



# Richmond City Council

*The Voice of the People.*

*Richmond, Virginia*

## OFFICE OF THE CITY AUDITOR

REPORT # 2013-02

AUDIT

Of the

**Department of Procurement Services**

**August 2012**

**OFFICIAL GOVERNMENT REPORT**

*Richmond City Council*

**OFFICE OF THE CITY AUDITOR**

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*Committed to increasing government efficiency, effectiveness,  
and accountability on behalf of the Citizens of Richmond.*

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Umesh Datal, CPA, CIA, CIG  
Richmond City Auditor

# Richmond City Council

The Voice of the People

Richmond, Virginia

## Office of the City Auditor

### Executive Summary

August 30, 2012

The Honorable Members of the Richmond City Council  
The Honorable Mayor Dwight C. Jones

#### **Subject: Department of Procurement Services**

The City Auditor's Office has completed a performance audit of the Department of Procurement Services in accordance with Generally Accepted Government Auditing Standards. Some of the Department's specific duties include:

- Purchase or lease of supplies, materials, equipment and services;
- Execute contract renewals; and
- Process change orders.

During FY 2011, the City purchases totaled about \$247 million.

#### *Applicable laws and regulations*

Public procurement regulations are designed to promote fair procurement practices and discourage favoritism, corruption and misuse of government resources. The City has adopted its own regulations related to procurement, included in Chapter 74 of the City Code.

The following are the salient findings:

- The City Auditor's Office conducted an audit of the procurement function in 2008. During this audit, there were numerous findings. The audit indicated the existence of significant risks of abuse. The current audit showed that DPS has made significant improvement in limiting these risks. Overall, the auditors noticed positive operational changes; however, there is room for improvement.
- The Procurement Services staff should be commended for effective negotiation of RSS contracts. Audit testing revealed that RSS prices were cheaper than the average eVA prices.

In addition, auditors found that users received pricing in accordance with the RSS pre-negotiated contract prices for 93% of the selected purchases. For the remaining 7%, the users got better rates through further negotiation.

- Sole source implies that only one vendor can provide the goods, or services needed. Sole source procurements must comply with certain requirements included in procurement policies. Since the previous audit, Procurement Services has improved its process and introduced a Sole Source Review Panel (SSRP).
- Section 74-43 of the City Code authorizes emergency procurements without competition. The Director of Procurement Services determines if the transaction qualifies for emergency procurement. Compared to the observations in the previous audit, the Emergency procurement process has improved.
- The procurement function is a very policy and procedures-driven process. The completeness and relevance of these policies and procedures are critical for accomplishing procurement that complies with the statutory requirements.

The purchasing manual was last updated in 2002 and is outdated as it does not reflect current procurement practices. Revision memorandums are issued when changes are made to the policies and procedures. However, not all changes were captured through memorandums. After the audit exit meeting, the Director of Procurement Services presented a plan for updating and getting the City Attorney's approval of the revised policies.

- Split purchases are purchases of a commodity or service in smaller increments rather than one large purchase solely to circumvent the competitive requirement for quotes. This method can be used to offer business to a vendor of the employee's choice. Obviously, this practice can lead to the misuse of authority. Audit testing identified 97 transactions totaling approximately \$175,000 that were split purchases.

Of the 97 transactions reviewed by the auditors, 63 payments totaling approximately \$35,000 were issued to the same vendor. Further analysis of the payments made to this vendor identified that several PDs totaling approximately \$338,000 were issued to this vendor with an average expenditure of \$108,000 in FY2010, FY2011 and FY2012.

- PD exemptions are processed for such goods and services as advertising, rental/lease payments, subscriptions, payments to government agencies, etc. User agencies and departments are not required to submit supporting documentation to validate requested goods and services and transaction amounts. The risk with this process is that Procurement Services may be unknowingly approving PDs that will ultimately be used to acquire goods and services that are not exempted from competitive procurement.
- During two of the visits to the Department of Procurement Services, the auditors observed that the bid box used to house sealed bids until opening date was left unsecured. The auditors verified that the bid box did contain sealed bid submittals. The bid box is accessible to anyone who has access to the Procurement Services reception area, including the general public during hours of operations. This situation poses risk that a competitor's bid may be removed or reviewed prior to bid opening and affect the sealed bid process adversely.
- The auditors observed that, although numerous purchases are not required to be procured on a contract, entering into a contract for these commodities could yield benefits to the City.

The City has an opportunity to obtain several procurements competitively whether or not they are required by policies and regulations. During the audit period, the City expended a significant amount on these commodities.

The City Auditor's Office appreciates the cooperation of the Department of Procurement Services' staff. Please contact me for questions and comments on this report.

Sincerely,

*Umesh Dalal*

Umesh Dalal, CPA, CIA, CIG  
City Auditor

cc: Mr. Byron C. Marshall, CAO  
The Richmond City Audit Committee  
Cheryl Wright – Director, DPS

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2	Establish written procedures for monitoring small purchases and PD exemptions procured by the departments to assure compliance with the City policies.	14
3	Going forward require supporting documentation for PD exemptions.	14
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5	Review spending by commodity code annually in order to identify opportunities for entering into contracts for better pricing.	17
6	Enforce the policy related to conducting a fair market analysis, timeliness of processing emergency purchases, and posting the intent to award emergency purchases on the City's website.	20

## ***Introduction and Background***

### ***Introduction***

The City Auditor's Office has completed a performance audit of the Department of Procurement Services. This audit covers the 18-month period ending December 31, 2011. The objectives of this audit were to:

- Determine the existence and effectiveness of operations;
- Evaluate the effectiveness of procedures to deter fraud, waste, and abuse;
- Evaluate compliance with applicable laws, regulations, City Code and policies and procedures; and
- Evaluate the efficiency and effectiveness of internal controls.

The auditors conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those Standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based on the audit objectives. The auditors believe that the evidence obtained provides a reasonable basis for their findings and conclusions based on the audit objectives.

### ***Methodology***

To complete this audit, the auditors performed the following procedures:

- Interviewed relevant Procurement Services employees and reviewed pertinent records, policies and regulations to gain an understanding of Department operations;

- Reviewed various procurement transactions and tested for compliance with policies and procedures;
- Attempted to benchmark against eight localities, however, only two localities responded and provided limited information; and
- Analyzed procurement data to identify anomalies and opportunities to establish contracts.

***Management  
Responsibility***

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

***Background***

The mission of the Procurement Services Department (DPS) is to provide the most efficient and effective procurement process to the citizens and agencies of the City of Richmond. DPS assists City departments and agencies to acquire services, commodities, and outside resources needed to carry out their mission and goals. Some of the Department's specific duties include:

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***The mission of the  
DPS is to provide  
the most efficient  
and effective  
procurement  
process***

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- Purchase or lease of supplies, materials, equipment and services;
- Execute contract renewals; and
- Process change orders.

***Applicable Laws***

Public procurement regulations are designed to promote fair procurement practices and discourage favoritism, corruption and the misuse of government resources. Implementation of proper internal



controls ensures compliance with policies and procedures to minimize the risks of inappropriate use of resources and promotes fairness in the procurement process. The City has adopted its own regulations related to procurement included in Chapter 74 of the City Code.

***Procurement Activity***

The procurement function is critical to City operations. Besides payroll, the procurement of goods and services is the largest expenditure for the City. The FY2011 expenditures represented approximately 39% of the total general fund expenditures.

***Besides payroll, procurement of goods and services is the largest expenditure for the City***

The City of Richmond’s purchasing function is a hybrid system. Purchases over \$50,000 are handled by Procurement Services. The purchases up to \$50,000 are conducted in a decentralized manner by the City departments and agencies with the approval of Procurement Services. The following is the trend of purchases conducted between FY 2008 and FY 2011:

<b>Year</b>	<b>Number of Transactions</b>	<b>Amount</b>
FY2008	20,000	\$225 million
FY2009	21,000	\$251 million
FY2010	19,000	\$233 million
FY2011	20,000	\$247 million

The majority of the above expenditures were for goods, services, and construction procured through contracts.

## **Observations and Recommendations**

### ***Overall Conclusion***

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***DPS has made  
significant  
improvement in  
limiting the risk of  
abuse***

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### ***What Works?***

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***DPS should be  
commended for  
the effective  
negotiation of  
RSS contracts***

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The City Auditor's Office conducted an audit of the procurement function in 2008. During this audit, there were numerous findings. The audit indicated the existence of significant risks of abuse. The current audit showed that DPS has made significant improvement in limiting these risks. Overall, the auditors noticed positive operational changes; however, there is room for improvement.

### ***Richmond Supply Schedule (RSS) facilitates the City getting better prices***

The Richmond Supply Schedule (RSS) was implemented in 2007 to simplify the procurement process for small, recurring purchases. The supply schedules include contract awards to multiple vendors for the following commodities and services:

- Information Technology Products
- Industrial Supplies
- Office Supplies
- Paper and Paper Related Products
- Temporary Services

City agencies and departments place orders directly with the RSS vendor. User agencies and departments are encouraged to seek additional discounts before placing orders. During the audit scope, approximately \$11.8 million was expended on the above contracts.

To ensure that this procurement method is effective, the auditors compared a sample of recent purchases through RSS to the quotes obtained from the State's electronic procurement system (eVA).

The sample included thirty-one invoices containing forty-seven products in office supplies and safety footwear categories, which were purchased between January 2012 through June 2012. This time period was selected to ensure a more comparable analysis due to price changes over time. The auditors could not test other categories due to inconsistencies in the descriptive information between the two systems. Audit testing revealed that RSS prices were cheaper than the average eVA prices.

Also, auditors found that users received pricing in accordance with the RSS pre-negotiated contract prices for 93% of the selected purchases. For the remaining 7%, the users got better rates through further negotiation.

This observation indicates that the improved process is working in obtaining the best prices for the City. The Procurement Services staff should be commended for effective negotiation of RSS contracts.

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***DPS has created a better process to assure accountability for sole source purchases***

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***The sole source purchases process has improved significantly***

Sole source implies that only one vendor can provide the goods, or services needed. Sole source procurements must comply with certain requirements included in procurement policies.

Since the previous audit, the Procurement Services has improved its process and introduced a Sole Source Review Panel (SSRP). This is a group of five selected employees who review the sole source purchases. During the audit scope, twenty-six sole source procurements totaling approximately \$4.4 million were processed.

Auditors reviewed and tested all sole source procurements and found that in twenty-six transactions:

- Twenty-two sole source requests were properly approved administratively and justified.
- In three of twenty-six transactions, appropriate documentation could not be located. Therefore, appropriateness of these purchases could not be evaluated.
- The remaining one sole source procurement for approximately \$31,000 was not reviewed and approved by the sole source panel. According to DPS, the sole source review panel was not required to review and approve the purchase since it is under \$50,000. However, auditors noted that SSRP had approved other sole source purchase requests that were below \$50,000.

Procurement policies dictate that four of the five voting members of the sole source review panel must be present at the meeting in order to move forward on the user agency's request. On four occasions, only three voting members were present at the meeting, and the panel proceeded to review and approve those applicable sole source requests.

Also, procurement policies dictate that the intent to award for sole source purchases greater than 50,000 be posted on the City's website. However, notices of intent to award were not always posted.

### ***What Improvements are Needed?***

#### ***Internal Controls***

Due to the critical nature of this function and the magnitude of resources spent to procure goods and services, the existence and effectiveness of proper internal controls is important.

According to Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

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***The internal control structure in DPS needs improvement***

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- Efficiency and effectiveness of operations
- Accurate financial reporting
- Compliance with laws and regulations

Based upon audit test work, it was determined that the internal control structure needs improvement. Specifically, auditors identified the following conditions:

- Procurements were processed without supporting documentation; and
- Adequate monitoring for the non-compliance of procurement procedures is not in place.

***Policies and Procedures***

***Updated comprehensive policies and procedures are not in place***

The procurement function is a very policy and procedures-driven process. The completeness and relevance of these policies and procedures are critical for accomplishing procurement that complies with the statutory requirements.

The Department had offered a “Tool Kit” that summarized procurement practices. The auditors observed that there were discrepancies between the department’s written procedures and the “Tool Kit.” The purchasing manual was last updated in 2002 and is outdated as it does not reflect current procurement practices. Revision memorandums are issued when changes are made to the policies and procedures. However, as demonstrated below, not all changes were captured through memorandums. The following table depicts the conflicting guidance that may create confusion or inconsistent application of the procurement policies:

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***Policies and Procedures need updating***

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<i>Purchasing Requirement</i>	<i>Tool Kit (revised 2010)</i>	<i>Revision Memos</i>	<i>Policy Manual (dated 2002)</i>	<i>City Code</i>
Small purchase dollar threshold	Up to \$50,000	None	Up to \$30,000	Amount not exceeding the dollar ceiling allowed in the Virginia Code  Current ceiling allowed by State Code is \$100,000
No. of quotes needed for small purchases greater than \$5,000	4-6 written/oral quotes obtained by Procurement Services	None	At least three written (one from minority firm) obtained by user agency/department and submitted to Procurement Services	At least three quotes (one from local minority business enterprise or emerging small business)
PD Usage	\$5,000 or less and procurements exempted from competitive procurements (PD exemptions)	None	Procurements up to \$30,000	Code requirement is more general
Bid bond	Not addressed; Tool Kit only provides a snapshot of policies and procedures	None	Construction contracts in excess of \$100,000	Non-transportation related construction contracts exceeding \$500,000 and transportation related construction contracts exceeding \$250,000 require bid bonds  City Code allows the option to require bid bonds for construction contracts less than above values

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***Inconsistencies  
exist between the  
summarized  
procurement  
“Tool Kit” and  
Policies and  
Procedures***

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This confusion was evident during the auditors’ testing of compliance with the policy. The auditors were initially instructed to use the Tool Kit as it contained the most updated information. However, the auditors were subsequently told to use the Purchasing Manual (dated 2002). According to the Director of Procurement Services, the “Tool Kit” was not reviewed by the City Attorney’s Office and validated to insure compliance with the City Code provisions. The Tool Kit has since been removed from the website.

Without updated and complete comprehensive written policies and procedures, staff expectations may be unclear and job performance may be inconsistent. In addition, policies and procedures ensure continuity of operations during employee turnover. Finally, procurement transactions may not be processed in accordance with purchasing requirements and result in:

- Increased procurement staff workload and processing time when requests have to be returned to the user agencies/departments for corrections; and
- Increased risk that goods and services may not be procured in an efficient manner.

The Procurement Department provides training to user agencies to assist with mitigating the potential risk described above. After the audit exit meeting, the Director of Procurement Services presented a plan for updating and getting the City Attorney’s approval of the revised policies.



***Recommendation:***

- 1. Continue and complete on-going efforts to update the 2002 policies and procedures and provide one comprehensive set of policies and procedures to users and procurement personnel.***

***Non  
Competitive  
Procurements***

The City has delegated authority to procure small dollar purchases (\$50,000 or less) to the City Departments and agencies. For purchases up to \$5,000, the departments do not have to obtain quotes. These purchases are procured through Departmental Purchases (PD). Also, PDs are used to process goods and services, which are exempted from competitive procurement, such as advertising, rental/lease payments, subscriptions, payments to government agencies, etc. During the audit period, City purchases for PDs were as follows:

***About \$75 million were spent on Departmental Purchases handled in a decentralized manner***

<b><i>Limit</i></b>	<b><i>Total Purchases</i></b>
Up to \$5,000	\$25,808,000
From \$5,001 through \$50,000 (PD exemptions)	\$5,855,000
Greater than \$50,000 (PD exemptions)	\$43,100,000
<b>Total</b>	<b>\$74,763,000</b>

These purchases need proper monitoring by DPS as they are vulnerable to abuse due to a less stringent process. The DPS must be responsible for monitoring all purchases.

The auditors observed the following during their compliance testing:

***Split purchases***

Split purchases are purchases of a commodity or service in smaller increments rather than one large purchase solely to circumvent the competitive requirement for quotes. This method can be used to offer business to a vendor of the employee's choice. Obviously, this practice can lead to the misuse of authority.

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***There is a need  
for better  
monitoring of  
small purchases***

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Audit testing identified 97 transactions totaling approximately \$175,000 that were split purchases. Several single purchases of more than \$5,000 each were split and the same goods and services were procured from the same vendor within 90 days. Pursuant to Purchasing Policy No. 14, user agencies/departments may not submit a PD for the same supplies, materials, or services within ninety (90) calendar days of the initial request. The receipt of such a request shall not be processed by Procurement Services with an aggregate amount exceeding \$50,000. Auditors found that Procurement Services is not always monitoring small purchases for splitting.

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***Established  
procedures were  
circumvented in  
some of the  
purchases***

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Of the 97 transactions reviewed by the auditors, 63 payments totaling approximately \$35,000 were issued to the same vendor. Further analysis of the payments made to this vendor identified that several PDs totaling approximately \$338,000 were issued to this vendor with an average expenditure of \$108,000 in FY2010, FY2011 and FY2012.

*PD exemptions are being approved without supporting documentation*

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*DPS could be approving purchases that do not meet the requirements of exemption*

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PD exemptions are processed for such goods and services as advertising, rental/lease payments, subscriptions, payments to government agencies, etc. User agencies and departments are not required to submit supporting documentation to validate requested goods and services and transaction amounts. The PDs are being approved based upon the exemption type cited on the face of the purchase order. The risk with this process is that Procurement Services may be unknowingly approving PDs that will ultimately be used to acquire goods and services that are not exempted from competitive procurement. Without adequate supporting documentation, it is difficult to verify PD exemptions.

Also, the auditors found that commodities currently under contract are being procured non-competitively through the use of PDs.

***Requests for Quotations***

The departments are required to solicit three quotes, one being from a minority business, for purchases between \$5,001 and \$50,000. They are allowed to proceed with the procurement even if two of the three vendors do not respond to the quote requests. According to Procurement Services, this event may comply with the City policy. However, potentially a \$50,000 purchase could be made with only one quote. The City may not get the best price for the resources expended. Also, this practice may be abused and lead to favoritism. During audit testing, auditors had the following observation:

*Altered quote*

The auditors observed in at least one case for \$47,440 that the written quote was subsequently changed. The revised price differed from the next lowest quote by \$22.80. From the available records, it is not clear when the change was made. However, the altered quote won the bid. Auditors determined that the City has conducted numerous transactions less than \$5,000 each with this vendor in non-compliance with the City policies.

Management pointed out that the Procurement Services did not have procedures about dealing with altered quotes.

***Recommendations:***

- 2. Establish written procedures for monitoring small purchases and PD exemptions procured by the departments to assure compliance with the City policies.*
- 3. Going forward require supporting documentation for PD exemptions.*

***Procurement Process***

***Bids and proposals are not being secured consistently prior to opening them.***

During two of the visits to the Department of Procurement Services, the auditors observed that the bid box used to house sealed bids until opening date was left unsecured. The auditors verified that the bid box did contain sealed bid submittals. The bid box is accessible to anyone who has access to the Procurement Services reception area, including

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***The sealed bids  
were observed to  
be unsecured on  
two occasions  
during the audit***

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the general public during hours of operations. This situation poses risk that a competitor's bid may be removed or reviewed prior to bid opening and affect the sealed bid process adversely.

The auditors also learned that one of the Contract Specialist Supervisors has a key to the room used to store RFPs. According to staff, the key was assigned to this individual as a backup. The Contract Specialist Supervisor has had the key since 2010. There is a risk that a competitor's information can be shared prior to the RFP closing date, allowing undue advantage to the vendor receiving the information.

***Opportunities for Formal Contracts Exists***

The Department of Procurement Services is charged with procuring goods and services in the most cost effective manner to meet the City's needs. This would mean that, in addition to complying with legal requirements, the Department should strive to look for opportunities to improve the City's buying power. Generally, a contract entered into to purchase larger quantities of service or products would offer better pricing. The auditors found during the interviews of procurement staff, including two supervisors, that the Department is not performing an analysis of past purchases to find opportunities to increase procurement efficiencies.

The auditors observed that, although numerous purchases are not required to be procured on a contract, entering into a contract could yield benefits to the City. The auditors scanned the purchasing transactions and identified City purchases of products and services in

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various commodities exceeding \$50,000. Some of these purchases are exempted from competitive purchases. However, it is prudent to solicit competitive bids for these commodities to obtain better prices.

The Sheriff’s Office, although not required to procure certain items competitively, does procure goods and services through request for quotes and State contracts. Similarly, there are opportunities for Procurement Services to enhance cost effectiveness by using contracts for the following purchases:

<i>Commodity/Service</i>	<i>PD (non-competitive)</i>	<i>PG (contract)</i>	<i>Total Amount</i>
Food	\$1,361,651	\$536,724	\$1,898,375
Medical Services	\$24,023	\$140,000	\$164,023

***The City has an opportunity to get better pricing on expenditures through contracts***

The City has an opportunity to obtain several procurements competitively whether or not they are required by policies and regulations. The auditors reviewed the City expenditures on commodities where annual expenditures exceeded \$50,000. The auditors identified that, during the audit period, the City expended a significant amount on these commodities. The following table depicts examples of such purchases:

<i>Commodity</i>	<i>Total Amount</i>
Automobile maintenance and repairs	\$3,422,631
Food, general groceries	\$725,371
Advertising	\$597,874
Electronic components and parts	\$525,782

Also, during the same period, the City used 2,376 PDs for a total amount of approximately \$42.7 million for purchases labeled as “miscellaneous” that were not under contracts. This amount included payments to vendors, non-departmental expenditures, and payments to governmental agencies which could not be segregated easily. Having an unspecified category to include significant expenditures may subject it to misuse.

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*Seventy-five contracts totaling approximately \$59 million were tested and found to be in compliance*

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Auditors conducted compliance testing for formal and informal solicitation procedures, contract formation and contract administration. Auditors also analyzed procurement transactions for abuse or circumvention of policies and procedures. The auditors reviewed seventy-five contracts totaling approximately \$59 million and generally found the Procurement Services complied with the policies and procedures.

***Recommendations:***

- 4. Ensure that sealed bids and RFPs are appropriately secured.***
- 5. Review spending by commodity code annually in order to identify opportunities for entering into contracts for better pricing.***

***Emergency procurement process has improved***

***Emergency Purchases***

Section 74-43 of the City Code authorizes emergency procurements without recourse to competitive procurement once the Director of Procurement Services has determined that one of the conditions below

exists and the condition is the result of a man-made disaster, natural disaster, or force majeure event:

- Breakdown or failure of machinery or other equipment has Curtailment, diminution or termination of an essential service is threatened; or
- Dangerous condition has developed and that a procurement without recourse to competitive sealed bidding or competitive negotiation is:
  - Needed to prevent loss of life or property;
  - Essential to protect and preserve the interests of the city and its inhabitants;
  - Needed to maintain the proper functioning of the city government; or
  - Needed to maintain the efficient rendering of public services.

An emergency also exists when a state of emergency or local emergency has been declared.

Fourteen emergency procurements totaling approximately \$1.3 million were processed and approved during the audit period. Auditors reviewed all emergency procurements and ascertained that when DPS received requests all of the 14 procurements complied with specified conditions. However, one of the 14 procurements was not properly planned by the user departments, which resulted in expedited action. This procurement is described as follows:

At the Juvenile Detention Center, some of the equipment failure had been previously identified in a 2009 study. The City Administration had an opportunity to procure necessary replacements through the

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*All of the tested transactions met the criteria for an emergency.*

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regular procurement process. However, the necessary work was completed as an emergency procurement in December 2011.

The Department of Justice Services was waiting for capital improvement funding to fix the issues identified by the 2009 study, however, the funding was not granted. The need became an emergency when regulatory pressure required them to fix the issues. The City could have had better planning to resolve the issues more timely. Procurement Services did not have any control over this situation.

***DPS staff did not conduct fair market analyses as required***

DPS has a policy that requires fair market value analyses to be completed for non-competitive emergency awards to assess the firm's qualification, experience, and availability to satisfy the emergency needs (Policy No. 17). Auditors reviewed 14 transactions to determine compliance with this policy.

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***Fair market value analyses assess the vendor's qualifications, experience, and availability***

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The auditors found that the contract specialist did not conduct and document a fair market value analysis for 10 of the contracts. This analysis is expected to compare the offer price to the price of the similar commodity from other firms with the same qualifications and experience. This helps ensure that emergency purchases are procured in the most efficient and effective means as reasonably possible. There is a risk that if this type of analysis is not conducted, it could result in the City contracting with substandard vendors and inflated prices.

***Emergency purchases were not processed in a timely manner***

Pursuant to policies and procedures, Procurement Services is required to process emergency procurements within 24 hours of receipt. Also, user departments and agencies are required to remit an emergency justification memo and required documentation to Procurement Services within 48 hours of the emergency if prior approval was not obtained. Auditors found that 13 of the 14 emergency procurements were not processed timely.

Untimely processing and approval of these procurements could result in a delay in the start of work or issuance of payments for completed work.

***Intent to award notices were not posted on the City's website***

DPS did not comply with this requirement for 12 of the 14 emergency procurements.

***Recommendation:***

- 6. Enforce the policy related to conducting a fair market analysis, timeliness of processing emergency purchases, and posting the intent to award emergency purchases on the City's website.***

MANAGEMENT RESPONSE FORM (as of 09-07-12)

DEPARTMENT OF PROCUREMENT SERVICES

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
1	<i>Continue and complete on-going efforts to update the 2002 policies and procedures and provide one comprehensive set of policies and procedures to users and procurement personnel</i>	Y	We will continue to update the Policy and Procedures Manual. The Master Plan document has been prepared and submitted to the Auditor.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Director and Senior Managers		September 2013
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
			The Procurement Department provides robust training to user agencies to assist with mitigating the potential risk described above. DPS also facilitates a questions and answer period at the end of each training session and retrieves feedback from surveys to inquire on how we can improve our program. There are also bi-weekly or monthly meetings /planning sessions with agencies to provide them with a platform to discuss current or upcoming projects, review and discuss procurement processes and review procurement strategic opportunities.
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
2	<i>Establish written procedures for monitoring small purchases and PD exemptions procured by the departments to assure compliance with the City policies.</i>	Y	We will establish written procedures for monitoring small purchases and PD exemptions. However, the monitoring practice for the department is listed below: <b>Monitoring Examples:</b> Example of current small purchase monitoring (5,001 to 50,000.00): #1-Reviews the documents to ensure there has been an effort from the using agency to solicit three (3) quotes, with one being a local minority business enterprise or emerging small business. An award shall be made to the lowest acceptable quote. <b>Example of \$0.00 to \$5,000.00:</b> We monitor purchases \$5,000.00 and under through a manual review process. Once Department Purchase Request (PDs) are received by the Department of Procurement Services (DPS), they are reviewed by the Contract Specialist to ensure that the commodities or services included on the PD are not under current contract and that the agency has not submitted a PD for the same supplies, materials or services within ninety (90) calendar days of the initial request.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Director and Sr. Level Managers		October 2013
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
3	<i>Going forward, require supporting documentation for PD exemptions.</i>	Y	Although, Supporting documentation for PD is not required, since the agency included the information on the PD document, we will request supporting documentation going forward per the Auditor's recommendation.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Sr. Level Managers		November 2013
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
			Procurement Services (DPS) will continue to enhance the small purchase and PD exemption process by requesting additional information for review. To enhance the manual process, the director or a team member appointed by director will review and approve all PD exemptions over \$5,000.00. Once RAPIDS is implemented, this process will no longer require manual review. DPS will have the ability to create and generate reports from the system that will provide data for monitoring and analyzing all purchase activity.
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
4	<i>Ensure that sealed bids and RFPs are appropriately secured</i>	N	Please refer to the information provided below.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>

No because, our process for securing incoming Bid/RFP/RFQ packages is appropriate.

(a) Discussion: Our process for ensuring Bid/RFP packages are properly secured is as follows:

1) All Bid/RFP packages when received are time-stamped, checked to ensure the packages are adequately secured according to the requirements stated in the bid document.

2) All Bid/RFP packages logged into the department on a "Bid Log Sheet" located within the department and if small enough are placed in a locked bid box.

a. Bid/RFP packages that are too large to fit in the locked bid box are taken to a secured area and locked in a room. The secured area requires a passkey to enter, a key to gain access to the room and this area is also monitored by a security camera.

Note: The key for the bid box is locked in a separate area.

(b) Discussion: Contract Specialist with key to bid room.

The integrity and trust of the staff and supervisors is the cornerstone of public procurement. Annually, all members of the Department of Procurement Services are required to sign a "Confidentiality Statement and Conflict of Interest" form. Also, Ethics Training is provided to Procurement staff.

Additionally, during the audit process, we attempted to gain clarity on the issue as described by the Auditor. Initially, the staff auditor who observed the condition informed us of one incident. We discovered through discussion with the staff auditor and DPS staff that the incident in question occurred after business hours, when the DPS suite is automatically locked. The staff auditor gained access from DPS Staff, and made the observation at that time. It was not until the exit meeting or the meeting before the exit meeting, that we were informed of the second incident that occurred on the proposed same day. We have no confirmation of this occurrence.

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
5	<i>Review spending by commodity code annually in order to identify opportunities for entering into contracts for better pricing.</i>	N	Please see message below.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
			<p>It is evident that we are taking advantage of strategic sourcing/volume purchasing, since more 86% of the spend for the City is under contract. Examples: The condition description listed in this area leads one to believe that of the 14% decentralized spend; there is an opportunity to secure contracts. However, this is not accurate because the 14% includes non-departmental items such as (GRTC, Richmond Ambulance Authority, Richmond Behavioral Health and other non-departmental transactions.)</p> <p>We need to consider a number of factors as we review decentralized/exempt items for strategic sourcing/volume purchasing opportunities; - analyze how to align the item with the overarching goals for the organization, - consider how the volume purchase item will impact the MBE/ESB business community and other relevant factors.</p>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
6	<i>Enforce the policy related to conducting a fair market analysis, timeliness of processing emergency purchases, and posting the intent to award emergency purchases on the City's website.</i>	N	Please see message below.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
			<p>No because, the current Emergency Policy guidelines are too stringent. We verified this as a result of benchmarking our Emergency Policy against other governmental entities. Our current practice of processing emergency procurement request is in alignment with other governmental agencies. Therefore, we are updating our emergency policy to codify industry best practice methods to ensure that emergency request are processed by securing reasonable backup documentation in reasonable timeframes. Goint forward, we will document the file if we deviate from the current policy.</p>