



CITY OF RICHMOND
CITY AUDITOR

DATE: June 4, 2019

TO: Mrs. Selena Cuffee-Glenn
Chief Administrative Officer

FROM: Louis Lassiter *LL*
City Auditor

SUBJECT: Department of Procurement Services (DPS)
Split Purchases Audit

The City Auditor's Office has completed the DPS Split Purchases audit and the final report is attached.

We would like to thank the DPS staff for their cooperation and assistance during this audit.

Attachment

cc: The Richmond Audit Committee
The Richmond City Council
Ms. Lenora Reid, DCAO of Administration
Ms. Betty Burrell, Director of Procurement Services

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2019-13

Department of Procurement Services

Split-Purchases Audit

City of Richmond, VA

City Auditor's Office

June 4, 2019



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Highlights

Audit Report of the Audit Committee, City Council and the Administration

Why We Did This Audit

The Office of the City Auditor conducted this audit as part of the FY19 audit plan approved by the Audit Committee.

This audit focused on the purchasing authority delegated to the user agencies to determine if the City's competitive procurement policy and procedures were circumvented. Specifically, purchase orders in the amount of \$5,000 or less were analyzed to determine if split purchases occurred.

What We Recommended

The Director of DPS:

- Define what constitutes a split purchase, update policies and procedures and train the department procurement liaisons.
- Implement split purchase monitoring.
- Work with the user departments and analyze purchasing data to identify contract needs and establish contracts accordingly.
- Work with the DPU Director to evaluate the cost effectiveness of radio and television advertising and determine if competitive procurements can be obtained for such services.



Citywide Split Purchases

Background

The Department of Procurement Services (DPS) is the centralized purchasing body for the City of Richmond. DPS delegated the purchasing authority for small purchases up to \$5,000 to the agencies to allow for more expeditious purchases to fulfill their respective missions. The using agencies are responsible and accountable for complying with the City's procurement requirements. Failure to comply with the requirements may result in reduction, suspension or revocation of the user agency or employee delegated authority.

Approximately 27,000 purchase orders totaling \$404.5 million were generated during fiscal year 2018. Of these, approximately 23,000 were for \$5,000 or less, which represented 86% of the total purchase orders created. Purchase orders for \$5,000 or less require one quote and are approved by the using agency and submitted directly to the vendors.

Commendations

The Director of DPS has begun to take proactive measures for the audit findings. Emails were sent to the City Department Directors and Procurement Liaisons to outline the requirements of the Procurement Policy Number 14 – Small Purchases and to reiterate that splitting purchase requirements to avoid competition is prohibited. Also, a Project Status Report (PSR) SharePoint site was introduced that allows the user agencies to determine the status of their requisitions and projects.

Needs Improvement

Finding #1 – Split Purchases Were Processed

The purchase order analysis identified approximately 1,900 purchase orders as potential split purchases. Testing revealed at least 140 split purchase orders totaling approximately \$536,000 were processed during fiscal year 2018. Additional split purchases may exist as testing was not conducted beyond the 51 sets of splits identified, as this was deemed a sufficient basis for the audit conclusions.

DPS defines split purchases as “the deliberate practice of splitting a known purchase requirement into two or more smaller purchases to avoid using the appropriate method of procurement or to remain within delegated purchasing authority.”

Finding #2 – Opportunities to Establish Contracts and Media Advertising

Inquiry with the user agencies' staff and analysis of the purchase order data revealed that opportunities to establish contracts exist. Analyzing FY2018 purchase orders for \$5,000 or less, the auditor identified at least 11 vendors that had cumulative purchase order totals exceeding \$50,000, which require formal competitive procurements. These purchase orders totaled approximately \$1.4 million. Per procurement policy, the using agencies should contact DPS to seek contracts for ongoing services, goods and construction needs. The auditor also identified radio and television advertising expenditures totaling approximately \$840,000 during fiscal year 2018. Of this total, \$814,000 was processed within the Department of Public Utilities (DPU).

Management concurred with 4 of 4 recommendations. We appreciate the cooperation received from management and staff while conducting this audit.

BACKGROUND, OBJECTIVES, SCOPE, METHODOLOGY, MANAGEMENT RESPONSIBILITY and INTERNAL CONTROLS

This audit was conducted in accordance with the Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. 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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

BACKGROUND

The Department of Procurement Services (DPS) is the centralized purchasing body for the City of Richmond. DPS delegated the purchasing authority for small purchases to the agencies to allow for more expeditious purchases to fulfill their respective missions. The using agencies are responsible and accountable for complying with the below City's procurement requirements. Failure to comply with the requirements may result in reduction, suspension or revocation of the user agency or employee delegated authority.

Type of Procurement	Dollar Threshold	Requirements	Comments
Single Quote (non-competitive)	\$0-\$5,000	1 quote	Purchase orders are approved by agency and remitted directly to vendor.
Request for Quotation (Goods, Non-Professional Services, and Construction)*	\$5,001 - \$50,000	3 quotes	User agency obtains quotes, selects lowest responsible bidder, and remits quote along with approved requisition to Procurement Services. Procurement Service Contract Specialist reviews, approves and issue purchase orders.
Request for Quotation (Goods, Non-Professional Services, and Construction)*	>\$50,000	formal competitive procurement	Processed by Procurement Services Contract Specialist
Professional Services	≤ \$30,000	1 quote	Quote and approved requisition submitted to Procurement Services for requirements exceeding \$5,000.
Professional Services	\$31,000 - \$60,000	3 proposals	Evaluation panel consisting of at least two employees reviews and ranks the proposals and negotiates with the top rank firm to obtain mutually agreeable price for requested services. The Evaluation Panel provides the Contract Specialist with the required procurement documentation.

*Excludes purchases from existing contracts and transportation related construction is limited to \$25,000.

In addition to the above procurement methods, demand payments and purchase exemptions, which do not require competition, are also used.

- Demand payments are payments not exceeding \$100,000 for goods/services such as books; advertisement; license, maintenance, support; utility charges; training, and etc. Supporting documentation along with the requisition are submitted to the DPS for verification.
- Exemptions are purchased goods and services such as professional membership dues; advertising in publications; Social Services goods and services for individuals; legal services; and election materials and equipment are exempted from competition. Exemptions exceeding \$5,000 are forwarded to DPS for review and final approval.

Approximately 27,000 purchase orders totaling \$404.5 million were created during the audit scope. Below is a breakdown of the dollar threshold and quantities.

Dollar Threshold	# of Purchase Orders	\$ Dollar Amount
\$0-\$5,000	22,920	\$27,076,000
\$5,001 - \$50,000	2,689	\$45,872,004
Over \$50,000	931	\$331,597,194
Totals	26,540	\$404,545,198

OBJECTIVES

Determine whether the user agencies circumvented the City's competitive procurement policy and procedures through split purchases.

SCOPE

Purchase orders for \$5,000 or less (excluding contracts, demand payments, and exemptions) that were created during fiscal year 2018 were analyzed to determine if split purchases were processed.

METHODOLOGY

The auditors performed the following procedures to complete this audit:

- Interviewed management and staff;
- Reviewed and evaluated relevant procurement policies and procedures and tested for compliance;
- Cleaned the purchase order data to remove contract and exemption purchases and demand payments;
- Analyzed purchase order data and reviewed corresponding invoices to determine if split purchases were processed;
- Analyzed purchase order data and inquired with user agency staff to determine if opportunities exist to establish contracts; and
- Performed other tests, as deemed necessary.

MANAGEMENT RESPONSIBILITY

City management is responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

FINDINGS and RECOMMENDATIONS

Commendations

The Director of DPS has begun to take proactive measures for the audit findings. Emails were sent to the City Department Directors and Procurement Liaisons to outline the requirements of the Procurement Policy Number 14 – Small Purchases and to reiterate that splitting purchase requirements to avoid competition is prohibited. Also, a Project Status Report (PSR) SharePoint site was introduced that allows the user agencies to determine the status of their requisitions and projects.

Improvements Needed

Finding #1 – Split Purchases Were Processed

As noted above, approximately 23,000 purchase orders in the amount of \$5,000 or less were generated during the audit scope. After removing the contracts, demands, exemptions and cooperative agreements, approximately 8,900 purchase orders remained. The remaining purchase orders were analyzed to identify purchase orders generated for the same vendor by the same requestor within 30 days with cumulative totals exceeding \$5,000. The analysis identified 1,913 purchase orders as possible split purchases. Testing revealed at least 140 split purchase orders totaling approximately \$536,000 were processed during FY2018. Additional split purchases may exist as testing was stopped after 51 sets of split purchases were identified as this was deemed a sufficient basis for conclusions.

Below are examples of the identified split purchases.

PO Date	Description	PO Amount	Procurement Requirement
5/7/2018	Neon Rope Light	\$ 4,800	three quotes should have been obtained
5/7/2018	Neon Rope Light	\$ 4,320	
	Subtotal	\$ 9,120	
6/5/2018	Prep for Painting	\$ 5,000	three quotes should have been obtained
6/11/2018	Painting	\$ 5,000	
6/19/2018	Accessories Painting	\$ 5,000	
	Subtotal	\$ 15,000	
8/7/2017	Signs	\$ 4,571	three quotes should have been obtained
8/7/2017	Sign Installation	\$ 2,000	
	Subtotal	\$ 6,571	

The auditor inquired with the requestors to determine why the identified purchases were split among different purchase orders. The requestors' responses are summarized in the below categories.

Reason for Split	PO Count	# of Sets
Delay in the establishment and renewal of contracts	83	26
Circumvented procurement procedures and split purchases to keep under the single quote threshold	9	4
Staff did not consider dividing the purchases as splits	36	17
Information obtained from agencies confirmed not a split	10	3
Courts – Did not follow up with as this is a quasi- organization	2	1

Based upon inquiry with the purchase order requestors, discussions with DPS management, and review of procurement policies and provided documentation, the identified split purchases were attributed to the below factors.

- Contract needs exist for reoccurring purchases of goods and services. Based upon discussion with user agency staff and review of the provided information, it was noted that delays were encountered in establishing and renewing contracts. The purchase orders were processed to procure goods and services while awaiting contracts to be put into place. Some of the requestors indicated that contracts were previously in place for some of the reviewed purchases but have expired and re-establishment of such contracts would be helpful. Pursuant to procurement policy, the using agencies should contact DPS to seek contracts for ongoing services, goods and construction needs.
- Adequate monitoring of split purchases was not in place within DPS or within the using agencies. The user agency staff indicated that 9 of the purchases orders were split to keep them under the single quote threshold (user dept. delegated purchasing authority). The auditor noted that some of the reviewed split purchase orders were generated back-to-back on the same day and were approved by the using agencies' authorized approvers.

DPS delegated purchasing authority for small dollar purchases (\$5,000 or less) to the user agencies. These purchase orders are generated and approved within the departments/agencies and submitted directly to the vendors. As such, DPS staff do not see or review these purchase orders. In March 2015, the DPS developed procedures to monitor for split purchases and ensure the user agencies were in compliance with the procurement requirements and procedures. Per the established

policy, a report was to be developed and generated quarterly to monitor for split purchases and such findings were to be communicated to the user agencies and in some cases the corresponding Deputy Chief Administrative Officer (depending on the dollar value and if a repeat finding).

However, per the DPS Director, resources were not available to focus on split purchasing monitoring due to the vast turnover in DPS staffing during the audit scope. Per the DPS Director, she would like to implement electronic controls within RAPIDS to monitor and prevent split purchase. Until it is determined that adding such controls is feasible and are implemented, the DPS Director will need to implement monitoring for split purchases.

- The procurement policies and procedures do not clearly define what constitutes a split purchase. Purchasing Policy Number 53 (Split Purchases) defines a split as the placement of multiple PO's within other than a reasonable time period to one or more vendors for the same, like or related goods or services. However, a reasonable time period is not defined. Per the DPS Director, the policy may be updated to define "unreasonable" as small purchases made to the same vendor for the same goods in any concurrent three months or more than five small purchases made to the same vendor within the same fiscal year¹. This may have resulted in some confusion among the using agencies and departments regarding what constitutes split purchases. As noted above, the requestors did not consider the purchases as split for 36 of the reviewed purchase orders. Generally, the requestors noted that:

¹ Since DPS does not have a time line in there policy the auditor selected a 30 day window as a conservative timeline for testing.

- Separate purchase orders were set up for some of the procured goods as they were being shipped to different locations (e.g. recreation centers or facilities) in the City.
- The exact same items were not purchased. The staff are not taking into consideration the purchase of similar items (e.g. short sleeve vs long sleeve uniform tops).
- It was also noted for two of the PO's that the same items were needed for separate events that were seven days apart and each were below \$5,000 so staff believed they were complying with procurement requirements.

The DPS Director emailed the City Departments' Directors and procurement liaisons to outline the requirements of the Procurement Policy Number 14 – Small Purchases and Procurement Policy 53- Split Purchases and to reiterate that splitting purchase requirements to avoid competition is prohibited.

Recommendation:

1. *We recommend the DPS Director define what constitutes a split purchase, update policies and procedures and train the user agencies' procurement liaisons.*
2. *We recommend that the DPS Director implement monitoring procedures for split purchasing.*

Finding #2 – Opportunities to Establish Contracts and Media Advertising

In addition to the feedback from the user agencies, the auditor summarized the purchase order amounts for \$5,000 or less and identified at least 11 vendors that had cumulative purchase order totals exceeding \$50,000, which are required to be competitively procured. These purchase orders totaled approximately \$1.4 million. The auditor also identified radio and television advertising expenditures totaling approximately \$840,000 during fiscal year

2018. Of this total, \$814,000 was processed within the Department of Public Utilities (DPU). Via Procurement Policy Number 14 – Small Purchases, advertising in newspapers, magazine, journals, billboards, websites, radio, television or similar print or electronic media is a demand payment. Competition for demand payments up to \$100,000 is not required². Although, competition is not required for advertising, the City may be able to achieve a cost savings by competitively procuring the advertising services. Entering into contracts for reoccurring goods and services will allow the City to maximize purchasing power and take advantage of economy of scales resulting in potential cost savings.

Recommendation:

- 3. We recommend the DPS Director work with the user departments and analyze purchasing data to identify contract needs and establish contracts accordingly.*
- 4. We recommend the DPS Director work with the DPU Director to evaluate the cost effectiveness of radio and television advertising and determine if competitive procurements can be obtained for such services.*

² The timeframe associated with the \$100,000 is not defined in the policy. Policy does not state if the amount is cumulative, per vendor, per transaction, or annual. Also, the policy does not outline the procedures for demand payments once the dollar threshold is exceeded.

**APPENDIX A: MANAGEMENT RESPONSE FORM
2019-13 Split Purchases Audit**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	We recommend the DPS Director define what constitutes a split purchase, update policies and procedures and train the user agencies' procurement liaisons.	Y	DPS Director recognized early in her tenure in the position that DPS documented policies and procedures are outdated, require extensive revisions and subsequent training to all DPS personnel and Procurement Liaisons (decentralized purchasing personnel). City Attorney Jackson has verbally agreed to allow Deputy City Attorney Haskell to provide guidance and assistance in the DPS policy update process.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	DPS Director		Tuesday, December 31, 2019
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
2	We recommend that the DPS Director implement monitoring procedures for split purchasing.	Y	DPS Director is recruiting for a Senior Technology Manager whose responsibilities will include assisting DPS and DIT in leveraging existing Oracle reporting and monitoring capabilities, and determining what other functionalities and reports DPS needs in order adequately perform our duties and responsibilities.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	DPS Director		Split purchasing monitoring to begin by 12/31/19; technology leveraging project is ongoing.
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
3	We recommend the DPS Director work with the user departments and analyze purchasing data to identify contract needs and establish contracts accordingly.	Y	DPS Director is recruiting for a Senior Technology Manager whose responsibilities will include assisting DPS Director in using available data and information to make informed decisions. This includes not only the ability to identify how the City can achieve economies of scale and cost savings through more competition and more contracts, but also how the City can utilize P-cards more, thus generating additional P-card rebate revenue and creating operational savings as a result of fewer checks and ACH payment transactions.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	DPS Director		Friday, January 31, 2020
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

APPENDIX A: MANAGEMENT RESPONSE FORM
2019-13 Split Purchases Audit

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
4	We recommend the DPS Director work with the DPU Director to evaluate the cost effectiveness of radio and television advertising and determine if competitive procurements can be obtained for such services.	Y	FY20 budget deliberations by City Council reflect an expectation of austerity by DPU and all other City Departments and Agencies. As such, to the extent advertising is required for certain aspects of DPU's operations, DPS will assist DPU in meeting its regulatory advertising requirements through contracting for advertising services.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	DPS Director		Tuesday, December 31, 2019
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION