tracking feature is not configured for use.

- Procurement information provided to staff is outdated. For example, as of the end of audit fieldwork, the Purchasing Manual had outdated procurement approval thresholds. Additionally, while City staff is provided routine report updates, reports posted and made available to the public are not updated on a routine basis. As of end of audit fieldwork, the posted Annual Agreements report was dated March 3, 2016, and the 'Cooperative Agreements' report was dated November 6, 2014.

City policy requires that M/WBE subcontracting goals or waivers be issued for purchases over $50,000. During our review of procurement transactions, we observed procurements that were awarded to certified M/WBEs. However, M/WBE waivers were processed for those specific

procurements. Follow up with the M/WBE Office indicated that waivers were appropriate because no sub-contracting opportunities were available.

Procurement-related reporting functionality was reviewed, and was found to be ineffective. Due to report functionality deficiencies within the BSO system itself, the City of Fort Worth relies on the creation of custom reports outside of BSO. During this audit, we were informed that the City is planning to implement a new procurement software system. Management may want to consider software that includes comprehensive reporting that more readily provides information that is pertinent to upper management and/or the governing body. For example, currently, there is no report that summarizes the number of procurements by procurement method (i.e., best value versus lowest responsive bidder); sole source procurements; and/or procurements with one-time vendors, etc.

High	Medium	Low
Incomplete audit trails		
Inappropriate user access rights		
Active vendors with no purchasing activity for the last 24 months		
Inconsistencies with 'Receipt of Bid' Form		
	Vendor non-performance not tracked	
	Outdated Purchasing Manual	

Detailed Audit Findings

1. **Audit trails documenting vendor profile updates are incomplete.**

   BSO does not maintain an audit trail of all changes made to vendor profiles. Since the date and user ID of a subsequent update overrides the previous date and user ID, BSO only records the date and the user ID of the person making the last update.

   Because BSO does not display a complete audit trail, there is no tracking of when a vendor was reactivated, inactivated, nor by whom. The lack of an audit trail does not allow users to reconstruct processing, and increases the risk of improper changes without evidence of the changes being detected. Internal Audit was, therefore, unable to determine whether purchase orders were created for 'inactive' vendors.

   An audit trail is a chronological record and/or set of records that provide documentary evidence of the sequence of activities at any time a specific operation, procedure, or event takes place. Adequacy of audit trails, including changes to vendor records, is critical in helping to confirm the authenticity and integrity of transactions. It is, therefore, pertinent that audit trails maintain a record of system and user activity.

   According to the software provider, BSO only records the last change to a vendor record. The capability to track all vendor profile changes is not expected to change with version 14, the next version update planned for the CFW.

   Recommendation 1: *The Chief Financial Officer, in conjunction with the Chief Technology Officer, should ensure that audit trail functionality for tracking vendor profile changes is a part of any BSO replacement software.*

   Auditee's Response: Concur. The Department will work with the IT Solutions Department to ensure that the BSO replacement software will be able track any change to a vendor's profile.

   > **Target Implementation Date:** October 1, 2018

   > **Responsibility:** Chief Financial Officer

2. **User access rights were not adequately controlled.**

   During our audit, a Vendor Administrator within the Financial Management Services Department had system access to activate, deactivate, and/or create vendors, requisitions, purchase orders (POs), requests for payment, bids, procurement amendments, and process revisions.

   The lack of segregation of duties places the Vendor Administrator in a position to create/activate new vendors and process payment requests. Purchasing staff indicated that the

Vendor Administrator's role (within the Purchasing Division) is not to create invoices or purchase orders, but to maintain the master vendor file and to assist the Financial System Administration team. Although the Vendor Administrator has the ability to perform various functions, it should be noted that no inappropriate activity was detected during this audit.

Internal Audit also identified 96 BSO users that had the ability to create procurement transactions for departments (as many as 20) in which they did not work or had previously worked. We also identified two "active" BSO users who had terminated their employment with the CFW, but were still "active" within BSO. BSO Administrators indicated that users cannot be 'deactivated' if those users created purchase transactions that are still open.

CFW Financial Directives require segregating the ability to create purchase orders and maintaining the vendor master file. With that being said, each Department Head is responsible for maintaining segregation of duties within purchasing processes, including preparing requisitions and specifications, receiving goods and services and entering or approving invoices in the purchasing system.

Recommendation 2A: *The Chief Financial Officer should ensure an adequate segregation of duties within user roles assigned to Vendor Administrators within the Financial Management Services Department.*

Auditee's Response: Concur. The Vendor Administrator no longer has the ability to create Purchase Orders. Going forward, the job duties of the Vendor Administrator will specifically state that the Vendor Administrator cannot create requisitions, purchase orders or requisitions for payments.

    Target Implementation Date: Completed

    Responsibility: Chief Financial Officer

Recommendation 2B: *The City Manager should require that Department Heads approve employee access rights periodically, on no less than an annual basis.*

Auditee's Response: Concur. Under the current procedures followed by the City, Department Heads approve first time users of the BSO program through an access form. FMS is in the process of creating a formal process which will require that the Department Head approve first time BSO program users and annually review the approved employee list to ensure that only employees who need access are allowed access.

    Target Implementation Date: December 1, 2017

    Responsibility: Chief Financial Officer

Recommendation 2C: *The Chief Financial Officer should require that employee BSO access rights are updated as approved by Department Heads.*

Auditee's Response: Concur. FMS is in the process of creating a formal process which will require a review of employee access to the BSO system on an annual basis. The new process will require that employee access rights are updated as approved by Department Heads.

> **Target Implementation Date:** December 1, 2017

> **Responsibility:** Chief Financial Officer

3. **Vendors with no purchasing activity for the last 24 months remain in 'active' status in the Master Vendor File.**

Audit testing revealed that 17,168 of the 25,009 (68.6%) vendors in "active" status in the master vendor file have not had purchasing activity in the last 24 months. Classifying inactive vendors as 'active', within the master vendor file increases the risk of duplicate payments. Purchasing management indicated that there is no official policy regarding changing the status of vendors from active to inactive status.

Per the American Institute of Certified Public Accountants, "Inactive vendor entries provide a fertile ground of fraud and inadvertent duplicate payments." It should be noted that we detected no fraud during this audit.

Recommendation 3A: *The Chief Financial Officer should ensure that the master vendor file is routinely updated to properly reflect the current status of each vendor.*

Auditee's Response: Concur. FMS is developing a formal process regarding the management of vendors. FMS staff is considering whether to include a separate designation for participating in bid opportunities and those with "active" purchasing activity. In addition, the policy will cover when a vendor becomes inactive. The vendor's "status" will be reviewed annually.

> **Target Implementation Date:** January 1, 2018

> **Responsibility:** Chief Financial Officer

Recommendation 3B: *The Chief Financial Officer should ensure that the bidders' list and the vendor master file are separate within the new procurement software.*

Auditee's Response: Concur. The Department will work with the IT Solutions Department to ensure that the bidder's list and the vendor master file are separate in the new procurement software.

> **Target Implementation Date:** October 1, 2018

> **Responsibility:** Chief Financial Officer

Recommendation 3C: *The Chief Financial Officer should ensure that systematic deactivation of inactive vendors is a required feature in subsequent procurement software.*

Auditee's Response: Concur. The Department will work with the IT Solutions Department to ensure that the new procurement software provides for systematic deactivation of inactive vendors as defined in the formal process to manage vendors.

   Target Implementation Date: October 1, 2018

   Responsibility: Chief Financial Officer

4. Inconsistencies with 'Receipt of Bid' forms were noted.

Competitive bids or proposals are required for procurements over $50,000, and are commonly described as 'formal bidding'. Bidders may mail-in or personally drop off bid packets to the Purchasing Division by the bidding deadline. Upon vendor response to a bid advertisement, the Purchasing Manual requires the following:

- completion of a 'Receipt of Bid' form;
- date and time stamping of when the bid is received;
- stapling original 'Receipt of Bid' to the log sheet; and,
- providing yellow 'Receipt of Bid' copy to vendor (if requested).

It should be noted that per Internal Audit's observation, and confirmation by Purchasing Division staff, current requirements include completing the 'Receipt of Bid' and date/time stamping the receipt. However, the original receipt is provided to the vendor, and the yellow carbon copy is stored with the bid packet.

While the 'Receipt of Bid' form has fields for the company's name, courier's name, bid number and title, employee/receiver signature, time and date received, in some instances, forms were not date/time-stamped, contained incomplete information, and/or were not on file.

We tested procurement files related to seven (7) formal bids for goods and services totaling $733,651. No exceptions were noted when reviewing three (3) of the seven formal bids. However, exceptions were noted with the remaining four (4) bids, for which 16 vendors responded, as noted:

One (1) Receipt of Bid: neither the 'Receipt of Bid' nor the envelope were date/time stamped; the 'Receipt of Bid' has the time of '1:25' handwritten, however, there is no date.	**One (1) Receipt of Bid:** neither the 'Receipt of Bid' nor the envelope were date/time stamped. However, the 'Receipt of Bid' included the handwritten received date and time, though the time was missing 'P.M.'	**One (1) Receipt of Bid:** was date/time stamped however, fields for the bid title and the received time and date were missing.
One (1) Receipt of Bid: did not include the bid title.	**One (1) Receipt of Bid:** had the time written as "11" missing the minutes.	**One (1) Receipt of Bid:** was not date/time-stamped and the field for the received time and date was missing, however the envelope attached was date/time stamped.
One (1) Receipt of Bid: was missing the receiving employee initals.	**One (1) Receipt of Bid:** There was no 'Receipt of Bid' on file; there was a mailing label/slip which was date/time-stamped and included bid number and title, company name, etc.	**Six (6) Receipts of Bid:** were complete but not date/time-stamped, however, the envelope on which the bid appears to have been delivered is date/time stamped.
	No Exceptions Noted in Two (2) 'Receipts of Bid'.	

Purchasing staff indicated that the inconsistencies with the 'Receipt of Bid' might be a staff training issue. By not using a date/time stamp when receiving bids, neither the City nor the vendor has a record of the date and time when bids were received. Date/time-stamped bids are critical if and when there is the need to refute allegations of unfairness or impropriety in the bid process. Also, the City is not in compliance with its procurement policy and the 'Receipt of Bid' could become detached from the bid packet, making it impossible for staff to associate it with the correct bid packet.

Recommendation 4: *The Chief Financial Officer should require that staff adhere to established policy or revise the policy.*

Auditee's Response: Concur. FMS is comparing the documented procedures for receiving bids with the actual process of receiving bids. Once the review is complete, any needed revisions will be made to the procedures and the "Receipt of Bid" form and staff will be trained on the revised process and form.

    Target Implementation Date: December 1, 2017

    Responsibility: Chief Financial Officer

5. **Vendor non-performance is not being tracked effectively or efficiently.**

The City's Purchasing Manual states that "When a vendor fails to perform, a meeting is arranged to discuss the documented issues. The agreed-upon resolutions are documented in

writing and signed by the Department Head and the vendor, with a copy being forwarded to the Purchasing Manager. Additionally, vendor performance is tracked in BSO using the 'Vendor Performance' tab".

The Purchasing Manager indicated that vendor performance documentation is stored in corresponding purchase order or physical bid files in the Purchasing Division file room. Buyers would then need to remember which vendors had performance issues, and locate the corresponding procurement file in order to access the information.

BSO has a 'Vendor Performance' tab which, per the Purchasing Manual, is to be used to track vendor performance. However, as of the end of audit fieldwork, the tab was not configured and not in use. Per Purchasing management, the tab was functional for about one year after installation of the BSO system and after an update. However, the tab stopped working and has not been used since.

The CFW could award new bids/contracts to vendors who have performed unsatisfactorily while conducting CFW business. Effectively tracking vendor performance/non-performance could provide some insight as to the reason for the non-performance. For example, vendor non-performance could indicate that the scope of work is too large for a single contractor to satisfactorily complete. Dividing the scope of work into multiple contracts could not only impact vendor performance, but could also allow more vendors, including M/WBEs the opportunity to participate in City procurements.

Recommendation 5: *The Chief Financial Officer, in conjunction with the City Department Heads, should ensure there is an efficient process for tracking vendor non-performance.*

Auditee's Response: Concur. The Purchasing Division will develop a system to track and publish vendor performance data on the Purchasing Division's intranet page until implementation of the BSO replacement software. It is anticipated that this vendor performance will include information regarding performance of the agreement such as meeting delivery time, response time, etc.

> **Target Implementation Date:** March 1, 2018
>
> **Responsibility:** Chief Financial Officer

6. **The Purchasing Manual is outdated and does not include necessary procurement information.**

The Purchasing Manual contains sections that are outdated, incomplete, and vague. Also, procurement policies and procedures currently being practiced by City staff are inconsistent with the Purchasing Manual. For example, the Purchasing Manual:

- stipulates M/WBE requirements as $3,000 - $25,000. The current threshold is $3,000 - $50,000;

- stipulates that the Purchasing Manager may execute bids received for less than $25,000 in total annual expenditures. The Financial Directive indicates a $50,000 threshold;

- stipulates that the Department Head is authorized to approve emergency purchases up to $24,999. The Financial Directives say that emergency requests valued at $50,000 or less must be approved by the requesting department's director and the FMS Purchasing Manager;

- indicates that emergency purchases exceeding $25,000 must be submitted/approved based on the designated process flow. The Financial Directives say that emergency requests, valued over $50,000, must be approved by the requesting department's director, the City Manager's Office, the City Attorney's Office and the FMS Purchasing Manager;

- does not have information regarding M/WBE waivers/goals;

- does not provide guidance regarding contracts that are not administered by the Purchasing Division; and,

- does not specify if/how to document date and time of informal bid receipt.

Per Government Financial Officers Association Best Practices, "Every government should document its accounting policies and procedures. Traditionally, such documentation has taken the form of an accounting policies and procedures manual…".

An outdated procedural manual leads to inconsistent and inefficient operations and results in frustration within and outside the procurement organization. Additionally, the application of outdated processes could lead to the possibility that procurement actions may appear to be arbitrary and unfair.

Recommendation 6A: *The Chief Financial Officer should ensure that the CFW Purchasing Manual is updated to reflect necessary processes and current procurement, law, regulations, and ordinances.*

Auditee's Response: Concur. The Purchasing Manual is in the process of being updated. The updated manual will contain all necessary processes and procedures and current laws and regulations.

   Target Implementation Date: March 1, 2018

   Responsibility: Chief Procurement Officer

Recommendation 6B: *The Chief Financial Officer should consider developing a procurement policy that is adopted by the Mayor and City Council, and the development of procurement procedures to which City department should comply.*

Auditee's Response: Concur. The Purchasing Division is developing a proposed procurement policy for the Chief Financial Officer's review. If approved, the policy would be incorporated in the Financial Management Policy Statements upon approval by the Mayor and Council.

Target Implementation Date: January 1, 2018

Responsibility: Chief Procurement Officer

Acknowledgements

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