



GARLAND

INTERNAL AUDIT

Professional & Personal Service Contract Audit Follow-up

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Report 201621

City Auditor:

Jed Johnson, CIA, CGAP

Major Contributor:

*Christy Rodriguez, CPA
Senior Auditor*

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Overall Conclusion

IA's review of previous audit findings and recommendations revealed that four (4) recommendations were fully implemented and one (1) recommendation was partially implemented.

Authorization

We have conducted a follow-up of the Professional & Personal Service Contract Audit. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

Objective

This is a follow-up of the "Professional & Personal Service Contract Audit" report issued on March 25, 2015. Our objective was to determine if previous audit recommendations were implemented.

The original objectives were:

1. Determine City's governance and controls over Professional/Personal Service Contracts, based on Purchasing Directive 1 and Texas Government Code Chapter 2254.
2. Ensure all contracts are filed with the City Secretary's office in accordance with Administration Directive 5.

Scope and Methodology

IA 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 and 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. The scope of the audit is from March 25, 2015 through December 31, 2015.

In order to determine if previous recommendations were implemented, IA:

- Reviewed City's Purchasing Directive 1 (Obj. 1)
- Reviewed City's Administration Directive 5 (Obj. 2)
- Reviewed the Texas Government Code Chapter 2254 (Obj. 1)
- Reviewed the Texas Local Government Code Chapter 252 (Obj. 1)
- Verified approval for a sample of awarded professional and personal service contracts (Obj. 1)

- Obtained and reviewed:
 - Report from the Finance system for all items charged to Professional & Outside Services (Obj. 1)
 - No PO report for items greater than \$3,000 (Obj. 1)
 - City Council meeting minutes for FY 2015 (Obj. 1)
 - Purchasing’s short-lists of approved vendors (Obj. 1)
- Requested a sample of contracts to verify that contracts are filed with the City Secretary (Obj. 2)

For data reliability purposes, IA determined that the system, application, database, processes and individuals involved did not change significantly from the previous audit. Similar to the last audit, IA was not able to obtain a comprehensive list of all Professional and Personal Service Contracts that were awarded due to the lack of a central contract management tool. We used multiple reports to develop a representative list of Professional and Personal Service Contracts. As a result, IA believes that data continues to be sufficiently reliable for the purposes of this report.

Background

“Purchasing’s mission is to manage a strategic procurement operations that (1) purchases all goods and services, (2) provides professional management of Citywide initiatives, (3) directs investment recovery through sale or disposal of salvage and surplus materials, and (4) applies professional procurement skills resulting in high quality, cost-effective services for all City departments, thereby partnering to deliver first class services to the citizens.”

(Source: 2015 - 2016 Annual Operating Budget)

Professional Services

Chapter 2254 of the Texas Government Code defines professional services as “accounting; architecture; landscape architecture; land surveying; medicine; optometry; professional engineering; real estate appraising; and professional nursing. No additional services qualify as professional services. A Request for Qualifications (RFQ) is the approved method for the procurements of these services.” Purchasing Directive 1 states that all other services must be procured through a competitive bid process such as a Request for Proposal (RFP). The City may not award a Professional Services Contract based on competitive bids, but it shall make the selection and award based on the provider’s demonstrated competence and qualifications to perform the services and for a fair and reasonable price. Bid notification requirements and emergency exemptions are the same for both RFQs and RFPs and discussed in more detail in Purchasing Directive 1.

In order to satisfy bid and advertising requirements, the Purchasing department works with requesting departments to develop a list of approved vendors through an RFQ. Applicants are evaluated and ranked by the requesting department based on the criteria developed. Qualified vendors are selected for placement on a short-list. This process is

completed every 5 years. When a need arises, the department may select any vendor on the short-list to award a contract. In addition to vendors selected from a short-list, other Professional Service vendors may be selected through a separate RFQ.

Contracts are awarded based on the approval matrix:

- \$100,000 and above - City Council
- Up to \$99,999 – City Manager
- Up to \$74,999 – Deputy City Manager, Assistant City Manager, Electric Managing Director
- Up to \$49,999 – Managing Directors and Electric Administrator
- Up to \$24,999 – Department Heads and Directors
- Interlocal and Cooperative Agreements – Purchasing Administrator
- Single/Sole Source – Managing Director

Personal Services

Purchasing Directive 1 defines a personal service as a contract with a “specific individual to perform a service. The service must personally be performed the individual named in the contract. Personal Service agreements are typically made with the following: (1) An individual that has unique business or political associations, (2) An individual that has access to information that is not generally available to others, or (3) An individual whose skills and services are so unique they cannot be duplicated by another individual or firm.” For these individuals, a search of HUB vendors, advertising and an RFQ/RFP is not required. All Personal Service Agreements must have Managing Director approval.

Purchase Order Requisition

Purchasing Directive 1 states that the Procurement Card is the preferred method of payment for purchases up to \$3,000. For all purchases greater than \$3,000, the Purchasing Department Buyers comply with the procedures set forth in Title 8, Subtitle A, Chapter 252, Section 252.0215 of the Texas Local Government Code regarding competitive bidding in relation to Historically Underutilized Business (HUB) vendors. For bids greater than \$3,000, at least two HUBS must be contacted.

Audit Follow-up

This follow-up audit was not intended to be a detailed study of every relevant system, procedure and transaction. Accordingly, the Follow-up section presented in this report may not be all-inclusive of areas where improvement might be needed.

The following results for each finding are as follows:

FINDING #1 (OBJ. 1)	
CONDITION (THE WAY IT IS)	<p>IA's review of professional service projects approved by the City Council, City management's report of consulting contracts, Finance's No PO report, professional services and other outside services transaction report and subsequent inquiry with management, revealed the following:</p> <ol style="list-style-type: none">1. At least 16 vendors (See Exhibit A) were selected by various City Departments without the administration of the Purchasing Department. Therefore, IA was unable to verify that these procurements were made in accordance with Texas Local Government Code, Chapter 252 and Purchasing Directive.2. Several additional vendors were also selected by various departments without the administration of the Purchasing Department; however, our review of Purchasing' records revealed that these vendors are listed on their short-lists since they were properly procured by other departments for various projects within the City. <p>The majority of the vendors procured without the administration of the Purchasing were selected by departments several years ago and documentation regarding these selections was not maintained.</p>
RECOMMENDATION	<ol style="list-style-type: none">1. City Management should ensure that all departments comply with the Texas Local Government Code, Chapter 252 and Purchasing Directive 1.2. The Purchasing department should conduct more frequent trainings to include all department purchasing coordinators (DPCs), as well as, other Contract Management personnel. Training should cover the purchasing requirements set forth by the Texas Local Government Code and the City of

Garland.

Note: Some departments had corrected their internal processes during the scope of the audit (FY 2013 – FY 2014) based on conversations with the Purchasing department. Additionally, as a direct result of our meetings, multiple departments that were not following the correct procedures have met with the Purchasing department in order to begin the correct RFP/RFQ process.

**MANAGEMENT
RESPONSE**

Concur. While all Departments were included in the initial implementation of the professional services procurement process, continuous training is important in reinforcing policies and procedures.

ACTION PLAN

In addition to participating in the mandatory quarterly New Manager Orientation training, the Purchasing department is introducing a new Purchasing Made Simple class. This training will target not only managers, but also DPCs.

**IMPLEMENTATION
DATE**

The Purchasing Made Simple class is scheduled for April 16, 2015.

FOLLOW-UP

IA ensured that, at a minimum, all departments where we had previously identified issues had at least one representative in attendance at the Purchasing Made Simple classes held on April 16, 2015 and October 8, 2015. In addition, many other departments had representatives attend this training.

There have been no New Manager Orientation classes held since our audit report date.

Please see the testing of the selection of vendors located within Finding #3.

IMPLEMENTATION

Fully Implemented

FINDING #2 (OBJ. 1)

**CONDITION
(THE WAY IT IS)**

A report was run for the period of 12/1/2013 – 9/15/2014 which listed all transactions over \$3,000 that did not have a purchase order tied to the payment (No PO Report). IA's review of this report revealed 791 transactions amounting to over \$10 million of payments made without a purchase order. These transactions either did not have a purchase order processed through the Purchasing department or were not tied to a purchase order when entered for payment in the Finance system.

Note: This total excludes regulatory fees, utility payments, taxes and other payments that do not require a PO.

RECOMMENDATION

1. City Management should update Purchasing Directive 1 to include additional elaboration about purchase order exemptions. Items such as utility payments, regulatory fees, litigation settlements, escrow payments, purchase of real property and taxes do not normally require a purchase order. This should help reduce confusion regarding whether a purchase order is necessary.
 2. The Purchasing department should conduct more frequent trainings for department Purchasing Coordinators, Invoice Approvers and other significant personnel that are involved in the Contract Management process. This training should cover the purchasing requirements set forth by the Texas Local Government Code and the City of Garland, as well as a review of the updated process flow, information about the vendor selection process, purchase order requisition and invoice payment processes.
 3. Managing Directors should ensure that:
 - For all existing Department Purchase Coordinators (DPCs), approvers and significant personnel that are involved in the Contract Management process, the training described above is attended.
 - For all new DPCs and approvers, proper training is provided prior to access is granted to enter and approve payments within the Finance System.
 4. The No PO Report should be reviewed by Finance and the Purchasing departments monthly. This will result in timely
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communication from Purchasing to departments regarding non-compliance with Purchasing Directive 1. For departments that repeatedly show up on the No PO list, the Managing Director should be contacted to resolve these cases.

Note: Some departments had corrected their internal processes during the scope of the audit (FY 2013 – FY 2014) based on conversations with the Purchasing department. Additionally, as a direct result of our meetings, multiple departments that were not following the correct procedures have met with the Purchasing department in order to begin complying with the correct purchase order process.

**MANAGEMENT
RESPONSE**

1. Management concurs with revising the Purchasing Directive to provide more clarity.
2. Management concurs. Increased training will help reinforce the policies and procedures that are in place.
3. Management concurs. Proper training should occur before issues arise.
4. Management concurs. Reviewing the monthly No PO Report review will help identify inconsistencies in the process.

ACTION PLAN

1. Purchasing has revised the Purchasing Directive to include additional common exemptions to the purchase order process.
2. In addition to participating in the mandatory quarterly New Manager Orientation training, the Purchasing department is introducing a new Purchasing Made Simple class.
3. The Purchasing and Finance departments will work together to ensure that proper training is available.
4. Purchasing and Finance are currently reviewing the No PO Report on a monthly basis.

**IMPLEMENTATION
DATE**

1. The Purchasing Directive has been revised and forwarded to Administration for approval.
2. The Purchasing Made Simple class is scheduled for April 16, 2015.

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3. In addition to the Purchasing Made Simple class, Purchasing and Finance personnel are available to conduct individual training as needed.
 4. The No PO Report is now being reviewed by Finance and Purchasing on a monthly basis.

FOLLOW-UP

1. According to management, these changes to the Purchasing Directive have been drafted, but are still pending final approval.
2. This class has been held. See Finding #1 for more details.
3. There have been multiple trainings held on a by-department basis as they are requested by management.
4. The No-PO Report for invoices over \$3,000 is reviewed and monitored by Finance and Purchasing on a monthly basis. Per discussion with the Purchasing Department and through review of these reports, IA determined that there has been a significant reduction in the number of invoices paid without a purchase order since our prior audit.

IMPLEMENTATION

1. Partially Implemented
 - 2 – 4. Fully Implemented
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FINDING #3 (OBJ. 1)

**CONDITION
(THE WAY IT IS)**

The Purchasing department works with requesting departments to develop a list of approved vendors through an RFQ. Applicants are evaluated and ranked by the requesting department. Qualified vendors are selected for placement on a short-list. Evidence of vendor selection process for 3 out of 5 (60%) short-lists (such as award matrices, scoring, parties involved) is not consistently provided to or requested by the Purchasing department.

RECOMMENDATION

City Management should ensure that the Purchasing department:

1. Facilitates the Request for Qualification evaluation and selection process.
2. Maintains custody of documentation for vendor selections for short-lists that includes:
 - Evidence of individuals involved in the selection of vendors for the short-list.
 - Award matrix with scoring criteria completed for each applicant. If applicable, justification should be noted for the inclusion of vendors who had low scores based on the award matrix.

**MANAGEMENT
RESPONSE**

1. Management concurs. Although the Purchasing department offers to facilitate the evaluations, we are not always included in the process. We will work closely with the departments to ensure that we are included in the evaluations.
2. Management concurs. All documentation that is received will be included in the official bid files.

ACTION PLAN

1. The Purchasing department will work closely with the Departments to ensure that we are included in the evaluation process.
 2. The Purchasing department will request all documentation for inclusion in the official bid files.
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IMPLEMENTATION DATE	The recommendations have been implemented.
FOLLOW-UP	<p>Out of the 9 professional & personal service contracts IA reviewed (Exhibit A), 4 were performed with the assistance of the Purchasing Department. The remaining 5 contracts had been in place prior to the prior audit recommendations and procedural changes had taken place.</p> <p>Of these 4 new bids that IA reviewed, the Purchasing Department was involved with the evaluation process and retained this documentation.</p>
IMPLEMENTATION	Fully Implemented

FINDING #4 (OBJ. 2)

**CONDITION
(THE WAY IT IS)**

Out of the 35 items tested (See Exhibit A), 12 (34%) Professional and Personal Service contracts are not on file with the City Secretary's Office. Out of the 12 not on file, 7 (58%) were approved by the City Council.

RECOMMENDATION

The City Secretary should:

1. Conduct trainings for everyone involved in the contract management process. This training should include documentation requirements with regards to the City Secretary's office.
2. Develop a process for all items that are approved by the City Council to ensure that all executed contracts are maintained according to Administration Directive 5.
3. Update City Secretary (Administration) Directive 5 to match Purchasing Directive 1 regarding purchases over \$3,000. In Audit Report 201350 dated March 24, 2014, IA had recommended this update; however, this has not been updated as of the date of this report.

**MANAGEMENT
RESPONSE**

Concur with the findings of the Internal Audit Department.

ACTION PLAN

Develop a training class for directors, managers, and supervisors on the process for submitting contracts to the City Secretary. Request this training be included in the current new managers training conducted by Human Resources.

Compile a listing of all documents retained in the City Secretary's office and review the current process for intake and filing. Develop a procedure manual for document delivery (bid packages, bonds, Council minutes, contracts, engineering project packets, ordinances, purchase orders, and resolutions). Publish the manual on COGnet.

Revise the current Directive on Departmental Original Documents Filing to increase the contract amount to \$3,000 for professional service agreements/contracts filed in the City Secretary's office.

Revise the current directive item #4 to include a link and/or instructions on use of the Texas State Library and Archives

Commission Standards for retention and destruction.

IMPLEMENTATION DATE August 31, 2015

FOLLOW-UP 10 out of 12 professional & personal service contracts we selected (Exhibit A) were on file with the City Secretary. The remaining 2 contracts were initiated prior to our audit recommendations and subsequent procedural changes.

There have been no New Manager Orientation classes held since our audit report date, therefore no trainings have taken place; however, procedures for document delivery have been passed along to all department representatives.

City Secretary Directives have been updated to reflect Purchasing Directive #1's requirements.

IMPLEMENTATION Fully Implemented

Exhibit A – Sampling Methodology

Professional & Personal Services Account Code Transactions

IA ran a listing of Professional Services (7111) and Outside Services (7101) account code transactions between March 25, 2015 and December 31, 2015. IA reviewed all items on both of these listings to determine which could possibly be considered Professional or Personal Services under Purchasing Directive 1. After separating all of these items out, we were left with 48 unique vendors. We randomly selected 12 (or 25%) items to obtain a contract for from the City Secretary's Office.

In addition, from the list of 48, we looked at the Purchasing "Short - Lists" of approved vendors. We did not pick these to obtain bids for as these have already been bid and can be used by any department throughout the City during the valid periods listed on the short lists. Out of the 36 remaining items, we selected 9 (or 25%) to obtain the bid/other evidence of Purchasing Department involvement. We had to remove one vendor due to the fact that it wasn't considered a professional service, therefore selected 1 additional random sample.