Audit Report Number 2008-04
City of Richmond
Audit of Procurement Services and
Accounts Payable Section, Department
of Finance
February 2008

CONTENTS

CITY OF RICHMOND
CITY AUDITOR

Executive Summary

February 4, 2008

The Honorable Members of City Council
Richmond City Audit Committee
City of Richmond, Virginia 23219

The City Auditor's Office has completed an audit of the Procurement Department and the Accounts Payable Division of the Finance Department. The audit was conducted in accordance with the Generally Accepted Government Auditing Standards. The overall objective of this audit was to evaluate whether procurement and disbursement activity was:

- o for authorized transactions,
- o in accordance with governing laws, rules and policies,
- o supported by appropriate documentation,
- o transacted using responsible, reliable and legitimate vendors, and
- o processed in the most effective and efficient manner.

The audit identified the following areas where there is a potential opportunity to save a substantial amount of public resources.

Category	Recurring?	Projected Savings
Consolidating purchases for like commodity codes	Y	Undetermined but substantial
Use of "eVA"	Y	$5,100,000
Offset of debt owed to the City	Y	$200,000
Duplicate payments	Y	Undetermined but substantial
Vendor discounts	Y	Undetermined but substantial
Reduction in checks issued	Y	$300,000
Use of ACH instead of certain checks	Y	Undetermined but substantial
Total (Annual)		**$ 5,600,000+**

Introduction

Traditionally, procurement and accounts payable functions are targets for fraudulent activity. According to the Association of Fraud Examiners, 71.4% of the total number of instances of occupational fraud committed involved billing, expense reimbursement, check tampering and wire transfer frauds.

In 2003, the City of Richmond suffered a major breach of trust that resulted in a loss of over $1 million. This fraud occurred due to weakness of controls in the procurement and accounts payable areas. It is not unreasonable for stakeholders to expect strong internal controls in Accounts Payable and Procurement, especially when the City has experienced a significant fraud in the recent past. Also, large amounts of City resources are vulnerable to potential fraudulent activity.

How much resources are vulnerable to the risk of fraud?

In FY 2007, the City spent $325 million for procuring goods and services. This is a significant amount compared to the City's annual, non-payroll expenditures. During the 21-month audit period, the Accounts Payable section prepared checks in the amount of $462 million, wire transfers in the amount of $1.3 billion and ACH transactions in the amount of $90 million. All these amounts represent the outlay of a significant amount of public resources. The existence and effectiveness of proper controls over these cash outlays are of utmost importance.

Does the City have adequate controls to mitigate the risk?

The City Auditor's Office had conducted three audits on the accounts payable and procurement procedures prior to this audit. In retrospect, all of the audits were issued during the time in which a major, yet undetected fraud was being perpetrated by a City employee. The recommendations made in these audits, if implemented, would have improved controls to prevent any future fraud. Addressing these issues was very critical and prudent for mitigation of significant risks the City faced. However, it appears that both Finance and Procurement Department management have not taken adequate actions to address these issues and left the City vulnerable for the risks of embezzlement.

Auditors found that internal controls in Procurement Services and Accounts Payable can be improved to maintain proper accountability. During this audit, the auditors had the following salient findings:

- Audit tests revealed several issues with the procurement of goods and services. These instances represent not only non-compliance with City policies but are also possible violations of contractual obligations as well as poor business decisions. Again, these observations were limited by the auditors' ability to retrieve manual documentation.

Due to lack of proper data, a more comprehensive study of overall compliance with policies and regulations, and lost opportunities for consolidating purchases for the purposes of volume discounts could not be performed. This is a significant inadequacy. This deficiency prevents proper monitoring of compliance with policies and regulations unless extensive manual efforts are invested. Some of the issues are listed as follows:

o   Almost $300,000 of purchase order activity during the audit period had a matching commodity code to an existing City contract. This may be a violation of contractual obligations.
o   Unauthorized change orders to the construction contracts ranged between 3% and 30% of the contract value for the selected contracts.
o   Audit tests revealed that for 83% of the selected purchase orders, the goods and services were ordered prior to establishing a purchase order, creating an unauthorized commitment.
o   There were examples of City departments using blanket purchase orders to circumvent requirements of obtaining appropriate numbers of quotes and bids.

- Improper use of the emergency or sole source (only practical source) purchase process could result in circumventing existing controls and procurement may be made in violation of procurement laws and regulations, which may lead to unfavorable pricing or abuse. The following are the pertinent observations in this area:

o   Procurement Services management indicated that the department did not have any method in place to reasonably track and identify the activity that used the emergency and only practical source (sole source) purchases.
o   Procurement Services provided a list of 38 emergency transactions in which the City procured $49 million or 15% of total citywide procurements. Further testing confirmed that this list was neither accurate nor complete.
o   The issue becomes substantial when the management personnel on whom the City relies to identify noncompliance, participate in acts of noncompliance. The auditors identified at least two such examples.
o   The City Auditor's Office observed that Procurement Services signed off on all of the aforementioned emergency and sole source transactions, even though the justification sometimes appeared to be weak and, in some cases, not supported with proper pricing information.

The inability of Procurement Services personnel to enforce procedures or regulations increases the risk of fraud, waste and abuse of taxpayer funds. In addition, this situation facilitates circumstances where corrupt practices are possible. This is a serious issue and a lax attitude would allow undesirable outcomes.

- City Administration implemented the Richmond Supply Schedule (RSS) in order to simplify the procurement process for small, recurring purchases. This model appears too cumbersome and relevant only to a large organization like the federal government. It appears that the current pilot project, if expanded to include the majority of City procurements, may have an adverse impact on employee productivity.

  Audit research identified an automated tool called eVA offered by the Commonwealth of Virginia virtually <u>free of cost.</u> It allows approximately 32,000 vendors to compete for business with about 663 state and local government agencies. To date, spending through this tool is estimated to be $13.8 billion and Virginia taxpayers have saved an average of over $218 million since the inception of the program.

  Audit tests indicate that the use of eVA for selected supplies would save 17% of the purchase price over the City's utmost best efforts to obtain the lowest price using the Richmond Supply Schedule. Based on state averages, the estimated savings for the City through the use of eVA would be approximately **$5.1 million**. This type of potential cannot be ignored. Besides cost savings, improved accountability and reduced potential for fraud and corruption are other reasons that merit implementation of eVA.

- One of Procurement Services' critical functions is to ensure that the City does business with responsible, reliable and legitimate vendors. Auditors found that the City does not have any mechanism for precluding state and federally debarred vendors after conviction for violation of antitrust laws and unethical behavior. The vendors could also be debarred for fraud or for demonstrating a lack of business integrity or honesty. Obviously, the City must not deal with debarred vendors as a matter of prudent business practice.

- There is a lack of supervisory review of the vendor data input, changes and deletions. Staff can add, change and delete vendors without any supporting documentation. This is a major weakness in the internal controls over the procurement process. Auditors found a 55% error rate in input of vendor data in the selected cases. The above weaknesses create an ideal environment for fraud as they represent:

  - control weaknesses related to access to the system,
  - the ability to create a vendor account, and
  - a potential for generating or preparing documentation for payment.

- To be an effective control process, there must be an adequate segregation of duties between the personnel entering the purchase order data, receiving data, and invoice data. During audit tests, some employees appeared to have the ability to enter all of the above information leading to risk of abuse.

- An audit conducted in 2002 had identified an opportunity to seek early payment discounts. However, the City does not have a policy or process to request early payment discount terms during price negotiations. Early payment discounts represent a significant opportunity for cutting costs. For example, a vendor's offer of a 2% discount for a payment made within 10 days from the date of the invoice will yield the City a 36% annual return. The City receives a return on its investment of approximately 5% annually.

- Batching checks and eliminating some of the checks written for less than $100 and batching the checks rather than issuing them every day would reduce 34% of the Accounts Payable workload. Some of these payments can be made using petty cash or ACH transactions, which may result in cost savings estimated at approximately $300,000.

- Positive pay is a feature offered by any bank to its commercial account holders. The bank compares the checks tendered for payment against an electronic record of checks issued by an entity. If there is no match, the check is not honored by the bank, which prevents the cashing of an unauthorized check. This is a very common practice adopted by both the public and the private sectors.

  The City of Richmond has been denying taking advantage of this feature for the past six years. The Finance Department could not explain the reason for the delay in the use of this feature. This fact accompanied by the delays in preparing bank reconciliations may result in making the City resources vulnerable to loss.

- Controls related to blank check stock and security features of the checks used by the City need improvement as follows:

  o Auditors observed that the manual checks were stored in a safe that <u>was left open during the day.</u>
  o Access to both manual checks and the signatory stamp is available to staff monitoring the front desk. This combination represents a significant weakness in controls that can result in substantial loss.
  o The City has only seven security features of the fifteen available features on its laser-printed checks and only six security features on its manual check stock. Ideally, the check stock must have all fifteen features to be appropriately secured.

- Currently, the controls in the financial system that could identify duplicate payments are being circumvented. Audit tests identified several duplicate payments totaling $43,000. In addition, auditors identified <u>34,000 invoices</u> that had <u>no entry in the invoice number field</u>. These invoices totaled approximately **$100 million**. Duplicate payments in these entries will not be identified by the computer system. No other verification is being made to determine duplicate payments in these entries.

- The current, antiquated version of the City's Advantage Financial system has limited vendor support, limitations in its capabilities, and is not well integrated. A major breakdown of the system would result in significant adverse impact on the City's financial transactions processing.

The City Auditor's office appreciates the cooperation of the Procurement Services and Accounts Payable staff. A written response from the Accounts Payable and Procurement Services management is included in this report. Please contact the City Auditor, if you have a question or comments related to this report.

Umesh Dalal, CPA, CIA, CA, CIG
City Auditor

Comprehensive List of Recommendations

Introduction, Objectives and Methodology

Introduction

The City Auditor's Office has completed an operational audit of the Procurement and Accounts Payable functions for the 21 months ended March 31, 2007 for the City of Richmond. Simultaneously, the City Auditor's Office performed a similar audit for the Richmond Public Schools (RPS). Additionally, there will be a study of whether the City and RPS' Procurement and Accounts Payable functions could be consolidated into one operating unit. The RPS audit report will succeed issuance of this audit report.

Management responsibility

The management of the City of Richmond is responsible for maintaining relevant records and maintaining a system of internal accounting and management controls. In fulfilling this responsibility, management is required to assess the expected benefits and related costs of the control procedures.

Objectives and methodology

The overall objective of this audit was to evaluate whether procurement and disbursement activities were:

- for authorized transactions,
- in accordance with governing laws, rules and policies,
- supported by appropriate documentation,
- transacted using responsible, reliable and legitimate vendors, and
- processed in the most effective and efficient manner.

Auditors performed the following procedures to complete this audit:

- interviewed management and staff

- surveyed user departments

- reviewed and evaluated relevant policies and procedures

- reviewed and analyzed financial data

- analyzed trends by user agencies

The audit was conducted in accordance with Generally Accepted Government Auditing Standards. The audit procedures provided a reasonable basis for conclusions regarding the internal control structure and recommendations.

Although checks, purchase orders and vendor registration documents issued by the Department of Social Services (DSS) were included in any random testing that the auditors performed on a citywide level, the scope of this audit did not include a review of that department's system controls (Harmony system) and related program internal controls. An independent accounting firm was procured by the Finance Department to perform a review of the DSS Accounts Payable operations. That report was issued in August 2007.

Significance of procurement and accounts payable functions

Procurement and accounts payable functions are very critical to City operations. Besides payroll, procurement of goods and services is the largest expenditure for the City. In FY 2007, the City spent $325 million on the procurement of goods and services.

This represents approximately 57% of the total general fund budget as depicted in the following chart:

(In Millions)
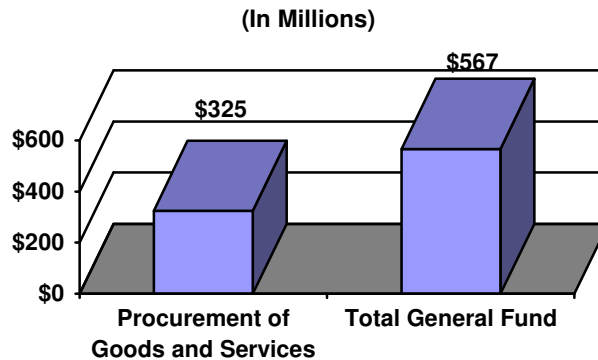
Source: City Council Adopted Amended Budget FY2006-FY2007

The accounts payable function consists of processing payments for procurement and other payments such as debt payment. During the audit period, approximately $1.9 billion in payments were processed by this function.

Significant City resources may be vulnerable to abuse

Due to the magnitude of resources used by these functions, the presence of proper internal controls is crucial. Nationwide, these functions have often been targeted by individuals committing fraud against their employers. According to the Association of Certified Fraud Examiners, a typical organization loses 5% of its annual revenues to occupational fraud. Accordingly, for the City of Richmond, 5% of total revenue of approximately $1.3 billion (equating to $65 million) may be subjected to these threats. To put it into perspective, these vulnerabilities could equate to 32% of property taxes or 92% of the Police Department's General Fund budget.

In 2006, 71.4% of the total number of instances of occupational fraud committed involved the following:

Majority of occupational fraud occurs in the accounts payable and procurement areas

Category	Description	% of Cases	Median Loss /Occurrence
Billing	Any scheme in which a person causes his or her employer to issue a payment by submitting invoices for fictitious goods or services, inflated invoices or invoices for personal purchases.	28.3%	$130,000
Expenses Reimbursement	Any scheme in which an employee makes a claim for reimbursement of fictitious or inflated business expenses.	19.5%	$25,000
Check Tampering	Any scheme in which a person steals his or her employer's funds by forging or altering a check on one of the organization's bank accounts, or steals a check the organization has legitimately issued to another payee.	17.1%	$120,000
Wire Transfers	Any scheme in which a person steals his or her employer's funds by fraudulently wire transferring them out of the employer's bank accounts.	6.5%	$500,000
	Total Vulnerability	**71.4%**	

City must have proper controls over procurement and accounts payable

Obviously, having proper checks and balances is very important for the City. Existence and appropriateness of internal controls in these areas can only be verified through examination of records and electronic data. The City Auditor's Office conducted a variety of tests to evaluate effectiveness of controls, which is discussed subsequently in this report.

Prior Audit Recommendations

The City Auditor's Office had conducted three audits on the accounts payable and procurement procedures prior to this audit. In retrospect, all of the audits were issued during the time in which a major, yet undetected fraud was being perpetrated by a City employee. The recommendations made in these audits, if implemented, would have improved controls to prevent any future fraud. Addressing these issues was very critical and prudent for mitigation of significant risks the City faced. However, it appears that both Finance and Procurement Department management have not taken adequate actions to address these issues and left the City vulnerable for the risks of embezzlement.

The following are the audit recommendations from prior audits completed in FY 2002, FY 2003 and FY 2004:

- Maintain adequate data to calculate performance results.
- Implement a vendor offset program (MAJOR)
- Perform a more in-depth search for debarred vendors. (MAJOR)

- Adopt a policy to provide guidance regarding vendors who have defaulted.

- Develop controls for the vendor input process.

- Remove and prevent unnecessary duplication of vendor files.

- Reinforce the use of original invoices.

- Establish a policy to ensure that invoice numbers are individually keyed into the system.

- Investigate the feasibility of eliminating multiple master files for a single vendor.

One of the above recommendations related to offsetting vendor debts to the City against the amount owed to them was implemented by management. During follow-up of this recommendation it was revealed that the City had saved $224,000. However, recently, management discontinued offsetting debts owed by vendors against the balance due to them citing administrative difficulties. As discussed elsewhere in the report, the other recommendations listed above have not been effectively implemented. This inattentiveness leads to the perception that the City is not serious about pursuing the employment of all available means to improve its efficiency and effectiveness.

The above issues are re-evaluated in this report.

Procurement Function:

Background, Observations and Recommendations

Background

Procurement Services emerged as a City agency in the early 1990's when the Department of General Services was abolished and procurement was decentralized. The primary roles of Procurement Services are to:

(a) purchase or lease all supplies, materials, equipment, and services,

(b) assist City departments and agencies in the development of standard specifications and in contract administration, and

(c) dispose of surplus property.

In addition, Procurement Services establishes vendor relations and seeks minority participation on procurement activity.

Procurement workload indicators

Procurement Services reported processing over 14,000 transactions for goods and services worth over $282 million during FY 2006. FY 2007 activity increased to approximately 15,600 transactions, worth over $325 million, as shown below:

Trend of Procurements ('000)
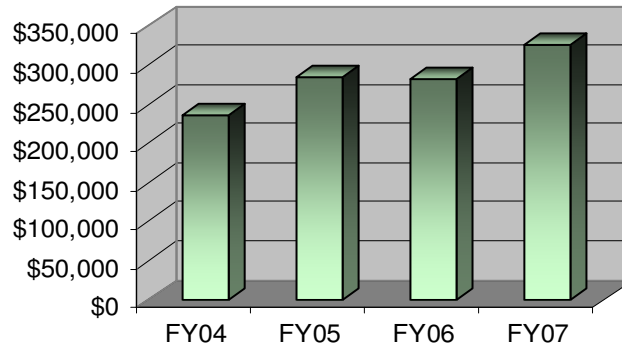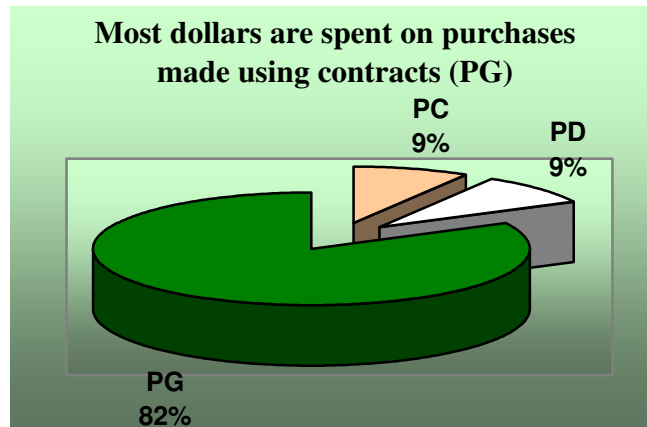
Note: A "PC" is a purchase document generated by the Procurement staff; a "PD" is a purchase order created by departments and a "PG" is a contract-based purchase order.

The aggregate amount of the transactions initiated by City agencies, representing the majority of all transactions, is relatively low. Conversely, a relatively small number of transactions initiated by Procurement Services result in the bulk of the amount spent on the purchase of goods and services.

Leadership

Strong leadership in procurement could instill accountability across the City

Since FY 2005, several different employees have assumed the role of Director of Procurement, in either a permanent capacity or at an interim level. Overall, this department has lacked strong leadership and continuity for some time prior to the employment of the current director. The current director has only been with the City since January 2007. Procurement management needs to change the mind-set and instill accountability in the City procurement process. To effect this change, Procurement needs the full, unwavering support of top management to ensure that City procurement policies and all applicable laws will be complied with uniformly at all levels and by all departments, without exception. In addition, this function must be protected from political and other influences that in any way may impact its integrity.

One of the immediate changes to the unit that the City's new Procurement Director implemented was to shift and realign the procurement function into three distinctive units as follows:

```
                    ┌─────────────────────┐
                    │                     │
                    │ Procurement Director│
                    │                     │
                    └─────────────────────┘
                              │
                    ┌─────────────────────┐
                    │      Contract       │
                    │    Administrator    │
                    └─────────────────────┘
                              │
        ┌─────────────────────┼─────────────────────┐
┌───────────────┐   ┌───────────────────┐   ┌───────────────┐
│Commodities Team│  │    Design and     │   │ Services Team │
│               │   │ Construction Team │   │               │
└───────────────┘   └───────────────────┘   └───────────────┘
```
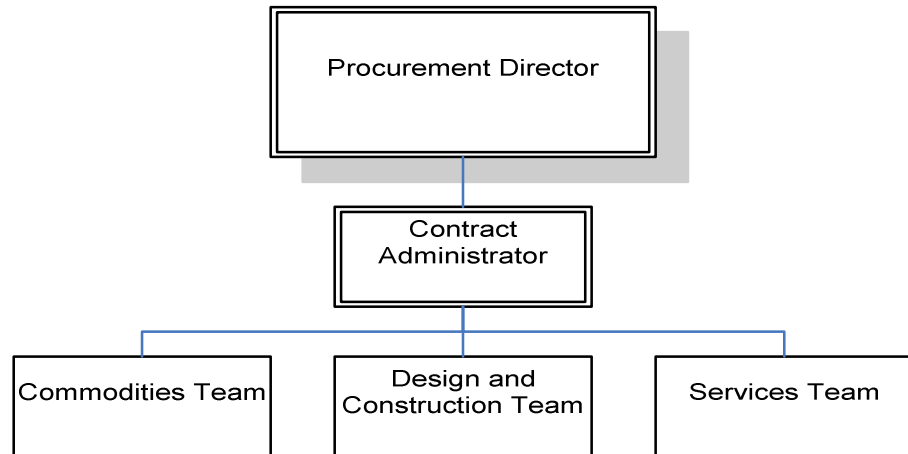
The restructuring is intended to refocus the efforts of the group and to help provide efficiencies. The Procurement Director has also indicated there is a need for a job study in order to review the job descriptions and reclassify employees into job titles and descriptions to reflect a centralized procurement department.

Procurement survey

Overall, users' satisfaction with the procurement process reflects a need for improvement as shown below:

Accessibility to procurement services and staff qualifications appear to be major concerns of users
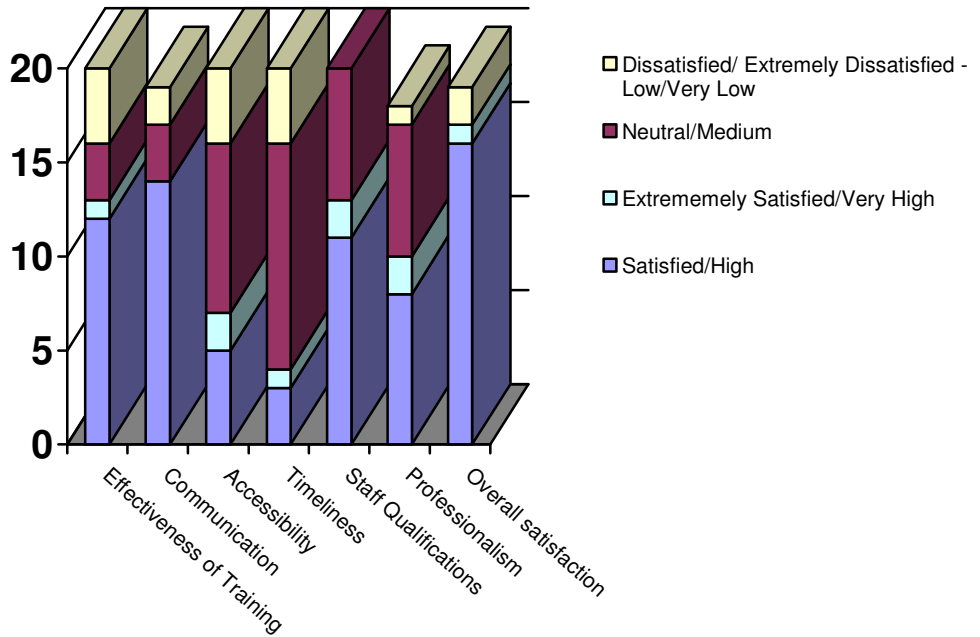
The following issues appear to concern the users:

- Ongoing training is needed for both new and existing users.
- The timeliness of the procurement activity and accessibility to procurement services needs improvement.
- There is need for clear and concise directions for agencies.

Benchmarking with other localities

Auditors sent benchmarking questionnaires to the procurement departments of several different localities with populations similar to the City of Richmond, Virginia. The results are summarized as follows:

Compared to other cities, Richmond needs to improve staff training

Procurement Feature	Does Richmond City compare?
Procurement Structure The organization of procurement functions were mixed, with some centralized and some decentralized with limited amounts at the discretion of the agencies.	Richmond procurement is decentralized
Overall Procurement Staffing ranged as follows: Newport News, VA (population of 182,000): 9 buyers Orlando, FL (population of 199,000) 8-9 buyers Scottsdale, AZ (population of 218,000) 13 buyers Using ICMA 2006 Data, the range of buyer FTE's in the procurement department for Cities ranging in populations between 170,000 and 220,000 was between 1.5 and 11.3 for centralized, decentralized and a combination of both	Richmond's Population =194,000 est. Yes, 11 buyers
Training of City Staff: Scottsdale and Newport News appeared to have the superior program, as follows: Scottsdale: bi-annual training; quarterly meetings Newport News: monthly employee training is offered	No, Procurement's training program needs improvement
Career Path: Newport News, Virginia, Orlando, Florida, and Scottsdale, Arizona indicated that there was an enhanced career path available to Procurement staff.	No, a career path has not been identified

Compliance Issues

Importance of compliance requirements

Various federal, state and local statutes emphasize adherence to rules and regulations designed to promote fair procurement practices. These statutes discourage favoritism, corruption and misuse of government resources. The governmental organizations that have appropriate internal controls and comply with the statutes have assurance of proper use of resources for the government's operations in addition to fairness in their procurement system. Likewise, the City of Richmond has regulations that promote fair procurement. These regulations require obtaining quotes or bids depending upon the amount or type of the procurement. Specific criteria are prescribed to define formal bid activities, purchase order requirements, emergency and sole source purchases. Non-compliance of these regulations could result in misuse of resources.

Procurement statutes discourage favoritism, corruption and misuse of public resources

Test of compliance with procurement policies

Auditors tested many different internal control attributes to ensure City agencies procured items in accordance with City policies and the agencies submitted expenses for properly authorized, accurate and complete transactions. Additionally, in accordance with auditing standards, the auditors analyzed transactions for apparent abuse or circumvention of specific policies, laws and regulations. The results are presented below.

Documentation

Auditors reviewed contract files and observed several weaknesses in Procurement's documentation and compliance process. The Auditors

coordinated a due-diligence review of the procurement files with the Procurement Director to evaluate procedural issues. A limited review indicated that Procurement Services generally documented compliance with internal procedures with the following exceptions, with which the Procurement Director has agreed.

Contract file documentation was adequate with some exceptions

Reference Check Procedures

In some cases, it was unclear if reference checks were being done consistently as required by Procurement Services policies. Not performing a reference check could result in hiring an unqualified vendor or contractor to the detriment of the City. The vendor's or contractor's inability to provide desired goods and services or an unfavorable experience with them may not be identified, causing the potential for losses and legal costs.

Advertisements

Documentation of the procurement advertisement required by procurement laws and policies was not consistently included in the contract file. However, upon request, evidence of the advertisement was provided.

Recommendations:

1. *Establish procedures including appropriate checklists that ensure consistency and completeness within Procurement contract files.*

2. *Develop monitoring procedures to ensure that Procurement regulations are known, communicated and followed.*

Cumulative purchases exceeding $50,000

Audit analysis found that the City spent over $9 million in FY 2006 and over $22 million during FY 2007 on purchases of commodities exceeding the $50,000 threshold for bidding requirements. Auditors attempted to verify compliance and to quantify any non-compliance noticed during the test. However, due to the inadequacy of computerized data, it was not possible to identify the City's spending on a group of similar commodities that can be procured through one contract. Limited, manual review identified three out of the selected

Inadequacy of procurement data prevents proper monitoring of compliance and taking advantage of economy of scale

30 different vendors had similar commodity codes[1] to existing contracts. This means that the selected agencies could have negotiated prices and received volume discounts. If this information were available on a citywide basis, the City would benefit significantly from volume discounts.

Due to lack of proper use of commodity codes, a more comprehensive study of lost opportunities could not be performed. This is a significant shortcoming from management's perspective. This deficiency prevents proper monitoring unless extensive manual efforts are invested. Auditors found that, in the past, Procurement Services did not perform any citywide analysis or review to identify non-compliance or opportunities to procure volume discounts on bulk purchases of commodities.

---

[1] A commodity code helps to identify the type of service or commodity. Commodity codes are standardized so that they can be compared.

In some instances, formal bids were not obtained as required

It was necessary to manually retrieve physical documentation to verify compliance with bidding requirements. The auditors could only review the purchase order activity at the agency level. Auditors observed at least nine instances in FY 2006 where formal bids were not invited for procurement exceeding $50,000. On a citywide level, there may have been additional lost opportunities.

The City should have used existing contractors for purchases of at least $300,000 but did not

Audit tests revealed that even though a contract existed for discounted prices on a certain commodity, the City purchased the commodity from other vendors. Almost $300,000 of purchase order activity during the audit period had a matching commodity code to an existing City contract. These instances represent not only non-compliance with the City policies but are also a possible violation of contractual obligations and represent a poor business decision. Again, these observations are limited by the auditors' ability to retrieve manual documentation. It is not possible to quantify these occurrences on a citywide basis.

During the audit, the Procurement Director indicated that staff had begun to review purchases by commodity code to determine opportunities for contractual agreements. According to the Procurement Director, beginning in FY 2008, his staff will review agencies' procurement activity on a monthly basis. Procurement staff will have an opportunity to review activity by agency and by commodity code to analyze whether the agencies are following procedures and obtaining the best prices for the City. Additionally, auditors were informed that Procurement Services has become more

proactive in meeting with the agencies beforehand to determine their needs. Once the needs are established and the procurement activity is analyzed, decisions can be made as to the level of activity and the best course of action for the City.

Recommendation:

3. *Review current commodity codes and make appropriate changes in order to group similar items that can be purchased using a single contract.*

Contract extensions

Auditors generated a contract listing that showed 41 different contracts that were extended at least five times without inviting bids. There was no process in place to determine whether the City was maximizing competition by limiting the contract terms to a reasonable period. As such, the Procurement director will need to develop a process to analyze the renewal periods on existing contracts and ensure that reasonable renewal periods are established.

Recommendation:

4. *Develop a process to determine reasonableness of contract renewals.*

Construction contracts

The City spends several million dollars annually on construction contracts. Inviting bids for construction activity is an involved process. Significant time and effort is invested in developing the scope and specifications of the project and in compiling requests for bids. The City policy requires selection of the lowest bid presented by a responsive vendor. For construction contracts, unknown factors sometimes require additional work during the project. Generally, a

Change orders are legally binding contractual documents that must be negotiated and approved prior to beginning the additional work

change order is prepared to negotiate the cost of additional work. Typically, change orders can occur for the following reasons:

- Conditions that are unknown or unforeseen at the time of bid invitation;

- Changes in original scope of the project due to the City making alterations during construction that modify the project; or

- Errors and omissions in the original specifications, usually caused by the City's contracted architect or engineer, that are not noticed until the construction is underway.

Change orders are legally binding contractual documents that must be negotiated and approved prior to beginning the additional work. Given that change orders provide a mechanism for avoiding disruptions, proper controls need to be in place to prevent unnecessary losses. If City staff has not been diligent when preparing the bid request, a contractor anticipating additional work could submit a low bid for the contract with the hope of negotiating anticipated change orders at a higher price.

During contract file review, the auditors found at least six unauthorized change orders

Auditors reviewed construction change orders to ensure that construction work was commenced after the proper approvals were obtained. There is risk that unauthorized work could lead to unfavorable legal ramifications for the City. During the audit review the auditors identified at least six unauthorized change orders. Ideally, there should not be any unauthorized change orders. This observation indicates that the City does not have an appropriate mechanism to prevent unauthorized work. Due to the magnitude of resources spent

on construction contracts, lack of controls can be damaging to the City and result in unwarranted losses.

Change orders may only be processed after approval from the Department Director and Procurement Services. Any change order processed without proper approval is considered unauthorized and not binding to the City. Auditors observed that several project managers in the Department of Public Works allowed contractors to complete additional unauthorized work and subsequently prepared change orders for approval. These actions constituted unauthorized commitments involving verbal changes to the scope of work. The range of the unauthorized commitments identified during this audit fell between 3% and 30% of the contract values and totaled almost $235,000.

The Public Works Department's position is that field inspectors and project managers are not authorized to commit the City to contract scope modifications. However, they exceeded their authority as identified in selected files. It did not appear that these employees' actions put the City in the difficult situation of paying for unauthorized work without any opportunity for negotiation. This situation could be abused by City employees for personal gain.

Unauthorized commitments violate City Code and also circumvent established Procurement Services policies and procedures designed to ensure compliance with the requirements of City Code. It appears that, with proper planning, change orders can be prepared and

approved in accordance with City policy without impacting the project time schedule significantly. Auditors also observed that change orders are not explicit enough to help management understand why the changes are needed. Certain categories such as "Unforeseen", "Error in Design" and "Additional Request" should be included on the form.

The Acting Procurement Director circumvented City policy when she approved a change order

The City Auditor's Office is already investigating possible unethical conduct involved in a construction contract this year. In this case, the City's project manager may not have acted in the best interests of the City. Despite having a City policy to limit change orders to 25% of the contract price, the acting Procurement Director at the time circumvented this policy and approved a change order in the amount equal to 100% of the contract price. According to City policies, the City should have invited bids for the additional work. This means that the City's procurement officer helped avoid bidding requirements and violated the City policies and regulations. This is a serious control deficiency that can lead to corruption and unethical practices that will not be detected. This is because the employees who are an integral part of the mechanism that is supposed to detect and prevent irregularities are participating in carrying out irregularities. This investigation has been handed over to the U. S. Attorney's office for further work.

Recommendations:

5. *Review the change order process, including:*
   - *Proper documentation justifying a need for change order;*
   - *Documentation of cost estimate and basis for computing the cost estimate;*

- *Documentation of supervisory review and approval prior to commencing the work, and*
- *A certification statement by the project manager and his/her supervisor related to the need for additional work.*

6. *Provide training to the project managers and inspectors to enforce the importance of change order procedures.*

7. *Ensure that the City has a process to evaluate each renewal of a contract with Procurement Services' participation and evaluation.*

Compliance with Procurement Procedures - Purchase Orders

There was a general trend of ordering goods and services *prior to* establishing a purchase order, creating an "**unauthorized commitment.**" Auditors tested 63 different purchase orders, consisting of 28 different vendors and eight different agencies. The table below shows the extent of the unauthorized commitments:

83% of selected purchase orders were prepared after goods or services were ordered

Description	Total Audit Sample	Not in compliance	Compliant
Number of purchase orders	63	54 (83%)	9
Number of different agencies	8	6 (75%)	2
Total invoices that represented unauthorized commitments	--	**171**	--

Written quotes

City agencies are required to obtain three written quotes (including one quote from a minority vendor), if the purchase is over $5,000. Auditors selected a sample of purchases that required three written quotes. Out of 16 different audit requests for evidence of the three written quotes, information on 5 of the requests could not be provided to the auditors. Four of these requests, totaling $118,000, were from the Fire Department.

Blanket purchase orders

"Blanket purchase orders" are a tool to expedite smaller purchases (usually at or under $5,000) and reduce the paperwork to enhance employee productivity. The agency must select the vendor in compliance with the procurement policies and regulations and issue a purchase order for an estimated amount. According to procurement policy #14, City agencies cannot use a blanket purchase order and then continue to order the same type of supplies within a 90 day period.

Auditors observed the extensive use of blanket purchase orders. A blanket purchase order is usually set up at an even amount, such as $1,000 or $5,000 and does not include line-item descriptions of the purchase activity. The blanket purchase order is used to make a series of smaller purchases until the entire balance has been eliminated.

Additionally, while blanket purchase orders are supposed to be set up for repeat or miscellaneous supply items from a single vendor totaling no more than $5,000, they were also used as a method to circumvent the procurement process. If an agency repeatedly uses blanket purchase orders to avoid obtaining quotes and formal bids, it can lead to purchasing significant amounts of goods and services from a vendor of the employee's choice in violation of policies and regulations.

During the audit testing, auditors were told by a Fire Department employee responsible for purchasing goods that he used a blanket purchase order and when he was about to exceed the threshold of $5,000, he issued another blanket purchase order. Auditor's observed that most blanket purchase orders were for $5,000 each.

Use of blanket purchase orders needs to be monitored to assure compliance with City policies and regulations

Audit analysis revealed 716 transactions worth approximately $3.6 million that were issued at the $5,000 threshold, above which would have required additional quotes. Furthermore, of the 716 transactions, 204 transactions (29%) represented a pattern of 5 or more blanket purchase orders being issued to one vendor during each fiscal year within the audit period.

It should be noted that the above observations were based on scanning the database for blanket purchase orders exactly at $5,000. However, there may be several different combinations of dollar amounts that can ultimately exceed the additional quotes and bidding requirements. It was not possible for auditors to identify the magnitude of violations using this method. If an agency exceeds dollar limits that require formal quotes or bids without proper compliance, Procurement Services must enforce the relevant regulations and policies.

Procurement employees process blanket purchase orders without detecting cumulative purchases from a single vendor

This observation indicates that Procurement Services is not effective in monitoring blanket purchase order activity. Procurement personnel sign off on all purchase transactions over $5,000 without a process to monitor and detect cumulative purchases from a single vendor or for a single commodity class. Accordingly, it was not possible for them to identify possible noncompliance with the City's procurement policies. This lack of a "check and balance" mechanism could not only lead to non-compliance but also result in lost opportunities for obtaining better pricing by combining purchases on a citywide basis.

Split purchase transactions

Procurement staff needs to monitor small purchases to prevent split purchases

Purchasing a commodity or service in smaller increments rather than one larger purchase to meet City's need, solely to avoid requesting additional quotes, is called a "split purchase." Usually, this method is used to either to avoid additional work or offer business to a vendor of the employee's choice. Auditors observed that the Fire Department's employee responsible for procuring the goods for the agency appeared to split transactions since the items were the same, ordered from the same place and for the same unit/division, with only a few days between the orders. During an interview, the employee informed the auditors that his job was to procure goods as quickly as possible. Therefore, this employee intentionally split orders to keep the activity below $5,000. Auditors discussed the activity with the agency's management, who disagreed with the employee's rationale. The Fire Chief emphasized the Fire Department's commitment to comply with all policies and procedures of the City. They have now developed an internal procurement policy that will ensure proper compliance.

Written requirements

The Fire Department and the Parks and Recreation department did not follow existing procedures for using a *written* purchase requisition form. The City's standardized purchase form includes an authorization signature *prior* to the actual procurement of the item. Without a written requisition form, there is no written trail of the authorization process at the agency level. Additionally, there was a lack of segregation of duties in the Fire Department because the same employee purchasing the items was also responsible for paying the invoices. Fire Department management met with the City Auditor's

Office and indicated that they have instituted procedures that comply with policy. The Fire Department has also hired additional staff in order to separate duties, monitor compliance and follow policy.

Training

Procurement Department does not have a formal training plan program

As discussed previously in this report, the Procurement Services staff was not able to identify noncompliance with City policies. Lack of appropriate training may be one of the reasons for these occurrences. Auditors also found that Procurement Services does not have a program to train City staff. Recently, the department provided training on the new Procurement Toolkit and Reform Measures. However, it appears that basic training about examination and verification of documents is necessary.

Recommendations

8. *Require procurement staff to ensure that:*
   - *Goods and services are ordered only after approval of purchase orders as required by City policies.*
   - *Departments and agencies have three written quotes for purchases between $5,000 and $50,000.*
   - *Use of blanket purchase orders is properly monitored to assure compliance with City policies and regulations.*
   - *Small purchases are monitored to prevent split purchases.*

9. *Provide periodic training related to procurement issues to City staff.*

Emergency procurements

According to the City Code section 74-43, "An emergency shall be deemed to exist when the Director (Procurement Director) determines that (1) a breakdown or failure of machinery or other equipment has occurred; (2) a curtailment, diminution or termination of an essential

City Code defines specific situations under which the Director of Procurement can make a determination as to an emergency

service is threatened; or (3) a dangerous condition has developed and that a procurement without recourse to competitive sealed bidding or competitive negotiation is (i) needed to prevent loss of life or property; (ii) essential to protect and preserve the interests of the City and its inhabitants; (iii) needed to maintain the proper functioning of the City government; or (iv) needed to maintain the efficient rendering of public services."

A policy for procurements in an emergency situation must include verification of at least the following information:

- Why the services are needed.
- How it is justified as an emergency.
- How the pricing is deemed to be reasonable and fair under the circumstances.

As apparent from the above description, the emergency purchase must be made during an extremely critical situation where lack of immediate action will result in:

- loss of life or property,
- the interests of the City will be compromised,
- the City will stop functioning properly, or
- public service delivery will be impacted.

Procurement Services management indicated that the department did not have any method in place to identify goods or services procured under the emergency and sole source exemption. Therefore, there is no way to know the magnitude or the nature of these types of

purchases and evaluate the appropriateness of the use of the exemption.

Procurement Services provided a list of emergency purchases that was neither accurate nor complete

Procurement Services provided a list of 38 emergency transactions in which the City procured $49 million or 15% of total citywide procurements. Since Procurement Services does not have an effective mechanism to identify emergency purchases within the City's database, further testing confirmed that this list was neither accurate nor complete. Without being able to identify emergency procurements, the compliance with the policy and appropriateness of using the process could not be assured. Three items on the list were incorrectly labeled as emergency transactions and there were several duplicates on the list. Additionally, over the course of the audit, other emergency procurements surfaced that were not on this listing.

Improper use of the emergency or sole source purchase process could result in circumventing existing controls

Improper use of the emergency or sole source purchase process could result in circumventing existing controls, and procurement may be made in violation of procurement laws and regulations. Procurement could be made without obtaining an adequate number of bids which may lead to unfavorable pricing or abuse.

Based on a cursory review of the list provided by Procurement Services, auditors selected 23 files totaling $43.2 million to determine if there was a violation of the policies and procurement statutes. Of the 23 items, auditors were satisfied with the appropriateness of procurement of 16 items as depicted in the following table:

Selection	Date	Description	Amount	Reason	Emergency?
1	8/12/06	Truck Scale	$52,249	Damaged by lightning in July 2006	Yes[a]
2	9/15/06	Basin Cleaning	$100,000	Cleaning Service in Shockoe Bottom	Yes[b]
3	10/27/06	Communication System	$42,693	Wireless headphone system for EOC	No[c]
4	12/13/06	Design and Construction	$56,400	Repairs for structural water damage	Yes[a]
5	1/30/07	Consulting Services	$9,940	Management audit for Seven Hills	No[d]
6	2/7/07	Consulting Services	$147,000	Establishment of new performance management system	No[e]
7	3/2/07	Consulting Services	$43,200	Review of Schools	No[e]
8	3/2/07	Consulting Services	$269,074	Audit of the Assessor's Office	No[e]
9	3/2/07	Consulting Services	$224,217	Audit of Richmond Public Schools	No[e]
10	3/14/07	Services	$6,500	Support for Senior Center	No[f]
11 through 23	Various	Design and Construction activities for Battery Park and Shockoe Bottom	$42,302,998	Emergency procurements to address the drainage issues from Tropical Storm Ernesto	Yes[b]

a Safety Issue
b Due to the continued flooding, the City used practical methods to procure these firms associated with the Battery Park and Shockoe Bottom activity.

c   Not an emergency. The need was identified during the Tropical Storm Ernesto in September 2006. Based upon the document dates, the agency sat on the quote for thirty days before submitting the request to Procurement.

d   Not an emergency. The audit was needed as a result of repeat deficiencies in the quality of care. This is a failure to use reasonable due diligence and foresight in anticipating requirements. Further, the work started before the emergency request was submitted.

e   Not a real emergency because it was not a breakdown of essential machinery, a threat resulting in curtailment, diminution or termination of an essential service or a dangerous condition existed. The delays due to following proper procurement procedures would not have resulted in conditions such as the City's inability to prevent loss of life or property, protecting and preserving the interests of the City and its inhabitants. There appeared to be no existence of a dangerous condition that can threaten proper functioning of the City government or maintaining of the efficient rendering of public services. Following proper procurement procedures merely might have delayed actions to the next budget period.

f   Not an emergency. This was justified as a payment to help with community support to reopen the senior center. However, the senior center had already been closed for eight months. Additionally, there was no information provided to Procurement to justify exactly what the funds would be used for.

Testing also revealed that two of the above files did not have a quote to support the fairness and reasonableness of the emergency pricing since there was no detailed description of the items to be purchased. Finally, item number five (5) in the chart above was considered to be an ***unauthorized commitment*** since the documentation in the procurement file showed the agency's consideration of how to "procure" the activity appeared to be an after-thought.

The issue becomes substantial when the management personnel on whom the City relies to identify noncompliance or use of improper judgment in its decision making, participate in acts of noncompliance. The auditors identified two such examples:

Procurement Department participated in emergency purchases that did not appear to be emergencies in accordance with the City Code

1. The contract for the new performance management system (item 6 in the table included earlier in this section) was obtained as an emergency procurement. During 2007, the Procurement Services Director was assigned responsibility for managing the Fleet Services Division. For the purposes of operational improvements in the Fleet Services, it was determined that inventory management, functionality of MCMS system, and a review of its policies and procedures were needed. The weaknesses in these areas were known to various levels of management including executive management for several years. Subsequently, despite one Procurement staff member's objection, the additional work was performed under the existing "emergency" contract. This appears to be an abuse of the emergency purchase policy. Procurement Services was responsible for wrongfully using an emergency contract to address several other non-emergencies. This act of Procurement Services circumvented the bidding and other procurement requirements. This abuse would have never been identified but for this audit, as Procurement Services should have been acting as a "control mechanism."

2. The foregoing list of emergency purchases included three contracts (Items 7, 8 and 9) with two different vendors for audits of the Assessor's Office and the Richmond School System that were procured as emergency purchases because the audits needed to be completed before the City's budgetary cycle began. This reason was not consistent with the definition of an emergency situation in the City Code. The Procurement Director prepared documentation

for these contracts as emergency procurements with the knowledge of the Acting Chief Administrative Officer.

Sole source procurement

Procurement Policy #22 defines "Only Practical Source Procurement." It indicates that, while there may be numerous sources from which to purchase an item or service, there is only one source that is practical. The agency's requirement is to complete the sole source form and submit it to Procurement Services with detailed and specific documentation as to why the procurement should qualify as an "only practical source." Procurement is required to review the justification and specifications for completeness and determine through market analysis if the item or service is, in fact, available from only one practical source. Generally, these types of procurements include a direct purchase from a manufacturer or an upgrade to existing software.

The existing procedure for sole source justification is vague and open for misuse. The term "the only practical source" is not clear. The current form simply includes one question pertaining to the basis for vendor selection and allows very limited space for the agency's justification description. A review of Procurement Services' list indicated that several items designated as sole source purchases could have been purchased using the normal procurement process. By allowing the departments to make sole source purchases for these items, Procurement Services may have facilitated the circumvention of obtaining proper bids.

Procurement Services' list of sole source purchases was neither accurate nor complete. Some of the files did not include market analysis to confirm unavailability of other sources.

Overall, Procurement was only able to isolate and list 51 transactions, totaling $3 million during FY 2007 (through March 2007) that were recorded as sole source activity. Auditors noted that the listing was neither accurate nor complete. Some of the items listed were not sole source and during the fieldwork activities auditors observed sole source activity that was not on the listing. Auditors selected eight files, totaling $1 million and reviewed them for general compliance with documentation requirements. Fifty percent of the files did not include a quote from the vendor, nor did they include Procurement's required market analysis documentation pursuant to policy. Auditors concluded that the justification process could be enhanced in order to increase the City's accountability for not applying competitive procurement activities.

Using a sole source purchase to deliberately procure services which are widely available commercially defeats the very purpose of procurement laws and regulations. Sole source purchases are appropriate only in limited circumstances when essential goods and services cannot be obtained from any vendor other than a single provider. However, using this process indiscriminately could allow a City employee to select his or her favorite vendor for any personal or professional reason. In this circumstance, gross abuse of the City resources may not be detected or corrected in a timely manner leading to a loss to the City.

Given the significance and propensity for abuse of the sole source procurement process, the City of Richmond could benefit from a more comprehensive strategy based on the following questions:

- Does proper justification (convenience is not a justification) exist for a sole source purchase?

- What unique features or capabilities does the product or service offer the City that is restricted to a particular supplier?

- Why are these unique features or characteristics essential to meet the City's needs?

- What are the consequences of not purchasing the goods/services from a particular supplier?

- What research has been done to ensure that no other source is capable of fulfilling the requirement? List other products tested or used that were deemed unacceptable.

- What is the basis for determining if the price offered is fair and reasonable? Is this information properly documented?

- What steps are being taken to foster competition in the future purchases of this product or service?

- Will this purchase commit the City to this particular vendor for future purchases?

- Has the City performed the reasonable credit analysis to evaluate the risk of adopting proprietary technology that may cease if the vendor becomes insolvent?

Requiring Procurement Services and other City departments to be more accountable is critical for assuring that the use of resources is for

intended purposes and in the best interest of the City. Since the possibility exists that Procurement Services may be subjected to peer or political pressures, an independent review of sole source and emergency purchases appears to be necessary.

The Procurement Services Director issued a revision to the Policies and Procedures Manual, dated June 20, 2007, which incorporated revised language to both the emergency and sole source requirements. This policy has not been completely implemented; therefore the City Auditor's Office has not evaluated it.

Recommendations:

10. *Review and revise both the Emergency Procurement and the Sole Source Procurement policies and procedures to assure proper accountability based on valid justification.*

11. *The City Council needs to consider reviewing all sole source/only practical source and emergency purchases over predetermined amounts to assure appropriateness.*

Procurement Efficiency and Effectiveness

Introduction

During the audit period, the City issued 29,867 purchase orders. Of these, 22,732 purchase orders (76%) were issued for transactions valued at less than or equal to $5,000 each. The information is depicted in the following chart:
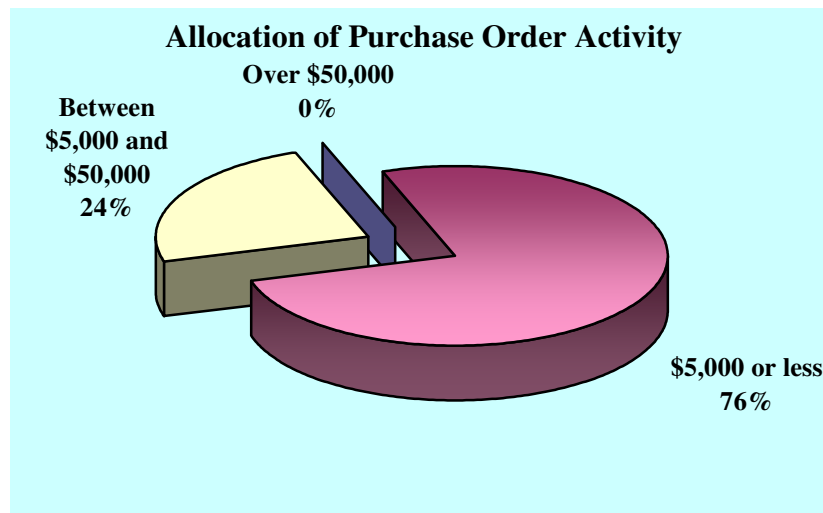
Currently, all procurement transactions for $5,000 or less are handled by City department personnel with minimal involvement of Procurement Services. As shown above, the majority of the purchase orders are being processed in a decentralized manner.

Previous small purchase practice

The previous practice and the agencies' responsibilities for procuring office supplies are shown below:

Steps	Procedure
Determine if a contract exists for the commodity	Search Procurement Website for contracts by commodity
Complete purchase order for existing contract	Take citywide pre-negotiated discount and apply to catalog prices

This was a relatively simple process. City employees were expected to purchase needed commodity or services at pre-negotiated prices from a few contracted vendors. No further negotiation was necessary. Recently, the City replaced this procurement model with the Richmond Supply Schedule program described as follows:

Procurement Reform and Richmond Supply Schedule

City Administration implemented the Richmond Supply Schedule (RSS) in order to simplify the procurement process for small, recurring purchases. RSS was modeled after the Federal Government's GSA Supply Schedule.

This model is suitable for a large organization such as the federal government

This model requires City agencies to procure the needed commodity or service from selected vendors. City personnel are allowed to negotiate with the select group of vendors to obtain further discounts from their catalogue prices. This is done to induce further competition amongst these vendors. However, it appears that some of the burden of negotiating prices may have shifted from the Procurement Department to users. This does not seem to be an ideal solution as the professional buyers' role may have been partially assumed by administrative assistants.

Shifting the burden of negotiating prices to users rather than professional buyers does not appear to be appropriate

Starting in August 2007, the Richmond Supply Schedule incorporated several different vendors with a particular commodity and provided City agencies with a larger selection of vendors for the procurement of goods and services. Phase one of the program included office supplies. Nine vendors were chosen for this commodity.

Auditors tested the benefits of this model by soliciting written quotes for selected office supplies and comparing it with published, negotiated catalog prices. Five different vendors were selected for the same supplies, catalog prices were obtained and then vendors were contacted for additional negotiations through facsimile. The following table shows the differences between the City's discounted price and the actual written quotation:

Vendor	Catalog Price based upon City Discount	Quotation for the Same Order	Savings
#1	$175.99	$169.49	$6.50 (4%)
#2	$186.36	$179.43	$6.93 (4%)
#3	$189.70	$175.85	$13.85 (7%)
#4	$221.14	$203.46	$17.68 (8%)
#5	$235.88	$170.30	$65.58 (28%)

Vendors anticipating further negotiation do not have the incentive to offer their best prices in their catalogues

As shown above, the additional step to obtain a written quote above and beyond the discounted catalog price resulted in savings ranging from 4 percent to 28 percent over catalog prices.

In theory, the above model appears to be effective. However, since the vendors have knowledge of the possibility of further discounting their prices, they may inflate the catalog prices. Based on the above table it appears that the catalog prices in some of the above cases were overstated. For example, vendor #5 has a catalog price 34% more

expensive than that of vendor #1. It may be possible to get better pricing from a vendor by offering them an exclusive contract.

Cost of lost productivity is not taken into account when computing the benefit of the program

Since the staff is required to obtain quotes from at least three vendors, additional efforts are incurred in obtaining quotes. The cost of lost productivity is not accounted for in computing the benefit of this program. The lost productivity could represent a sizable overhead cost. Depending upon the size of the agency, this overhead could vary. However, the true test of the cost effectiveness of this program can only be measured if the prices obtained by the above method plus the relevant lost productivity costs are compared to the prices in an exclusive contract for the commodity.

This program, if expanded, may have significant adverse impact on employee productivity

Currently, RSS is implemented primarily for office supplies. In the future, when the program is expanded, it may have a significant impact on staff productivity. In such an event, the program may lose its effectiveness. This program appears to be suitable for a very large organization such as the federal government where dedicated staff perform procurement activity and the benefit generated by the volume of procurement may justify the extra efforts.

Recommendations:

12. *Evaluate the total costs (product costs and lost productivity costs) of using RSS and compare it with prices negotiated in an exclusive contract.*

13. *Compare the outcome of the above analysis of RSS with the outcome of the alternate method (eVA) described in the following section.*

Other options for efficiency in the procurement process

An electronic procurement solution is available from the state virtually free of cost

Use of eVA will allow the City the benefit of a much larger economy of scale

"eVA"

Audit research identified that an automated tool already exists that can accomplish more functionalities than RSS and can be implemented immediately. This tool called "eVA" (a web-based purchasing system) is offered by the Commonwealth of Virginia and is available to the City of Richmond virtually <u>free of cost</u>. Generally, there would be a significant cost to acquire such an e-commerce tool. Therefore, the Commonwealth's offer is very beneficial to the City. In addition, this appears to be a mature program. The City does not have to go through implementation and the related software "debug" issues.

The Commonwealth of Virginia uses a government-to-business e-commerce tool that automates and streamlines Virginia's government purchasing. eVA is managed by the Commonwealth's e-Procurement Bureau within the Department of General Services.

eVA fosters competition, thereby reducing overall purchasing costs to the locality. Approximately 32,000 vendors compete for about 663 state and local government agencies. To date, spending through this tool is estimated to be $13.8 billion. "eVA" is used by about 12,000 buyers, and extends adequate incentives to vendors to offer their best possible prices to stay competitive. State officials claim that Virginia taxpayers have saved an average of over $218 million since the inception of the program by reducing the prices of most purchases.

eVA provides a streamlined, efficient and economical procurement system since purchasing professionals use a single, web-based point of access that seamlessly links them to a supplier community. Buyers can view centrally posted statewide contracts and shop from hundreds of online catalogs. Buyers have access to convenient pricing tools to aid them in careful management of taxpayer funds.

eVA may provide better efficiency, accountability and cost-effectiveness

Auditors compared the eVA process with the Richmond Supply Schedule process in terms of efficiency, accountability and cost-effectiveness. The auditors concluded that eVA is more efficient due to its automated process; is more accountable due to significantly increased competition for the City's business that leaves little or no room for favoritism; has more reliable data due to the electronic storage of transactions, and is more cost-effective due to actual savings that the auditors observed in a sample transactions as follows:

Auditors selected 50 different office supply items that are frequently purchased by City staff. Auditors used the Richmond Supply Schedule to obtain "fax-back quotes" from four of the City's vendors. Auditors then used eVA for the same supplies and obtained quotes from 18 different vendors. The 50 items were broken up into manageable lots and quotes were requested using the electronic bid system. The following table summarizes the audit analysis:

Audit testing determined eVA provided a 17% savings over the best prices obtained through the City's model

Purchase No.	eVA Low Bid	Richmond Supply Schedule Low Bid	Difference	Percentage Savings
#1	$162.42	$195.09	$32.67	17%
#2	$380.25	$555.45	$175.20	32%
#3	$794.57	$931.54	$136.97	15%
#4	$958.15	$1,161.15	$203.00	17%
#5	$1,355.38	$1,530.19	$174.81	11%
#6	$1,088.36	$1,313.80	$225.44	17%
Total	**$4,739.13**	**$5,687.22**	**$948.09**	**17%**

eVA has the potential to save about $5.1 million dollars over the City's model

As mentioned above, a total of 18 different vendors participated in the eVA bid process, allowing for greater competition and better prices overall. The above observations indicate that the use of eVA for selected supplies would save 17% of the purchase price over the City's utmost best efforts to obtain the lowest price using the Richmond Supply Schedule. Based on state averages, the estimated savings for the City through the use of eVA would be approximately $5.1 million. This type of potential cannot be ignored.

This tool is versatile and can be customized to use the rules and regulations of the user organization. eVA buyers reach over 30% of small, women and minority businesses (SWAM), more than through traditional purchasing methods. According to the state representatives, buyers receive an increased number of bids for purchases under $50,000 through eVA, and eVA also increases the number of publicly posted bid opportunities by 67%.

From the City's perspective, eVA could help manage the procurement activity in a more efficient manner than the manual, labor-intensive activities that are currently in place. eVA allows data entry with the capability of data retrieval without the time and energy of copying data, creating spreadsheets or forms and faxing information back and forth to vendors.

eVA as an internal control tool

eVA can handle the specific controls that the City has outlined in its Procurement Guidelines. A number of local governments, including Henrico County, City of Norfolk and Fairfax County take advantage of this tool. Norfolk has utilized this feature and has posted its own Procurement Guidelines on the eVA system for contractors and bidders to access. Additionally, eVA can also be established to set up the following types of "triggers:"

eVA can be customized to monitor purchases using the City's policy

- commodity code limitations
- dollar amount thresholds
- email notification of activity

Auditors met with the eVA program representatives. The representatives did not see any significant operational challenges that would prevent the City from using eVA on a citywide basis. In fact, the representatives indicated that most likely, many of the vendors that currently do business with the City are already registered on eVA. There is also an outreach program to help with the transition for the smaller vendors in the future. Furthermore, eVA has its own vendor

verification process that includes better procedures than those currently existing within the City.

Conclusion

At the City of Richmond, the traditional procurement system has limited effectiveness due to the lack of monitoring and discipline exercised to adhere to Procurement policies by the City agencies. Inadequate enforcement compounds the problem. The Richmond Supply Schedule selects a limited number of vendors and forces agencies to obtain quotes from among these vendors. The process appears to be paper intensive and inefficient. As the program is expanded, it may require significantly more administrative time. In addition, this program depends upon the departments to have the discipline to verify compliance with the requirements and Procurement Services to enforce it. Like the traditional procurement system, paper intensive systems take a large amount of monitoring resources. Their effectiveness may reduce over time.

An automated tool such as eVA has significant advantages over both of the above models. More salient benefits are listed as follows:

1. It enforces procurement policies in every transaction as the rules are defined in the automated system. This may eliminate the potential misuse of the system.

2. eVA exposes the City to 32,000 vendors compared to only a few selected by management. This creates a significant potential for cost savings.

3. The program reduces paper, along with providing an opportunity to store valid electronic data for management use.

4. eVA brings the procurement function superior technology by reducing the existing manual inefficiencies allowing personnel to pay more attention to monitoring and negotiating.

5. eVA maintains the vendor database to add new vendors and drop those vendors who since have been debarred. Qualification review includes a verification procedure using outside credit agencies. The increased use of eVA-approved vendors reduces the City's risk of using unqualified vendors.

6. This system will allow Procurement Services personnel to focus their efforts on exceptions, thus improving the effectiveness of monitoring procedures.

Implementation

The City Department of Information Technology did not participate in meetings with eVA citing possible incompatibility with an ERP system that the City may purchase in the future

The City of Richmond was the first local government to sign up for eVA in 2005. The information technology requirements were also met at that time by establishing a batch interface with eVA to export orders to the City's current financial system. However, since that time, there has been almost no activity on eVA. On more than one occasion the auditors attempted to arrange meetings with the City Department of Information Technology (DIT) concerning eVA including one to meet with the State eVA technical and procurement teams to evaluate the possibility of using this system. However, DIT did not participate in these meetings. The City's reluctance appears to stem from the fact that it is contemplating procurement of a new enterprise research planning (ERP) computer system. However, the auditors found that eVA is already in use with several popular ERP systems. In addition, eVA makes data available in a format that can be used by any modern system.

eVA is already in use with several popular ERP systems

eVA can also be used as a stand alone system, as it is being used by Henrico County. Very limited data entry from procurements made through eVA is being entered in Henrico County's financial system. The County has plans to fully automate the system but it is taking a conservative, phased approach. Richmond can also adopt a similar approach. Auditors recognize that this method would involve minimal duplication. However, the aforementioned benefits outweigh the additional efforts.

Recommendation:

14. Implement eVA as the main procurement system within the City.

Assistance from the Department of Information Technology

In an effort to standardize computer hardware and software throughout the City, Procurement's policy requires that all purchases of computer hardware and computer software be coordinated with the Department of Information Technology (DIT). The policy ensures that new equipment will be in accordance with the expectations and needs of the buyer and in compliance with the City's plans for the future. Such a strategy also decreases the risk of acquiring incompatible systems that create new inefficiencies.

Auditors observed that 37% of the purchase orders that were sent to DIT were not approved within the targeted 72-hour-turnaround time. Auditors reviewed a sample of the delayed purchase orders and found that bottlenecks were occurring at several different phases:

- Delays occurred with documents awaiting approval in the system prior to DIT's involvement

- Delays occurred within DIT's routing process

- Delays occurred due to agencies' lack of understanding of the process, lack of proper supporting documentation and lack of proper approvals

Procurement Services misconstrued DIT's role to be a monitoring mechanism for policy compliance

Auditors learned that the Procurement staff had misunderstood DIT's role in hardware and software purchases. Procurement was under the assumption that DIT staff was reviewing the appropriateness of the procurement method. In reality, DIT staff perceived their role was to assure consistency in hardware and software purchases. They were not responsible for reviewing any financial aspect of the purchase nor were they responsible for monitoring the method of the procurement. For example, DIT would not research to determine if a contract was already in place and if the agency was using the correct form to procure the items. As a result of the miscommunication, there could be risk of inappropriate procurement activity that has gone unnoticed.

Recommendations:

15. *Determine the responsibilities between Procurement and DIT relative to the approval of the procurement method for IT related transactions.*

16. *Review the existing approval process in DIT for IT related procurements and streamline it to prevent unnecessary delays.*

Who is the City doing business with?

One of Procurement's critical functions is to ensure that the City does business with responsible, reliable and legitimate vendors. Auditors reviewed the internal controls surrounding the process for identifying and entering vendors into the City's database systems. A prior audit (Audit Report #2004-02) had identified weaknesses in the vendor data files and recommendations were provided to the Department of Finance and Procurement Services at that time.

Debarred vendors

The federal and state procurement offices sometimes "debar" vendors from contracting with them. Traditionally, debarment occurs after such vendors are convicted for violation of antitrust laws and unethical behavior. The vendors could also be debarred for a civil judgment against them for fraud or demonstrating a lack of business integrity or honesty. Obviously, the City must not deal with debarred vendors as a matter of prudent business practice.

The City does not have a mechanism to prevent vendors convicted for violation of antitrust laws and unethical behavior from doing business with the City

Currently, the Procurement staff could not provide any evidence that a verification procedure was performed to determine if the vendor was debarred by the state or federal governments prior to adding the vendor into the vendor database. This means that the City could be doing business with vendors that have exhibited unethical behavior in the past. During audit tests, the auditors noticed at least one vendor that performed services and received payment from the City while the vendor was debarred by the state.

The City does not have an in-depth vendor performance evaluation process

The City does not have an in-depth vendor performance evaluation process. The departments administering vendor contracts are not required to report any in-depth information about the adequacy of vendor performance to Procurement Services. The risk triggered by this situation is that a poor or marginally performing vendor may not be identified. Due to inaction of City personnel, the contract with these vendors may be renewed. In addition, other City departments may use an underperforming vendor already used by one department and thus compound the problem. Procurement has advised that there is an on-going focus group attempting to enhance the vendor performance reporting procedures to address this situation. It is easier to implement a citywide program to debar vendors based upon performance when contracts are well written, policies and procedures are concise, and proper investigations of vendor behavior are conducted.

Debt owed to the City

The City does not have an automated process in place to identify payments to vendors who are delinquent in paying taxes or charges for City services. According to a Finance report provided to the auditors, as of May 1, 2007, there were 7,564 delinquent accounts for Business Personal Property taxes alone, amounting to approximately $3.9 million. There is no way for auditors to confirm whether any of these vendors were allowed to do business with the City and receive payments. Auditors found several instances whereby a vendor was provided a refund even though the vendor owed delinquent Business Personal Property Taxes. According to City Charter, Section 8.03, it is well within the rights of the City to withhold or offset these payments.

Even though, the City had saved $224,000 by offsetting vendor debts owed to the City against payments due, the City discontinued the process citing its manual nature

During a previous "vendor file" audit in 2002, auditors performed a manual search for payments to vendors that were delinquent with business personal property taxes and found that over $100,000 was paid to vendors that met the criteria. After the 2002 audit was performed, the City implemented a manual process to try to put a procedure in place to correct the issue. As a result of this recommendation, the City saved approximately $224,000. However, the manual nature of the process was not efficient and it was recently discontinued. Failure to find a solution to this problem promotes ongoing waste and abuse of taxpayer funds. Automating this process could result in substantial savings.

The Department of Finance has responded and has indicated that there are two projects on the horizon that aim to fix this issue:

- Vehicle Registration Withholding (VRW) Program
- Implementation of the MUNIS revenue system

In addition, the City began focusing on outsourcing delinquent personal property accounts to a collection attorney's office. Also, in November 2006, Procurement Services implemented a manual procedure to research the winning bidder of any City proposal (prior to the award of the contract) to determine whether taxes were delinquent. However, this procedure only applies to the winning bidder.

Recommendations:

> *17. Revisit implementation of prior audit recommendations and ensure that the control weaknesses identified in the previous audits have been properly addressed.*
>
> *18. Establish procedures to review vendors against the federal and state listing of debarred vendors prior to registering the vendor.*
>
> *19. Continue to work towards an automated system in order to implement a process for identifying vendors that owe the City delinquent taxes.*
>
> *20. Continue with the focus group efforts to develop an enhanced vendor performance process.*

Vendor data

Auditors observed weaknesses in the input of vendor data into the City's system as follows:

Supervisory review of the vendor data input, changes and deletions is lacking

- There is a lack of supervisory review of the vendor data input, changes and deletions. Auditors found no evidence of efforts to perform a due-diligence review on the data input. Staff can add, change and delete vendors without any supporting documentation. This is a major weakness in the internal controls over the procurement process. This weakness could contribute to establishing vendor accounts that can be used for fraudulent purposes. As discussed earlier in this report, the ability to add non-genuine vendor accounts represents a significant vulnerability.

- Finance has one staff person that has access to input and change vendor information. If Procurement has ownership of the process, there should be no other agency entering this data. This affects the

accountability in the process. Additionally, vendor registration forms accumulated by Finance are not forwarded to Procurement to keep on file with the rest of the City's vendor forms.

The Finance Department allows one of its employees to alter the vendor data and have access to electronic fund transfer capability constituting a major risk

However, of more significance, is the fact that the Finance person capable of adding or changing vendor data also has access to the City's electronic funds transfer program. Essentially, the City is exposed to a significant risk that a fraudulent vendor account can be created and sent an electronic payment for goods and services not received by the City without being detected in a timely manner.

Controls over vendor data input needs improvement

- Auditors also reviewed the access controls within the Department of Social Services' vendor registration process (the Harmony system is interfaced with the City's financial system) and observed that all 284 users of the Harmony database have access to add new vendors. As already noted above, this is a significant control weakness. There should be segregation of duties between the users of the system who input invoice information and users of the system who enter vendor data.

- There is a lack of coordination and communication between departments. Auditors found reports showing vendor changes by the Finance Department that were not communicated to Procurement Services. These types of occurrences may prevent identification of unauthorized changes.

- The Procurement employee currently responsible for vendor input was never provided complete instructions for the job function. This employee was not trained to compare authorized signatures on registration forms to the City's authorized signature listings. Additionally, this staff person stated she was never provided the City's formal Vendor Naming Standards that explain the formatting rules for entering vendor information into the database. This may result in the addition of vendor names inconsistently, resulting in a potential for duplicate payments.

How weak is the vendor registration process?

In an effort to determine the seriousness of the above weaknesses, auditors tested Procurement's vendor input process. The responsibility for the vendor database was transferred from the Finance Department to Procurement Services as of July 2006. This appears to be an action that further weakened controls. Once Procurement took over the database, there were no procedures established to ensure the database was accurate and complete. Furthermore, there was no monitoring of database changes since the transition took place.

The auditors selected 71 transactions that required either a change or addition to the vendor database. Auditors selected the following attributes for testing purposes:

- Was the transaction supported by a properly authorized Vendor Registration form? (If the transaction is established internally, there are specific authorization requirements.)
- Was a federal W-9 form, including pertinent information relative to the vendor, attached?

- Was there supporting documentation to show the vendor information was verified where applicable?

- Was the City's financial system properly coded for 1099 information? (The 1099 information flags the tax status of the vendor and could cause IRS issues for the City if coded incorrectly.)

- Was the Taxpayer Identification Number (TIN) keyed properly into the database?

- Did the full name and address match between the supporting documentation and the City's vendor database?

- Did staff properly input the information based upon existing City "naming input standards?"

High error rate indicates lack of training

Out of the selected 71 transactions, Procurement staff could not provide information about five transactions. This means that the Procurement staff does not know if these five vendors were legitimate. These five transactions are not included in the table below, which summarizes the error rates that were observed by the auditors:

Description	Error Rate
Properly authorized vendor registration form	**12%**
Evidence of proper verification procedures	**55%**
Properly coded 1099 information into the City's database	**10%**
Properly coded TIN information	**6%**
Name and address comparison	**10%**
Vendor name and address agrees with City Input Standards	**21%**

Overall Error Rate (at least one error in each transaction)	55%

There is no verification of legitimacy of vendors, resulting in possible misuse

As the table above shows, the lack of training, supervision and monitoring of employees who input critical data for the City has resulted in an overall error rate of 55% in the existing vendor input process. More importantly, even if there were no errors, there is no verification to ensure that the vendor is a bona fide entity. The use of outside credit reports like Dun and Bradstreet would help ensure that all vendors are entered into the database only by their correct legal name, regardless of the information on the W-9 or vendor registration statement.

What are the risks to the city if the vendor registration process is weak?

In addition to the challenges of having a vendor database with inaccurate data and errors in names, addresses and taxpayer identification numbers, changes and/or additions to the database without proper authorization can increase the risk that fraudulent vendors can be added to the City's system. Once the vendor is in the system, it could facilitate a fraudulent transaction wherein a payment can be made for services never rendered or goods never received. The absence of strong verification procedures also increases the risk that two different vendor numbers may be assigned to one vendor, which increases the risk of duplicate payments.

Once the vendor is in the system, a payment can be made for services never rendered or goods never received

In the relatively recent past, the City has experienced significant breaches of trust and abuse of the procurement process. During this incident, the City suffered a sizable loss exceeding $1 million due to

It appears that the City is still vulnerable to the risk of fraud as it was prior to the 2003 fraud by a former City Manager's employee

abuse of the weaknesses within the process. It does not appear that the City has succeeded in making all the changes in the procedures to prevent a future occurrence of theft. The current system may be nearly as vulnerable as it was just prior to suffering the foregoing loss. It appears that the City Administration needs to focus its efforts on strengthening controls over the procurement process.

Auditors researched best practices that should be in place to properly manage vendor activities and have indicated if the City has adequate procedures:

Best Practice	Established by the City?
Verify the name, address and federal identification number to another source	Yes, but not adequate
Confirmation by phone to the new supplier using a phone number obtained from an external directory	No
Utilize a 3rd party for verification of vendor activities, such as Dun and Bradstreet	No
Verify that the vendor is not on the state or federal listing of debarred vendors	No evidence was provided
Run a credit report; evaluate solvency	No
Ensure contractors have a valid contractors license with the Department of Professional and Occupational Regulations	Yes, but only the winning bidder
Require Performance Bonds and Payment Bonds on contracts	Yes, at a specified threshold
Match supplier addresses to employee addresses and research, accordingly	No

In addition to the above observations, auditors found that City procedures have the following inadequacies:

City procedures for review and use of W-9 form submitted by vendors is inadequate

- Procurement Services does not perform an in-depth vendor verification process while inputting information related to vendors from the W-9 into the City's vendor database. There are not enough procedures in place to verify authenticity, good standing, or liquidity of vendors. In addition, bankruptcies, outstanding liens, lawsuits and judgments against the vendors need to be researched.

- The City's policy does not require a signed W-9 when changes to existing vendor information are requested either by the agency or directly by the vendor.

- According to City policy, changes to vendor names and addresses are not required to be supported by an updated, signed W-9. Additionally, a signed W-9 without verification isn't worth much if the signature is not legible. Relying on emails, illegible signatures and other communication to change existing vendor information could lead to inaccuracies and inappropriate changes.

The City encourages open registration to vendors that want to do business with the City. This is an acceptable practice as long as the City can verify that the vendor is a bona fide, responsible vendor. If the City does not perform adequate due diligence reviews in its background check procedures, the City could be subjected to the risk described above. The observations above show that the City has this increased risk as a result of weakness in their practices.

The above weaknesses create an ideal environment for fraud as they represent:

- *Control weaknesses related to access to the system*

- *Ability to create a vendor account*

- *Potential for generating or preparing documentation for payment*

Recommendations:

21. *Segregate duties between the buyers, the employee making vendor database changes and the employees reviewing them.*

22. *Require periodic reviews of the vendor database in order to ensure compliance with management policies.*

23. *Centralize the function of vendor database update and maintenance in Procurement Services. Discontinue vendor database updates currently conducted by Finance.*

24. *Implement a procedure for Procurement staff to verify the validity of approvals using the authorized signature listings prior to the input of a new vendor.*

25. *Work with Finance to obtain a daily vendor change report that shows all vendor file activities and verify appropriateness of changes.*

26. *Establish appropriate practices to verify various vendor attributes such as authenticity, good standing, liquidity, etc. using third party services.*

Database clean-up

As already mentioned, Procurement has been responsible for maintaining the City's vendor database since July 2006. Prior to that, the Finance Compliance Audit Unit had ownership of the database. Even though vendor names are required to remain in the database for

five years, according to state code, maintenance is still allowed. The City's vendor database shows the signs of neglect over the last few years.

Vendor database has numerous duplicate entries leading to the potential for duplicate payments

Auditors observed vendors that appeared to have duplicate names in the vendor purchase order activity. Auditors observed this trend within the FY 2006 and FY 2007 activities. Auditors observed 184 different vendors that appeared to have duplicate names in the database in the FY 2007 activity. These items appear to represent vendors' names that were input incorrectly or entered even though there was a vendor already on file.

The chart below illustrates the types of duplications, exactly as typed in the system:

Vendor name	Potential Duplicate
Applied Concept Inc	Applied Concepts Inc
BMG Metals Inc	BMG, Metals, Inc.
Business Form Speciality, Inc.	Business Forms Specialty
Channing Bete Co inc	Channing L. Bete Co Inc
Doli Boiler Safety	Doli/Boiler Safety

There were also vendors listed with a name of "Do Not Use." The risks of not having an accurate vendor database include:

- An increased risk of checks being issued to the wrong vendor.

- Internal agencies placing orders using both names and circumventing the dollar thresholds to avoid a formal bid process.

- Confusion by internal agency staff responsible for processing agency activity. An increased risk of duplicate payments processed and sent to a vendor.

All of the problems above ultimately affect the efficiency and effectiveness of the City's operations.

Recommendation:

27. ***Develop procedures to review the vendor database to eliminate duplicates, errors and incorrect entries.***

Conflict of Interest/Code of Ethics

All City officers and employees involved in procurement transactions and contract administration are required to follow ethics rules located in the Procurement Code, the Code of Virginia and City regulations. These codes and regulations help to reduce the risk of prohibited activities such as kickbacks, solicitation or acceptance of gifts, or acceptance of employment with any bidder, offeror or contractor.

None of the procurement officers/employees, including the Director, had a current Certification Form on record

In order to ensure that all employees of Procurement Services comply with the above limitations, the procurement policies require that each Procurement Officer and employee sign a "Code of Ethics" Certification Form each fiscal year that certifies his/her compliance with ethical provisions. The Certification Form specifically requires the officer or employee to agree that:

- the employee acknowledges that all violations of City Code will be reported;

- the officer or employee will disqualify himself/herself from the evaluation of any vendor or bid/proposal if there is knowledge that may provide any benefit to one vendor over another;

- the officer or employee will not disclose any proprietary solicitation information outside of the evaluation/selection process; and

- the officer or employee will disclose any personal and/or pecuniary interest(s) by himself/herself or any member of the immediate family in firms doing business with the City of Richmond.

As shown above, the statements are important in order to assure accountability in the City's procurement function.

Auditors reviewed Procurement's files and observed that none of the thirteen officers/employees, including the Director, had a current Certification Form on record. The form had not been circulated since October 2004.

Recommendation:

28. *Establish an annual Code of Ethics/Conflict of Interest certification process in order to comply with existing regulations.*

Staffing issues

Currently, the job descriptions are generic and do not support a career path with distinct levels of advancement. Additionally, Procurement

Services is strategizing for a procurement liaison program which would offer additional training for employees in order to enhance the skill levels for a more effective procurement function.

What are the challenges in staffing?

As with many City agencies, Procurement is facing challenges with retaining staff and recruiting qualified staff. During the audit period, Procurement lost four employees out of 13 full-time positions. The Procurement Services Director indicated that turnover in the department had affected operations because employees stay long enough to get general training and experience and then leave to work for other employers due to better pay and opportunities. To reduce employee turnover and improve retention, Procurement Services needs to implement a career path system that provides incentive for retention. A career path would require different levels for procurement staff, such as Procurement Officer/Contract Administrator I, Procurement Officer/Contract Administrator II, etc.

Recruitment and retention of staff may require additional incentives

Staff training and certification program

A certification or training program should compliment the new career path program. Currently, only four out of 13 Procurement employees hold a professional certification. However, the department has had turnover during the year and has recently filled some of the positions with less experienced members. Overall, there appears a need for implementation of a formal certification and training program. The following subjects need to be addressed relative to the training program:

A more structured training program is necessary to improve and maintain staff competencies

A formal training program is needed to ensure that staff members obtain adequate skills to perform their duties. Complex areas such as "Construction and Design" should be staffed with qualified, competent employees to help ensure that the City is being serviced appropriately.

Training funds for FY 2007 did not appear consistent with prior years, since it was only budgeted at just below 50% of the prior year's amounts. However, during the FY 2008 budget cycle, the training budget increased significantly which appears to be in line with the department's critical needs. The significant increase in 2008 is largely due to an initiative to obtain the Virginia Contracting Officer certification for all staff. The following table shows the availability of training funds and the total amount used for staff training over the last four years:

Fiscal Year	Budgeted Training Funds	Expended Funds	Funds Not Utilized
2004	$8,230	$4,954	$3,276
2005	$11,230	$7,234	$3,996
2006	$11,230	$6,852	$4,378
2007	$5,602	$4,705	$897
2008	$32,481	$0	N/A

As the chart shows, training funds were not utilized by management to the full extent.

Recommendations

> ### *29. Establish a career path program in order to promote advancement within the department.*
>
> ### *30. Consult the Human Resources Department to evaluate the competitiveness of salary and benefits with other organizations such as other local government and state government.*
>
> ### *31. Establish a certification or training program to compliment the career path and address staff competencies and skill sets.*

Performance Measures

Procurement could not provide any performance measure activity for FY 2006. The following goals were established:

% bids processed within the established cycle times	80%
% contracts in compliance with policies and procedures	98%
% staff receiving training	75%
% contracts renewed before expiration	90%

No information was located that can be used to verify accomplishment of goals

However, information could not be located to determine whether data was accumulated to quantify the goals. Without performance measures, Procurement management cannot properly identify the success of the unit.

Additionally, Auditors observed that Procurement has no process to capture the amount of time that it takes to process procurement activity. The ICMA uses many of these types of measures to help

analyze productivity. However, Procurement's goal categories are slightly different than the ICMA reporting data.

Recommendation

> ***32. Establish a process to capture data for a periodic review of the agency's effectiveness and develop strategies to improve the timeliness of the procurement activity.***

Surplus property

The September 2002 Procurement Policy addresses some aspects of surplus property, but it is out-of-date and does not appear comprehensive. This is a process that has been neglected due to a lack of leadership and management in the procurement function for the last several years.

The City does not have an effective surplus property program

Auditors inquired about the process and learned the following significant factors:

- There has been a lack of resources to help establish and monitor the process. Currently, Procurement has assigned one staff member to address most of the surplus property activity.

- There are no controls to safeguard access to the assets. The practice has been to allow City staff into the surplus property warehouse without a chaperone. As such, Procurement staff can neither confirm assets placed in the warehouse nor assets removed from the warehouse. No inventory is performed on these items. Procurement staff has indicated that the value of the assets is not significant to the City, but there is no confirmation of this statement due to the lack of controls surrounding the process.

- There is no policy to donate surplus items to non-profit groups.

- Recently, DIT helped to start an initiative to address the build-up of obsolete computers within the City. City staff could not pinpoint the last time there had been a citywide effort to remove old and obsolete computers. All agencies were asked to join the initiative and were given direction relative to the removal process. However, not all agencies participated in this initiative. As a result, the volume discount that the City obtained for the removal of the computers may not be available for those agencies that did not participate. The picture below is the result of non-participation:

The picture was taken at City Hall in September 2007. Surplus computer equipment sat for a lengthy period of time in a hallway. Not only was it unsightly, but it was a fire hazard to the employees on the floor. Not only does computer equipment get stored in such a fashion, but so does extra office equipment such as room dividers and file cabinets as shown in the next picture.

Without a proper surplus property program, City agencies are faced with the challenge of finding a home for these types of fixtures that may not be in the best interest of the City or City taxpayers.

Recommendation:

33. Establish detailed policies and procedures for managing the surplus property program.

Accounts Payable Function:

Background, Observations and Recommendations

Mission

The Accounts Payable unit is made up of a new management team that was hired in fiscal year 2007. This current management team had already been researching the cost of having the unit audited for effectiveness and efficiency and welcomed the opportunity to have the City Auditor's Office fulfill the service.

The Accounts Payable function of the Department of Finance is part of the Controller's Division and is responsible for the:

- timely payment of invoices, travel and all related costs incurred by the City, including generating and mailing checks,

- data entry into the financial accounting system, and

- providing customer service to City employees and vendors, including resolving questions or issues that may arise concerning vendor payments.

Workload

During the audit period, accounts payable staff processed approximately:

- 126,000 checks in the amount of $462 million

- 1,800 wire transfers in the amount of $1.3 billion

- 800 ACH transactions in the amount of $90 million

Finance Reform

Presentation of the City's Financial Operations Reform Initiatives began in July 2006. The vision for the reform was to:

- improve financial operations
- extend financial oversight
- enhance service delivery
- increase efficiency and effectiveness
- improve accountability and internal controls

The Reform was to address known deficiencies within key processes, such as the NEI (Not-Encumbered Invoice) process and the three-way match. In addition, certain cash management enhancements were targeted such as the creation of an accounts payable aging report and procedures to improve payment strategies.

Since the implementation of the Reform procedures, many changes have taken place within the financial structure of the City, including more system reports in order to view the City's financial requirements on a weekly basis. The NEI process was streamlined and restrictions were imposed in order to address the paper-based aspect of the process and monetary limitations in the use of the form. Training was held to provide the necessary changes to City staff prior to implementation.

User surveys

Because City agencies depend on the quantity and quality of services Accounts Payable provides, one way to evaluate the department's performance was to determine how the agencies rate its services. To accomplish this, a customer survey questionnaire was developed and

administered among 40 finance liaisons. 27 employees responded to
the survey.

Overall, users appeared to be very satisfied with the accounts payable services

Overall, users appeared to be very satisfied with the accounts payable
services. The following chart represents the category of the question
and the responses received for some of the significant areas of the
survey:
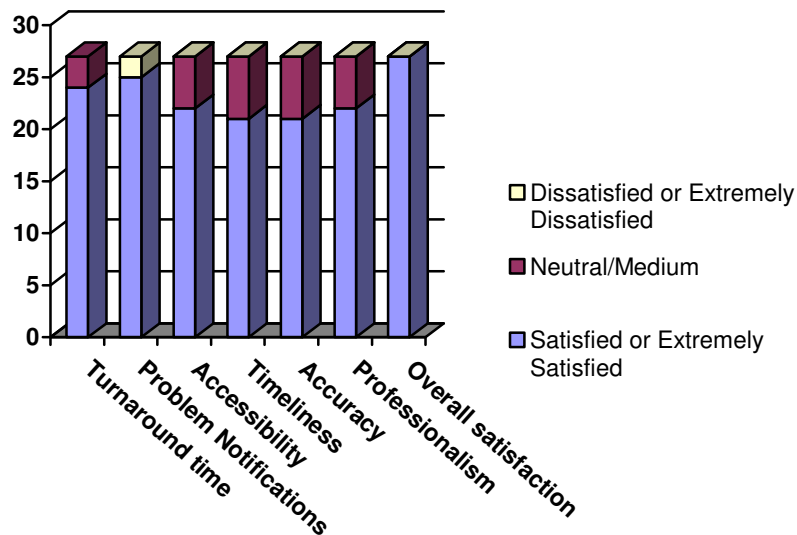
Even though users are satisfied, they made the following suggestions:

- Provide training for both new and existing users.
- Improve communication to include a phone call as the initial
  notification when invoices are sent back to the agencies.

Benchmarking with other localities

Auditors sent benchmarking questionnaires to the Accounts Payable departments of several different localities in Virginia and other states. Populations similar to the City of Richmond, Virginia were targeted.

The following topics of interest offered points of comparison to Richmond City services:

Accounts Payable Feature	Does Richmond City compare?
Accounts Payable Structure Responses showed a mix of decentralized and centralized organizations, with more of them having a centralized structure	No, the City is currently decentralized.
Overall Accounts Payable staffing for "data input" ranged as follows: Newport News, VA (population of 182,000): 5 Laredo, TX (population of 197,000) 5 Scottsdale, AZ (population of 218,000) 6 Chesapeake, VA (population of 211,000) 5 Henrico County, VA (population of 284,000) 7	Yes, there are 6 FTEs (Population 194,000).
Check Processing: Check processing varied from daily to three times a week.	Richmond processes on a daily basis.
Check Processing: The number of checks processed during FY 2006 ranged from 25,000 to 86,000; none of the localities used ACH as an alternate means to a significant degree	Richmond Approximate figure of 72,000 issued checks and also does not use ACH to its potential.

Estimated range of transactions per staff member (checks only): 5,000 to 12,300	Estimated checks per staff member is 12,000.
Bank Fraud Protection All but one of the localities indicated that positive pay was in place.	No, this has been identified as a weakness.

Internal controls

Accounts Payable is a critical operation in any organization. As discussed before, this function is often a target of fraudulent practices. Certain internal controls are commonly found in this function which, if implemented properly, can deter misuse of City resources.

Three-way match

In May 2002, the City implemented three-way match as part of the Advantage Financial users' daily process.

Why three-way match?

A three-way match involves a comparison of what was ordered to what was received and what is to be paid. This test must find in all instances that the City paid only for the product and services purchased and that the products and services were actually received by the City. If properly conducted, a three-way match prevents procurement fraud by preventing payment for a product/service that was either not received or was received without a purchase order. In the City's financial system (Advantage), the three-way match triggers the payment process. A PVA (automatic payment voucher) is generated once the purchasing document (PC/PD/PG), the receiving

document (RC) and the vendor invoice (VI) match. In essence, the automation should provide quicker payments to vendors as follows:
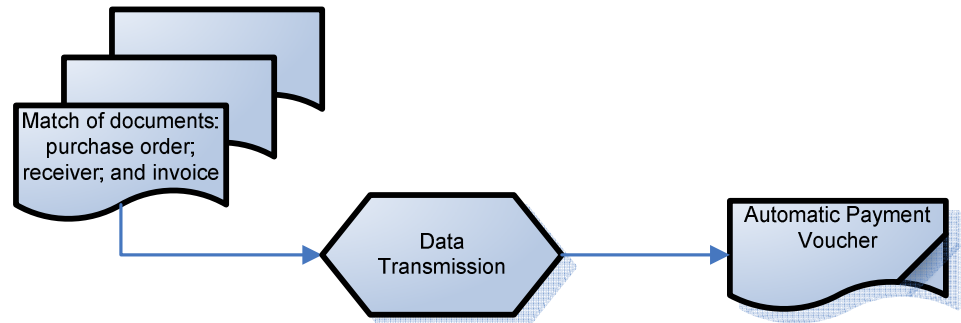
Three-way match observations

The automated three-way match process is used to create PVAs, but it only supplements a manual process which is inefficient due to lack of automated approvals at the agency level. Under the current system of controls, departmental personnel are authorized to enter purchase order information up to $5,000 on departmental purchase orders (PDs).

The automated three-way match process is used inefficiently as it only supplements a manual process.

To be an effective control process, the three-way match process must have an adequate segregation of duties between the personnel entering the purchase order data, the receiving data, and the invoice data in order to promote comparison of quantity and price information entered independently of one another. Authorization, custody, and accounting should be separated in order to minimize the ability to initiate, perpetuate and conceal a wrongful transaction. With proper segregation of duties, unless collusion occurs between two or more individuals, it is difficult to perpetrate a fraud.

Segregation of duties for data input, approvals and receiving goods and services is critical

Currently, the Finance Department accepts only signed invoices for release of payment. This manual procedure may provide adequate control as long as approval signatures are diligently verified. However, automating the approval process would improve controls and make the process efficient. Ideally, the system would segregate duties between the person who enters the data in the system (accounting), the person who can approve the transaction (authorization) and the person who accepts responsibility for receiving the item (custody).

Duties are not segregated properly

During audit tests, some employees appeared to have the ability to enter the purchase order, receiver and invoice data in the system leading to the risk of abuse. This risk is further enhanced due to the lack of thorough understanding of the controls at the agency level.

Recommendations:

34. *Ensure that the current or replacement financial system includes electronic approval capabilities in the automated three-way match process.*

35. *Once the new system is implemented, ensure that duties of entering and electronically approving procurement documents are segregated.*

Prompt Payment Act Compliance

Currently, vendor invoices are sent directly to the agencies and departments for approval and manual distribution back to Accounts Payable for processing. This procedure decentralizes the accounts payable process and creates a significant delay in payment. The delay

can preclude invoices from being received in Accounts Payable in sufficient time to take advantage of cash discounts and batching checks. Subsequently, the invoice processing time may not meet the terms of the Virginia Prompt Payment Act.

The chart below shows as analysis of the efficiency and the ability of City agencies to process a vendor invoice and submit it timely to the Finance Department. Key dates were accumulated by auditors to produce a chart of approximately 107 payments made during the audit period.
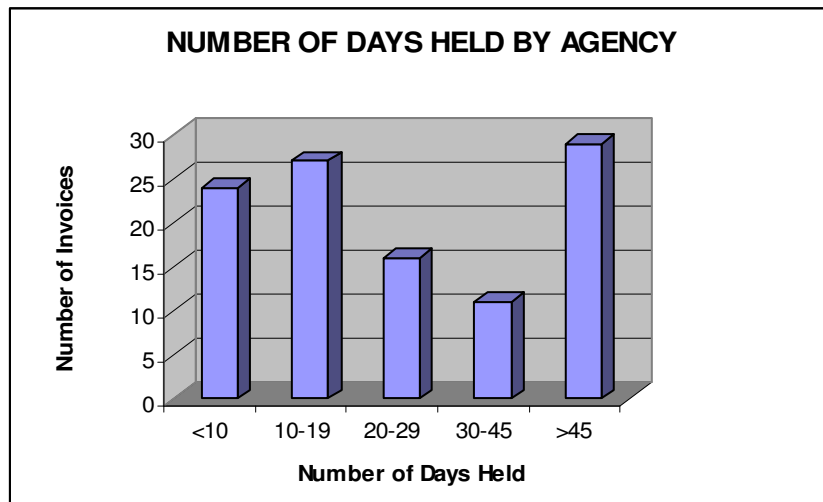
The chart shows the number of days that the agency held on to the invoice before sending it to the Accounts Payable unit to process the payment:

- Out of the 107 payments, 40 (37%) were held by the agency longer than 30 days, which is the Finance Department's target measure in order to adhere to the Virginia Prompt Payment Act requirements.

Invoices were held by the agencies long enough to threaten noncompliance with the Prompt Payment Act

- Out of the 107 payments, 29 (27%) were held by the agency longer than 45 days. This is non-compliance with the Virginia Prompt Payment Act. Additionally, many of the vendors assess a late fee which is not an effective use of taxpayer dollars.

Auditors also analyzed Finance's processing efficiency, based upon the same sample of payment requests (five of the 107 invoices were removed for this analysis because the received date could not be determined.) The following chart shows the number of invoices that Finance staff processed (after receiving the invoice from the other City agencies) between the categories of: Less than 2 days; 2-4 days, 5-10 days, and over 10 days:
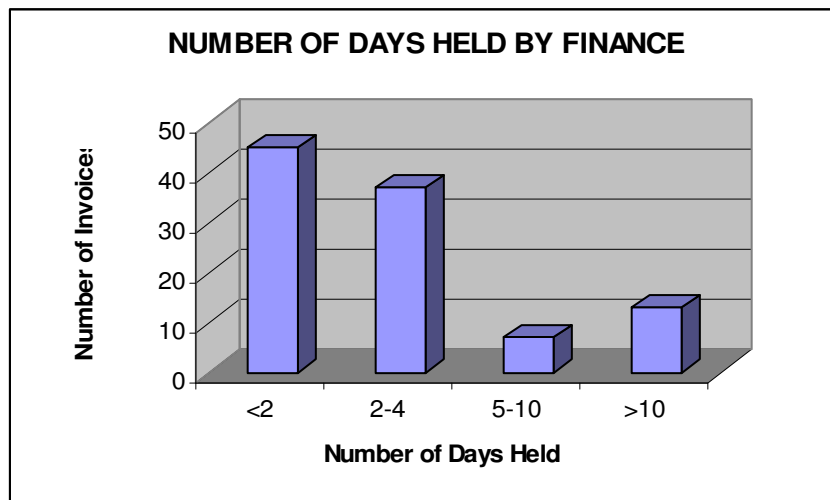
As the chart shows, 80% of the invoices were processed by Finance in less than five days and were within established goals. However, 20% of the invoices exceeded five days.

Recommendation:

36. Require the City departments and agencies to send approved invoices in a timely manner.

Vendor discounts

An audit conducted in 2002 had identified an opportunity to seek early payment discounts. However, the City does not have a policy or process to request early payment discount terms during price negotiations. Whenever multiple vendors are competing for business, the opportunities for negotiating terms related to payment discount exists. The Department of Finance indicated in the "Finance User's Toolkit" that it tracks the number of vendor discounts per month and dollars saved per month as a measure of its goals, but this measurement is not currently being used.

The City may be losing significant cost saving opportunities by not having a policy for negotiating early payment discounts

Early payment discounts represent a significant opportunity for cutting costs. For example, if a vendor offers a 2% discount for a payment made within 10 days on a $1,000 invoice with a due date 30 days from the date of the invoice, it will yield the City 36% annual return. The City receives a return on its investment of approximately 5% annually. Moreover, the early payment discounts can be earned for the short term in a risk-free manner whereas investments are typically associated with market risks. To ignore the value of discounts when negotiating is not a sound fiscal practice.

The Commonwealth of Virginia's policy on Prompt Payments (Topic #30315 in its CAPP manual) states that agencies should negotiate reasonable cash discount terms. That policy also asserts that cash discounts should be taken <u>except</u> when:

- the administrative cost of expedited invoice processing exceeds the amount of the cash discount,

- the time required to process the invoice exceeds the discount period, or

- the annualized rate of return is less then the current investment rate earned on interest-bearing accounts.

City staff could not identify which vendors offered discounts, so auditors could not easily quantify the lost opportunity for savings. Auditors observed that only three of 56 selected vendors offered discounts. Making a focused effort to obtain discounts would result in more vendors participating and as a result the City may save substantial costs.

Recommendations:

37. *Require the inclusion of early payment discounts as a standard procedure in the procurement negotiation process.*

38. *Establish a set of policies and procedures to ensure taking advantage of early payment discounts offered by vendors.*

39. *Track savings from early payment discounts and use it as a performance measure.*

Batching Checks   Once the prompt taking of vendor price discounts becomes a standard practice, the City can consider extracting additional value by negotiating discount terms and batching invoices. The City can achieve even greater value if it can negotiate batching terms like "1% twice monthly" or "1% 10th prox" payment terms. These terms offer

substantially higher values than current overnight savings rates on unused cash. Also, it allows the City to lower its check processing costs by paying multiple invoices on a single check.

Cost savings due to batching checks

Accounts payable checks are printed every day. Therefore, a vendor could receive a check each day instead of one check at the end of the week for all the invoices due during that week. The current process is inefficient, time-consuming and costly due to significant duplication of printing and mailing costs.

Batching checks could have reduced about 20% of checks issued resulting in cost savings

A less costly way of printing and mailing checks is to process invoices in a batch. This process will allow printing of one check to a vendor whose multiple invoices are due in quick succession. The current financial system is set up for batching checks, but the City has elected not to use it.

During the four-week period ending March 31, 2007, 1,142 or 20% of the checks issued could have been reduced by batching and printing checking less frequently. This means that there is a potential of a reduction of about 25,200 checks over a similar 21-month period (20% x 126,000 checks.)

Checks issued for smaller amounts

Further analysis indicated that about 36,000 checks were issued for less than $100. If the assumption is made that half of those checks are refunds and not possible for an ACH transmission, the balance of the 18,000 low-value checks represent an opportunity for savings. The cost savings is generated by not printing these checks. However, these

costs would be somewhat offset by using other means to pay these obligations (ACH or petty cash.)

The City Auditor's Office analyzed the total costs of the accounts payable function and computed the total cost of printing each check as $6.87. Using this information the following savings were calculated:

Substantial savings can be realized by batching checks and discontinuing issuing checks for some of the payments under $100

Number of checks issued during the audit period	126,000
Possible reduction due to batching (20%) (A)	25,200
Possible reduction due to not printing small amount checks (B)	18,000
Total reduction in printing checks (A) + (B) = (C)	43, 200
Cost per check (D)	$6.87
Total savings: (C) x (D)	$296,784

The above information shows that there is a possibility of eliminating up to 43,200 of the 126,000 checks printed over a similar 21-month period. This represents about 34% of the total workload.

Recommendations:

40. *Implement a procedure of batching and printing checks less frequently such as once a week.*

41. *Eliminate the printing of checks under $100 where possible. Use either petty cash reimbursements or ACH for these transactions.*

Cash management

Cash management consists of either paying cash early to take discounts which exceed the potential interest earned by the investment of that cash or, if that opportunity is not available, delaying payment of cash as long as is legally and contractually possible. The City has certainly made some progress in this area. Recently, the Finance Department began to use accounts payable aging reports and other financial reports to assist management with the day-to-day cash operations.

Payment terms for vendors not offering early payment discounts can be extended to 45 days that will help in cash management

In the foregoing section, a discussion of vendor discounts has been included. However, not all vendors will choose to offer discounts. There appears to be a need for a process to negotiate payment terms when awarding contracts. Also, the City has the potential for giving substantial business to the vendors not offering discounts by negotiating payment terms of net 45 days as allowed by the Virginia Prompt Payment Act. The City earns about 5% on its investments. Delaying payments by 15 days beyond the current 30 day cycle would result in substantial interest income. The amount of this additional income cannot be quantified at this time. However, conducting a pilot project to test out this theory may be a good idea. At the end of the pilot project, if it appears that the additional earnings are worth the effort, a more comprehensive program could be implemented.

Recommendation:

> **42. Consider negotiating a 45 day payment term with the vendors not offering early payment discounts.**
>
> **43. Track additional earnings due to deferred payments and use it as a performance measure.**

Automated Clearing House (ACH) transactions

ACH transactions are electronic transfers of funds using pre-established fund transfer information. This mechanism allows an organization to carry out paperless payments to vendors, employees, etc. According to the Automated Clearing House Business Information Center, many businesses and localities are moving towards ACH payment options in order to increase efficiencies. The City of Richmond also offers payment terms through ACH in addition to electronic funds transfers (EFT) and regular checks. EFT is used for more pressing payment activity and for debt payment purposes.

There are several benefits of using ACH such as cost savings, error reduction and avoiding risk of stolen checks

There are several benefits of using ACH. It is relatively inexpensive on a per check basis; it reduces the administrative and check processing costs; it reduces administrative errors related to check processing and it eliminates lost or stolen check problems. The advantages and shortcomings of using ACH by the City are discussed as follows:

According to audit computations, an ACH transaction costs only $0.26 as compared to incremental check supplies and printing costs (without labor costs) of $1.59 per check. Currently, a very small fraction of payments are transacted using ACH.

A recent study conducted by the Federal Reserve System in 2003 revealed that the number of electronic payments, led by the rapid growth in debit card payments, exceeded the number of check payments for the first time in U.S. history. This shows the trend of a changing environment which takes advantage of reduced costs. Also, the large number of electronic payments indicates the growing efficiency of that payment system. Unlike electronic payments, the processing of paper payments typically requires extensive physical handling.

The study suggests that increased use of this method, instead of writing checks, could result in significant savings. For example, ACH could be used to process employee travel reimbursements. Auditors observed that the current process was very inefficient and costly since checks are being issued for travel settlements in amounts as minimal as five dollars or less.

Shortcomings in the current ACH process

Like any other payment activity, the existence and effectiveness of strong internal controls in ACH procedures are critical. Auditors concluded that written policies that govern the ACH function were not detailed enough, as described below:

The Finance Department does not have adequately detailed written policies related to ACH

- There was no provision for ACH and wire transfer activity to be confirmed by the department personnel requesting the ACH or wire transfer.

- No procedures exist to clarify responsibility for verifying ACH and EFT information at a supervisory level, such as verifying data through an external source (like external credit agencies) to ensure

that payments are being made to bona fide vendors with valid Taxpayer Identification Numbers (TIN).

An employee in the Finance Department who reviews the wires daily can also enter new vendor banking information into the Advantage system and modify bank account information for current vendors. The daily Audit Trail Report is the only documentation of the transaction, and this report is delivered to the employee responsible for adding or changing the vendor information. This is a significant weakness that can result in substantial financial loss. Without an independent verification of changes made to vendor data, inappropriate changes, if made, will not be detected and corrected in a timely manner.

The Audit Trail Report is in paper format only; therefore, researching the appropriateness of past changes is very difficult. In this situation, unauthorized changes will not be detected by the current process. Upon notification, the Deputy Director of Finance instructed his staff to revise the procedures so that the changes made to vendor data will be independently reviewed by the Assistant Controller or her designee. The reviewer will contact the bank to ensure that the account information is valid and will try to verify that the vendor is valid by utilizing resources such as the State Corporation Commission's website. This prompt action is commendable. It appears that the revised procedures will provide reasonable control over changes made to ACH transactions.

The risk of not having a confirmation policy or verification procedure is that payments can be sent to an incorrect, inaccurate or fraudulent bank account. ACH activity, similar to any other payment method, is vulnerable to the risk of fraud. However, services are available from most financial institutions to help minimize ACH fraud.

There are measures available to protect the City against the risk of ACH fraud

An individual needs two pieces of information to perpetrate a fraudulent transaction: a checking account number and the bank routing number.

An ACH block can be used to prevent charges to an account. An ACH block allows the receiving party's bank to block all incoming ACH debits and/or credits prior to any transaction being posted to that party's account. On the positive side, the City has implemented an ACH block on two of its main accounts: the City budget disbursement account and the City Social Services account.

A recent survey of 3,000 corporate entities indicated that 36% of the organizations were victims of attempted or actual ACH payment fraud:

- Those organizations that suffered financially from ACH fraud indicate that it was because they failed to use defenses available from the financial institutions or failed to follow best practices.
- Half of the organizations did not use ACH debit blocks or filters.

Recommendations:

44. Evaluate increased use of ACH as the preferred method of payment.

45. Monitor the implementation of and compliance with the revised procedures related to ACH transactions changes.

46. Implement procedures to provide responsibility and accountability for verifying ACH and wire transfer information.

47. Establish procedures that allow ACH as a means of payment for employee travel purposes.

Positive pay is a standard feature offered by banks to its commercial customers to prevent fraud

Positive pay is a term used to describe a feature that helps to prevent fraud. The bank compares the checks that it receives for payment against a record of checks issued by an entity's record. It matches the account number, check number, amount and payee information with the data file. If there is no match, an exception is identified and the account holder is notified. The check is not honored by the bank which prevents the cashing of an unauthorized check. This is a very common practice adopted by the public and private sectors.

Why is positive pay needed?

Check fraud occurs by copying, reproducing or changing payee information on a check and committing forgery. There is an increased need to protect government assets due to the rapid change in technology. With significant weaknesses in procurement and accounts payable controls, it is likely that the City could be a target of check fraud. The large number of bank accounts held by the City compounds this situation.

In 2007, the Association for Financial Professionals and Electronic Payments Network (EPN)[2] performed a survey of over 3,000 corporate entities about payment fraud which revealed the following key results:

- 72% of survey respondents reported that fraud increased over the last year.

- Checks continue to be the preferred target of thieves.

- Altered payee names on the checks was a most likely target (61%).

- Nearly half of the organizations added to their internal controls and procedures during the year to bolster protection against payments fraud. These additions included performing more frequent audits, reconciling the accounts more frequently and improving the timely return of payments.

There are several different levels of positive pay options at the City's banking institution:

- "Basic positive pay" compares checks presented for payment against an issued file with no hard copy account reconciliation

- "Positive pay" compared checks presented for payment against an issued file with hard copy account reconciliation reports.

- "Premiere positive pay" funds only those checks that will clear based on "matched items" for that day.

---

[2] Association for Financial Professionals, Inc., "2007 AFP Payments Fraud Survey-Report of Survey Results", AFP research (March 2007) http://www.afponline.org/pub/pdf/2007PaymentsFraudSurvey.pdf, accessed September 14, 2007

- "Teller positive pay" matches checks presented over-the-counter at any of the banking centers to a file prior to cashing the check.

The City does not take advantage of the positive pay feature

Unfortunately, the City does not use the positive pay method for protection against fraud. The City continues to have periodic discussions with its bank about positive pay which appear to date back to at least July 2001. When an account refuses to use positive pay, the bank presents a letter to the account holder to document the account holder's refusal to accept positive pay. By refusing positive pay, the account holder gives up a tool for of its protection against check fraud.

The Finance Department employees could not explain the six year delay in taking advantage of the positive pay feature

The auditors asked Finance Management why positive pay had not been implemented in its entirety since discussions began at least as far back as July 2001. Finance has responded that for the last several months, between debt issuances and CAFR activity, staff had been working with Procurement to re-bid the banking contract. According to Finance staff, since implementing positive pay will involve coordinating internal programming and reconfiguring Finance's internal procedures, the City needs to get through the bank selection process first before moving to the next step of implementing additional services. The above response does not explain the six and one half year time delay since July 2001.

According to the Government Finance Officers Association (GFOA), positive pay is the single best fraud prevention device available. The

GFOA recommends that governments consider implementing positive pay to protect them against bank account fraud.

To implement positive pay, the City would need to create and transmit daily electronic check issue files to the bank. The City would then arrange for someone in Accounts Payable to routinely investigate any exception wherein a check presented for payment at the bank varied from the electronic check file information and respond within a specified amount of time. The City would also have to develop new policies and procedures to send electronic files for manual checks currently issued. City personnel note that banking costs would be slightly higher and that approval for funding the related costs for positive pay, including but not limited to building the daily check issue files, is required.

How do the City's existing weaknesses relate to the concept of positive pay?

Untimely bank reconciliations and not using the positive pay feature may result in losses that may not be recouped

The City's external auditor, KPMG, has advised the City in an Interim Management Letter, dated June 29, 2007, that bank reconciliations were not timely and reconciling items were not always recorded timely into the general ledger. The letter discussed specific issues relating to several different cash accounts. Without prompt bank reconciliations, the City has an increased risk that fraud will not be detected in a timely manner. Coupled with the legislation relative to Check 21[3], there are valid concerns that there will be increased avenues for un-prosecutable check fraud. As such, positive pay is one of the strongest methods for preventing such fraud. Other than working out the few details

---

[3] Check 21 was signed into law and took effect in 2004. It deals with indemnity issues from losses due to check fraud.

concerning how the process would work, there appears to be no logical reason why the City should not implement positive pay. In the Accounts Payable best practices survey conducted by the auditors, four out of the five localities surveyed confirmed that they use positive pay.

Recommendation:

48. Implement positive pay with all of the City's major checking accounts.

Internal controls surrounding the check process

Auditors spent a great deal of time working with the Finance Department staff to understand their process and follow the payment process. The key to reviewing internal controls is that no individual should have authorization, custody, and accounting control over transactions. In absence of these types of controls, unauthorized payments may be made and not detected in a timely manner. There were several weaknesses that stood out, as discussed below:

Safeguarding assets

Auditors observed that the manual checks were stored in a safe that was left open during the day and not secured. Even though the door to the back office was locked during working hours, it may not be adequate to secure blank check stock.

Blank manual checks were stored in a safe that was left open

During the course of normal business, an entity encounters instances whereby a check is needed in a rush. This is normal and an acceptable practice. However, auditors reviewed the manual check process and observed several deficiencies inherent in the process:

- *Manual Check Logs*

  Finance staff could not find the City's check log that included the period 7/1/05 through 7/27/06.

- *Prevention controls*

A Finance Department employee had access to blank check stock and the signature stamp. This is a serious weakness.

  Access to both manual checks and the signatory stamp is available to staff monitoring the front desk. This combination is a significant weakness in controls that can result in substantial loss. It gives an employee opportunity to misuse a blank, manual check, assign a "payee" and then sign the check using the signature stamp. Detective controls are set up, such as the bank reconciliation process, however delayed reconciliation will not detect the theft in a timely manner.

Check security features

The City does not use all available security features in its blank check stock

Best practices indicate that at least eight security features should be established on an entity's check. The best safety features are fourdrinier (true) watermarks in the paper, thermochromatic ink, and paper or ink that is reactive to at least 15 chemicals. These safety features are the best because they cannot be imaged and replicated.

The City has seven security features of the fifteen available features on its Laser-printed checks and only six security features on its manual check stock, namely:

Security Feature	Used by the City?
#1…"**Controlled paper**"- many built-in security features such as a true watermark, visible and invisible (UV light-sensitive) fibers and multi-chemical sensitivity.	

#2…**Multi-chemical reactive paper** produces a stain or speckles or the word "VOID" when activated with ink eradicator-class chemicals. This makes chemical alteration of a check extremely difficult to do without detection.	
#3…**Fourdrinier watermarks** (used on manual checks only) which are faint designs pressed into the paper while it is being manufactured. When held to light these true watermarks are easily visible for instant identification. **High-resolution borders** (used only on Laser-printed checks) are intricately designed borders that are difficult to duplicate. They are ideal for cover security as the design distorts when copied.	
#4…**Artificial watermarks** are subdued representations of a logo or work printed on paper. These marks can be viewed while holding the document at a 45° angle. Copiers and scanners capture images at 90° and cannot see these marks.	
#5...**Toner anchorage** is a chemical coating applied to the face of check stock. When the check passes through a hot laser printer, the toner is melded into the tone anchorage on the paper. Without it, laser checks can be altered by removing the toner.	
#6..**Warning bands** are printed messages that call attention to the security features added to protect the check. The bands should instruct the recipient to inspect a document before accepting it and may deter criminals from experimenting.	
#7..**Microprinting** (used only on Laser-printed check stock) is printing so small that it appears as a solid line or pattern to the naked eye. Under magnification, a word or phrase appears. This level of detail cannot be replicated by most copiers or desktop scanners.	
#8..**Controlled check stock** means high-security checks printed on controlled paper. The check manufacturer doesn't allow the checks to be sold entirely blank without first personalizing the check stock.	
#9..**Thermochromatic ink** reacts to changes in temperature. Some thermo inks begin to fade away at 78°F and disappear at 90°F. This reaction to temperature change cannot be replicated on a color copier or laser printer.	
#10..**Holograms** are multicolored three-dimensional images that appear in a reflective material when viewed at an angle. They are an excellent but expensive defense against counterfeiting in a controlled environment. Holograms are not usually cost-effective on checks.	
#11..**Dual Image Numbering** creates a red halo around the serial number or in the MICR line of a check. The special red ink also bleeds through to the back of the document so it can be verified for authenticity. Color copiers cannot replicate these images.	
#12..**Laid lines** are unevenly spaced parallel lines on the back of the check that make physical cutting and pasting of dollar amounts and payee names difficult to perform without detection.	
#13..**Copy Void Pantographs** are patented designs developed to protect a document from being duplicated. When copied or scanned, words such as "VOID" or "COPY" become visible on the copy, making the copy non-negotiable; however, this feature can be circumvented by high-end copiers.	
#14..**Fourdrinier watermarks**—(see #3 above). Not used on Laser-printed checks. **High-resolution borders** (see #3 above). Not used on manual checks.	
#15..**Microprinting**—(see # 7 above). Not used on manual checks.	

Excessive check pick-ups

One of the ways to reduce fraud in the accounts payable area is to reduce the number of checks that are manually picked up and not mailed out to the vendor. It is common practice to have a policy in place to limit the number of employees allowed to pick up checks. Returning checks back to the requester is an open invitation for fraud because of the risk of alteration. It was discovered several years ago, during a significant fraud audit investigation, that checks were picked up routinely by City employees and vendors. The practice was ceased and procedures were drafted to limit the activity and control the number of checks being picked up. Subsequent to a major scandal in 2003, the policy was put into place. The importance of this policy and the reason why it was put into place cannot be over-emphasized.

The manual check pick up log for an extended period was missing

The auditors requested check logs for the entire audit period; however, Finance was only able to provide a log for manual checks for the period between 7/25/2006 through 3/31/2007. The logs from 7/1/2005 through 7/24/2006 were missing. In addition to the manual check log, the auditors also reviewed the vendor log and the travel log which also record checks picked up at the Accounts Payable window.

There were over 5,400 vendor checks picked up by employees based upon the "Vendor" (Laser-printed) check logs that were provided to the Auditor's Office. Auditors observed that 3,393 vendor checks were picked up by a Department of Social Services staff person *without an authorization document* from the period 12/1/2005 through 3/31/07.

Auditors also observed that 1,830 travel checks were picked up as well. As with the vendor checks, there is a broad distribution of check pick-up by various departments and some of the checks were valued at less than $2. Again, the manual nature of the check log doesn't readily yield efficient analysis of check volume, value, or the departments arranging for check pick-up.

Recommendations:

49. *Discontinue the process of keeping the safe open during the day.*

50. *Discontinue allowing any employee to have access to both the manual checks and the signature stamp.*

51. *Review the check security policy and adopt best practices standards.*

52. *Ensure that proper documentation exists for employees authorized to pick up printed checks.*

53. *Mail the checks, unless justification is provided on an exception basis.*

Duplicate payments

Most financial systems are equipped to prevent duplicate payments from being issued. One of the key controls for preventing duplicate payments is the act of entering accurate and complete data. Invoice numbers, vendor numbers and dollar amounts are key fields in the identification of a duplicate payment. The City's financial system has the ability to identify a duplicate payment as long as the parameters are met; however, the automated process does not operate as intended.

During the audit, it was brought to light that the Advantage system may not have an error-proof method to capture duplicate payments due to the monthly purging of the file used to check for duplicates. When this was discovered by auditors, Finance discontinued the monthly purge of the file but verbalized a concern as to how this might impact system resources going forward.

Vendor numbering methods resulted in circumventing computer system controls to identify duplicate payments

Data entry error during vendor setup may circumvent the system's ability to identify a duplicate. For example, ABC Corporation's vendor number may be set up as 123456789 and also 123456789A. Both are in the vendor table, available to the user. If one were to pay an invoice using 123456789 and later try to pay the same invoice using 123456789A, no error would occur and a duplicate payment would be transacted. In addition, the "Alternate Address Indicator" field, which is designed to allow multiple addresses for one vendor, is actually the 11th character of the vendor number and is part of the validation, so the addition of a suffix would make a unique vendor number as well. Finance confirmed for the auditors that Advantage compares the two numbers and interprets the vendor numbers to be different, since the addition of the alpha character makes it unique.

If City employees circumvent the process or do not enter the information that the system needs to identify a duplicate payment, the system cannot perform this function adequately.

Auditors asked Finance to create a custom "check register" report of payment data for the audit period of 21 months and used this report to

About 34,000 entries totaling $100 million did not have an invoice number. This situation will prevent identification of duplicate payments.

perform a search for duplicate payments. Auditors discovered that the Finance staff did not provide complete information relative to invoice numbers associated with each payment on the report. The following information was observed:

- Out of approximately 95,000 individual payment voucher line item entries for FY 2006, there were over 20,000 (21%) invoice numbers that were blank, totaling approximately $35 million.

- Out of approximately 73,000 individual payment vouchers line item entries for FY 2007, there were almost 14,000 (19%) invoice numbers that were blank, totaling $65 million.

Finance was not able to provide the auditors enough information to determine whether all of the blank invoices numbers were actually left blank in the City's financial data system, or were just not uniformly included in the report. If the invoice numbers were left blank in the system, there is increased risk to the City of duplicate payments, as discussed below.

Why are "invoice numbers" important?

Finance has asserted that some of the payments represent actual cases where invoice numbers are left blank due to the nature of the payments. For instance, some of the payments were related to travel, refunds, payments on an NEI, etc., and do not have an "invoice number." However, even if there is no associated invoice, it is critical that the Finance Department devise a standardized method to prevent duplicate payments. Regardless of what data is entered into the "description" field line item, a blank invoice field means that the

financial system has no way to automatically capture an improper payment. Since the auditors were not provided with missing invoice numbers, the Auditor's Office was not able to run tests to find duplicate invoices on the entire check register report. This situation also represents a significant risk.

Duplicate payments result either from the lack of adequate information or intentional, manual circumvention of system controls. Although some of the duplicate payment checks were detected prior to being mailed, there is no assurance that the current time-consuming and tedious manual process would identify all the duplicate payments.

Auditors scanned the available electronic information to identify possible duplicate payments. Upon reviewing supporting documentation, 41 of the payments appeared to be duplicates totaling about $40,000. In addition, a review of voided checks identified three instances where vendors returned checks totaling about $2,800 with letters stating that payment had already been received. In sum, about $43,000 of duplicate payments were found. These observations indicate that the current manual process is not effective in detecting duplicate payments.

The following are the reasons why the system controls could not detect the duplicate payments:

- **Vendor number alterations:** As discussed before, a change in the existing vendor number because of either a suffix or a character

spacing error will prevent the system from detecting a potential duplicate payment.

- **Invoice copies were used as original payment requests:** Invoices are sent more than once by a vendor and the lack of research by the paying agency results in a duplicate payment.

- **Statements were used instead of an invoice:** Generally, a statement is not an acceptable payment request.

- **Not encumbered invoices (NEIs) are used to process payments requests:** It is a common practice by City staff not to enter invoice numbers with this type of payment request. It is unclear to the Auditor's Office why this practice exists. However, the result of having the practice in place is that payments can be processed on an NEI and then processed again, either on an NEI or on a purchase order. Either way, the system will not detect a duplicate payment.

- **Refunds were processed twice by City staff:** Real estate refunds are processed as a part of normal City operations. The dollar amount of the duplicates in this particular area represented 40% of the $43,000.

Use of miscellaneous vendor numbers

The City uses miscellaneous vendor codes such as "9999…" instead of unique vendor numbers. This does not appear to be a prudent practice as it compromises accountability over payments. Any misuse in this area will not be detected unless the department invests time to research each payment. In addition, the system's functionality of capturing information to identify duplicate payment is compromised.

During FY 2007, a combined total of 7,430 payments were made using the miscellaneous vendor numbers for License & Property Taxes, Real Estate Taxes and Utility Refunds. Since the City database does not consistently conform to naming standards, there is no invoice number for the transaction in most instances, and the assigned vendor number is not unique in these transactions, a high potential for error exists.

The duplicate payment detection capability of the system is not being used to a maximum extent for a critical function which is to ensure that the City does not overpay for goods and services. This activity represents a significant risk to the City. Since the Department of Finance has little control over the input of data into the system by the City agencies, this is one more reason to support the concept of a centralized Accounts Payable function for the City.

Recommendations:

54. *Establish procedures relative to the proper input of invoice numbers into the financial system.*

55. *Revisit the procedures for entering generic vendor codes and establish policies and procedures that limit the City's risk of duplicate payments accordingly.*

56. *Research the entries with blank invoice numbers that were presented to the City Auditor's Office for duplicate payments.*

57. *Research the actual duplicates, as found by the Auditor's Office, and determine the cause for each item and ensure that the revised procedures address the causes.*

58. *Recover the duplicate payments made to vendors.*

System Issues

Limitation of
current system

Currently, the City has various computer systems in place supporting a variety of functions, such as Finance/Accounting, Procurement, Time/Attendance, Payroll, Human Resources, and Revenue/ Collection. It also has a variety of spreadsheets and user databases to perform daily enterprise research planning (ERP) tasks. ***The computer systems supporting these core business functions are technologically outdated, have limitations in their capabilities, and are not well integrated.*** There are many redundant agency-level systems that are not compatible with the core systems. The biggest issue for the City is that the software vendor for the City's LGFS Advantage Financial (CGI-AMS), only supports maintenance and fixes with the current 2.2 version which was last updated in 1999 – 2000.

The current
financial system
is not supported
by the vendor

What is the
risk to the City
if there is a
continued
delay with
upgrading or
replacing the
current
system?

The current, antiquated version of the City's Advantage Financial system has limited vendor support, limitations in its capabilities, and is not well integrated. In this situation, the City will continue to be exposed to financial processing inefficiencies, possible fraud, and other related risks associated with this technologically outdated system. A major breakdown of the system would result in a significant adverse impact on the City's financial transactions processing.

There are additional modules and features that the City has not utilized with the current software that would help in the day-to-day operations.

However, City management is reluctant to implement any new feature if there is a chance that the software will not be used in the future.

System features
not utilized

Workflow and Electronic Approval

Solely looking at the system from a procurement and accounts payable viewpoint, the Financial/Accounting and Procurement system's *"Workflow and Electronic Approval"* module was not purchased. This module is designed to dramatically improve overall processing efficiency by providing the ability to manage and monitor work, and to eliminate time-consuming manual document routing, review and approval. The automatic workflow routing and email notification features of Advantage Workflow help to simplify as well as expedite manual document processing. The workflow application supports re-engineering of common manual user/process flows and further enables a paperless work environment.

Audit Trail Feature

The Advantage software supports an audit trail feature. The audit trail feature tracks the history of a transaction for a certain period of time. Using this feature is very important as the identity of the employee making changes to financial transactions is tracked. The audit trail feature was not turned on because the prior administration determined that there would be insufficient storage resources to track this information. Accordingly, at present, an employee responsible for major misuse of the system may not be identified.

Inventory Management

The Advantage Financial *"Inventory Management"* feature is designed to support requisition, inventory management, and physical inventory reconciliation functions of inventory management through a set of highly interactive capabilities. When coupled with Advantage Procurement, the Inventory Management feature provides the capability to directly purchase and receive items and to systematically generate inventory replenishment documents. This module would have been useful to agencies such as Department of Public Works and Department of Public Utilities. However, this module was not purchased by the City.

Recommendations

59. *Review the audit trail feature that was not put into place by the prior administration and determine whether the cost-benefit of the feature warrants implementation based upon the City's current needs and resources.*

60. *Implement one of the following options:*

- *If the City decides to stay with the existing software vendor, management should review the feasibility of the additional modules and features that would help in the day-to-day operations.*
Or
- *If the City decides to replace the current financial system, ensure that the new system contains the foregoing features including the audit trail feature.*

Data issues

During the audit, auditors used the current data extraction system, Business Objects, to run financial reports and queries, such as the dollar amount spent on a particular commodity or the dollar amount of new contracts in a given period.   Auditors learned that one table, which is available to both audit and procurement staff and could be used to summarize contract activity, was purged periodically. This means that different results are obtained from the same data table on the basis of when the report was run. Procurement staff indicated to audit staff that they were not aware that a table in their "universe of financial tables" was a purged table and incomplete for any historical report writing purpose.

Reliability of data is questionable due to periodic purging of information

Data analysis is a very powerful tool which could aid the City management in day-to-day operations.   Auditors were told that the financial reporting tables were created in an ad hoc manner to meet the requests of user agencies, and training to City staff to understand the data fields creating the tables is very limited. There is no definitive manual or cross-reference for the users of the system to show the details behind class and object tables that are used for inquiry purposes. If data fields are not identifiable and notated in a way that all users understand, there is a risk that financial reports could provide inaccurate information resulting in misguided managerial decisions.

System training

Training the end-users is critical to the success of any system and supporting processes and procedures. During the period of the audit, there were only two staff employees in the Finance Department that were adequately trained to continue future training initiatives and

support the application from an Advantage Financial Help Desk perspective. Staff turnover in this area would risk support and training for the current LGFS/Advantage Financial system.

Lack of system knowledge in the procurement and accounts payable functions

InfoAdvantage is a reporting application available to Advantage users. Sufficient numbers of detailed end-user training manuals, specifically tailored for the City's reporting needs do not exist. Auditors were informed that most of the City's end-user population could be better trained on either InfoAdvantage or data extraction software known as Business Objects. The Department of Finance does offer training in this area, however, it is not mandatory and comprehensive enough to fully prepare City financial staff to execute commands with full confidence.

Better understanding of the system by users could eliminate certain manual tasks

The lack of knowledge and training to retrieve information contributes to the increased usage of several manual processes, such as redundant data input within the Procurement Department relative to active contracts and vendor spreadsheets. These redundant procedures could be eliminated if Advantage Financial training was mandatory and sufficient attention was given to the nature of the department's training requirements. Likewise, several existing Accounts Payable staff do not have adequate knowledge to perform management level queries without the help of one of Finance's limited Systems Administration staff.

It cannot be stressed enough that proper training is necessary to ensure that users of the financial system are prepared to execute day-to-day operations such as running queries and entering data.

Recommendations:

61. *Provide additional and mandatory staff training on the Advantage Financial system, and the InfoAdvantage/Business Objects reporting applications.*

62. *Provide an end-user training manual specifically tailored to their needs.*

63. *Evaluate the adequacy of existing resources for both day-to-day functional "help-desk" activities and training initiatives.*

ATTACHMENT A – PROCUREMENT AND ACCOUNTS PAYABLE MANAGEMENT RESPONSES

City of Richmond

HARRY E. BLACK
DEPUTY CHIEF ADMINISTRATIVE OFFICER
AND CHIEF FINANCIAL OFFICER

"SIC ITUR AD ASTRA"
SUCH IS THE WAY TO THE STARS

February 4, 2008

Mr. Umesh Dalal
City Auditor
City of Richmond
900 East Broad Street
Room 806
Richmond, VA 23219

RE: Response to the January 2008
City of Richmond Audit Report Recommendations
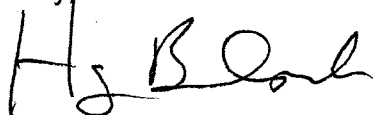
Dear Umesh:

Attached is our response to the January 2008 City of Richmond Audit Report on the Department of Procurement Services & Accounts Payable Section of the Department of Finance. Many of the recommendations throughout this operational audit have a state of the art financial system and / or centralization of business processes implication.   Where applicable, we concur, but we have expressed the reality of the limitations to fully implement the recommendations under existing systems, business processes and staffing resources. As shared with the City Auditor and expressed in our responses, we have performed system requirement analysis to support improved operational and business processes. The results were clear that there is a need for an Enterprise Resource Planning (ERP) system and centralization of business processes. It is our intent to present to the City Council a business case which is co-supported by many of the City Auditor's recommendations for the acquisition and implementation of an ERP system.   However, this will be quite a costly investment, which will have to compete with numerous other City investment priorities. As you are aware, the City's current financial systems exceed 15 years. We sincerely hope that you will express your support in our endeavors to improve operations and resource stability through this progressive and necessary state of the art remedy.

Although your recommendations do not quantify the benefits to be accrued by the City, it is clear that many of your recommendations will require an expenditure of resources, as well as a reexamination of the impact of having more than 95% of the workforce that makes up the CFO portfolio in a classified status. This status provides management with no ability to create the type of high performance operations that you recommend. The current structure does not foster innovation nor does it maximize productivity. In addition, it makes it almost impossible to reward above average performance.

In closing, should you have any comments or require clarification regarding the attached responses, please advise. Also, please make certain this response is published as a part of your overall report.

Sincerely,

Harry E. Black
Chief Financial Officer

cc: Sheila Hill-Christian, Chief Administrative Officer
Eric Mens, Director of Procurement
Michael Terry, Deputy Director of Finance

CITY OF RICHMOND
INTRACITY CORRESPONDENCE

To: Harry Black, Chief Financial Officer

From: Michael Terry, Deputy CFO
              Eric R. Mens, CPP, CPPM, Director of Procurement Services

Date: February 4, 2008

Subject: Audit Recommendations

The Departments of Procurement Services and Finance have reviewed The <u>City of Richmond Audit Report January 2008</u>. There are sixty-three recommendations cited in the Audit Report. The recommendations have been addressed in the table below.

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 **#1.** Establish procedures including appropriate checklists that ensure consistency and completeness within Procurement contract files. **Current Due Date**:	☒YES	☐NO	☐
Details of Implementation: We agree with the recommendation and have taken corrective action. A new contract file checklist was implemented in March 2007. Procurement files for year 2007, 2006, and 2005 were re-worked by placing a new checklist in the file and re-organizing the file according to the new checklist. The Director made a determination that any file prior to 2005 would not be re-worked because it was too labor intensive. Numerous hours were spent after core hours and on weekends to ensure that each file contained the appropriate checklist and attendant documents.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #2. Develop monitoring procedures to ensure that Procurement regulations are	☐YES	☒NO	☐

1

known, communicated and followed. **Current Due Date**:			

Details of Implementation: We agree with the recommendation but note the following:

Page 2 of the Audit Report states that the City spent $325M or 57 percent of the total General Fund on goods and services procured. Based upon data provided by the Budget Department, total General Fund expenditures for FY 2007 were $629.4M--the majority of which included personnel costs, debt service, and transfers to Schools. A more valid comparison should be made to either indicate total procurement in all funds as a percentage of the budget of all funds or indicate general fund procured goods and services as a percentage of the general fund budget. If the former, then $325M procured represents 23% of the FY2007 budget for all funds.

Concerning the Department's monitoring to ensure that procurement regulations are known, communicated, and followed, it is important to note that Purchasing Policies and Procedures Manual dated 09-01-02 is out of date and needs substantial revision to bring the Manual into compliance with applicable State and City Codes and to incorporate current policies and procedures. Until the Manual can be rewritten in its entirety, updated, coordinated, and issued, interim changes in procurement policies and procedures are being implemented through Memorandum issued to City Agencies and Departments. During the period April through December 2007, the following policies have been implemented:

Purchasing Policies and Procedures No. 33, Revision to Contract Signature Authority
Purchasing Policies and Procedures No. 17, Emergency Purchases
Purchasing Policies and Procedures No. 43, Unauthorized Commitments
Purchasing Policies and Procedures No. 44, Richmond Supply Schedule Purchases

Despite limited resources, the Department continues to strive to develop a training program for all staff members to be trained on the updates to Purchasing Policies as they are developed, Departmental Standard Operating Procedures (SOP) as they are developed, Richmond City Code, and the Virginia Public Procurement Act (VPPA). This includes investigating more cost effective solutions for onsite or computer-based (CBT) training which would preclude the need for individuals to attend off-site courses.

It should be noted that during the FY 2008 budget process, the Director requested of and was denied by Council additional funding of $300,000 that would have facilitated the Department's ability to revise out-dated as well as develop new policies and procedures and develop an appropriate procurement training program.

Prior to the hiring of an experienced analyst in April 2007, a formal management oversight function did not exist within the Department to assist in developing and providing workforce training, provide customer assistance in specification development, assist in and perform acquisition planning, and perform effective oversight of City procurements. Efforts to implement such a function stalled in June 2007 when the analyst and the Director focused their efforts on assuming management control of the Department of General Services during the period June through November 2007. The Procurement Department will once again request additional resources to formalize an effective oversight, planning, training, and customer assistance function in FY 2009. However, efforts associated with developing and providing work force training, providing customer assistance in specification development, effective oversight of City procurements, and acquisition planning will continue to be limited or hampered without a firm commitment of additional resources to the Department. In concert with those efforts Procurement Services has begun to consider realigning its staff assignments according to Departments as opposed to services, construction and commodities. This reorganization will begin to better address the customer agencies' needs for oversight, planning, and specification development.

Revised Due Date:			
Delays if any:			

Title and Responsible Employee:

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #3. Review current commodity codes and make appropriate changes in order to group similar items that can be purchased using a single contract. **Current Due Date**:	☐YES	☐NO	☒

Details of Implementation: We disagree that a single contract is the preferred method for purchasing like commodity codes. As an alternative, the Richmond Supply Schedule (RSS) is being implemented to simplify the acquisition of small, recurring purchases as of August 2007. The RSS provides both variety and flexibility to enter into <u>multiple</u> contract awards to meet agency requirements that represent the best value for the City and at the lowest overall cost. The RSS allows for the capturing of like items to be placed under the same commodity code achieving economy of scale.

Procurement has begun to run compliance reports for procurements conducted under RSS contracts to ensure that agencies/Departments are properly using the Schedule contracts including the assignment of appropriate Commodity Codes. We plan to conduct these compliance reviews every 60-90 days and will advise agency/Department heads if we discover any violations associated with proper use of the Schedules.

Revised Due Date: | | | |

Delays if any:

Title and Responsible Employee:

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #4. Develop a process to determine reasonableness of contract renewals. **Current Due Date:**	☐YES	☐NO	☒

Details of Implementation: We agree with the recommendation and have already taken steps to reinstate a formal process that was dissolved in 2004. However, we wish to note that the narrative associated with the sidebar "Contract extensions" appears to confuse contract extensions with contract renewals. They are not the same. Contract renewal periods (option periods) are established at the time of solicitation. There is no Code limitation on contract renewal periods. On the other hand, standard solicitation/contract language allows the City to <u>extend</u> a contract beyond the contract expiration date for a period not-to-exceed 12 months. Among other things, contract extension can serve as a stop-gap measure to ensure that there is no lapse in contract coverage and that the vendor can continue invoicing in the event that a renewal is not exercised in a timely manner or while the City negotiates a

replacement contract.

Prior to 2004, a formal renewal process was in place to ensure that contract renewals (option periods) were exercised in a timely manner by three dedicated individuals and that the Office of Minority Business Development (OMBD) was involved well ahead of the time to execute the renewal. This function was dissolved in 2004 and a disciplined approach to renewals has suffered since. As of January 2008, one staff member has been designated to analyze, process, and determine justification for renewals and extensions periods. Contracts are being reviewed to determine if the service is needed and cost effective. With the exception of architectural and professional engineering services (A-E), a contract can be renewed for an indefinite period. City Code § 74-72((c) limits the term for A-E contracts to a base year and two one-year options. Virginia's *Agency Procurement & Surplus Property Management Manual (APSM)* generally recommends limiting contract terms to no more than five years.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #5. Review the change order process, including: Proper documentation justifying a need for change order; documentation of cost estimate and basis for computing the cost estimate; documentation of supervisory review and approval prior to commencing the work, and a certification statement by the project manager and his/her supervisor related to the need for additional work. **Current Due Date:**	☐YES	☐ NO	☒

Details of Implementation: We agree with the recommendation but note the following:

The narrative states that the City spends several million dollars annually on construction contracts. For clarification purposes, Procurement Services' records indicate that the amount placed on new construction contracts during FY 2007 was $29.3M.

Unauthorized commitments place several parties at risk (the City, the individual making the commitment on behalf of the City, and the vendor). After a series of unauthorized commitments in 2007 and in an effort to prevent such actions, the Director and the City Attorney's Office collaborated on developing a new Purchasing Policy addressing unauthorized commitments. Policy 43, Unauthorized Commitments, was issued and implemented on August 9, 2007, has been disseminated to agencies/Departments, and is posted on the Department's website.

CITY OF RICHMOND
INTRACITY CORRESPONDENCE

In addition, in September 2007, the Director designated one senior staff member to facilitate a Change Order Focus Group with membership from the major Departments (Public Works, Public Utilities, Parks and Recreation, Minority Business Development, and the City Attorney's Office). This interdepartmental team was charged with reviewing current practices, past policies and procedures, and working to establish a streamlined, effective manner to initiate, manage, process, and approve Change Orders, including examining and establishing some level of field authority. Final policies and procedures are expected to be available and implemented by mid-summer 2008.	
Revised Due Date:	
Delays if any:	
Title and Responsible Employee:	

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #6. Provide training to the project managers and inspectors to enforce the importance of change order procedures. **Current Due Date:**	☐YES	☐NO	☒

Details of Implementation: We agree with the recommendation but anticipate that the requisite training will be a shared responsibility with the significant Departments who participated in developing the revised Change Order process (e.g., Public Works, Public Utilities, Procurement, etc.). As indicated above in the response to Recommendation No. 2, the Procurement Department has limited capacity and resources to conduct such training. The Department anticipates that with additional resources, senior staff members will able allocate more time to provide formal training to junior staff members and customer agencies.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #7. Ensure that the City has a process to evaluate each renewal of a contract with Procurement Services' participation and evaluation. **Current Due Date:**	☐YES	☐NO	☒

Details of Implementation: We agree with the recommendation and have already taken steps to reinstate a formal process that was dissolved in 2004. However, we wish to note that the narrative associated with the sidebar "Contract extensions" appears to confuse contract extensions with contract renewals. They are not the same. Contract renewal periods (option periods) are established at the time of solicitation. There is no Code limitation on contract renewal periods. In fact, standard solicitation/contract language allows the City to <u>extend</u> a contract beyond the contract expiration date for a period not-to-exceed 12 months. Among other things, contract extension can serve as a stop-gap measure to ensure that there is no lapse in contract coverage and that the vendor can continue invoicing in the event that a renewal is not exercised in a timely manner or while the City negotiates a replacement contract.

Prior to 2004, a formal renewal process was in place to ensure that contract renewals (option periods) were exercised in a timely manner by <u>three dedicated individuals</u> and that the Office of Minority Business Development (OMBD) was involved well ahead of the time to execute the renewal. This function was dissolved in 2004 and a disciplined approach to renewals has suffered since. <u>As of January 2008</u>, one staff member has been designated to analyze, process, and determine justification for renewals and extensions periods. Contracts are being reviewed to determine if the service is needed and cost effective. With the exception of architectural and professional engineering services (A-E), a contract can be renewed for an indefinite period. City Code § 74-72((c) limits the term for A-E contracts to a base year and two one-year options. Virginia's *Agency Procurement & Surplus Property Management Manual (APSM)* generally recommends limiting contract terms to no more than five years.

Revised Due Date:

Delays if any:

Title and Responsible Employee:

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #8. Require procurement staff to ensure that: Goods and services are ordered only after approval of purchase orders as required by City policies; Departments and agencies have three written quotes for purchases between $5,000 and $50,000; Use of blanket purchase orders is properly monitored to assure compliance with City policies and regulations; Small purchase are monitored to prevent split purchases. **Current Due Date:**	☐YES	☐NO	☒

Details of Implementation: We agree with the recommendation. However, in the absence of updated policies and procedures, an effective training program, and adequate automation to preclude the need for manual monitoring and intervention, progress on this recommendation will be slow. The CFO Reform Initiative began

implementing the process of training Agency Liaisons. The Reform was delayed due to the re-organization of various staff members in Procurement Services, Budget and Strategic Planning, and Finance but is being revived at this time.

Purchasing Policies and Procedures Manual dated 09-01-02 is out of date and needs substantial revision to bring the Manual into compliance with applicable State and City Codes and to incorporate current policies and procedures. Until the Manual can be rewritten in its entirety, updated, coordinated, and issued, interim changes in procurement policies and procedures are being implemented through Memorandum issued to City Agencies and Departments. During the period April through December 2007, the following policies have been implemented:

Purchasing Policies and Procedures No. 33, Revision to Contract Signature Authority
Purchasing Policies and Procedures No. 17, Emergency Purchases
Purchasing Policies and Procedures No. 43, Unauthorized Commitments
Purchasing Policies and Procedures No. 44, Richmond Supply Schedule Purchases

Despite limited resources, the Department continues to strive to develop a training program for all staff members to be trained on updates to the Purchasing Policies as they are developed, Departmental Standard Operating Procedures (SOP) as they are developed, Richmond City Code, and the Virginia Public Procurement Act (VPPA). This includes investigating more cost effective training solutions which would preclude the need for individuals to attend off-site courses.

Prior to the hiring of an experienced analyst in April 2007, a formal management oversight function did not exist within the Procurement Department to assist in developing and providing workforce training, provide customer assistance in specification development, assist in and perform acquisition planning, and perform effective oversight of City procurements. Efforts to implement such a function stalled in June 2007 when the analyst and the Director focused their efforts on assuming management control of the Department of General Services during the period June through November 2007.

It should also be noted that during the FY 2008 budget process, the Director requested of and was denied by Council additional funding of $300,000 that would have facilitated the Department's ability to develop an appropriate procurement training program and revise out-dated as well as develop new policies and procedures. The Department will once again request additional resources to formalize an effective oversight, planning, training, and customer assistance function in FY 2009. However, progress on efforts associated with developing and providing work force training, providing customer assistance in specification development, effective oversight of City procurements, and acquisition planning will continue to be limited or hampered without a firm commitment of additional resources to the Department.

Blanket purchase orders are prohibited under the Richmond Supply Schedule (refer Policy No. 44 dated December 18, 2007, Section 44-4.0(c)). In addition, Procurement Services has begun to run compliance reports for procurements conducted under RSS contracts to ensure that agencies/Departments are properly using the schedules including the assignment of appropriate Commodity Codes. We plan to conduct these compliance reviews every 60-90 days and will advise agency/Department heads if we discover any violations associated with proper use of the Schedules.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

7

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #9. Provide periodic training related to procurement issues to City staff. **Current Due Date**:	☐YES	☐NO	☒

Details of Implementation: We agree with the recommendation. However, in the absence of updated policies and procedures and a fully developed effective training program, progress on this recommendation will be slow. Nonetheless, some progress has been made. The CFO Reform Initiative began implementing the process of training Agency Liaisons. The Reform was delayed due to the re-organization of various staff members in Procurement Services, Budget and Strategic Planning, and Finance but is being revived at this time.

Prior to the hiring of an experienced analyst in April 2007, a formal management oversight function did not exist within the Procurement Department to assist in developing and providing workforce training, provide customer assistance in specification development, assist in and perform acquisition planning, and perform effective oversight of City procurements. Efforts to implement such a function stalled in June 2007 when the analyst and the Director focused their efforts on assuming management control of the Department of General Services during the period June through November 2007.

Despite limited resources, the Department continues to strive to develop a training program for all staff members to be trained on updates to the Purchasing Policies as they are developed, Departmental Standard Operating Procedures (SOP) as they are developed, Richmond City Code, and the Virginia Public Procurement Act (VPPA). This includes investigating more cost effective training solutions which would preclude the need for individuals to attend off-site courses.

It should also be noted that during the FY 2008 budget process, the Director requested of and was denied by Council additional funding of $300,000 that would have facilitated the Department's ability to develop an appropriate procurement training program and revise out-dated as well as develop new policies and procedures. The Department will once again request additional resources to formalize an effective oversight, planning, training, and customer assistance function in FY 2009. However, progress on efforts associated with developing and providing work force training, providing customer assistance in specification development, effective oversight of City procurements, and acquisition planning will continue to be limited or hampered without a firm commitment of additional resources to the Department.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #10. Review and revise both the	☐ YES	☐NO	☒

Emergency Procurement and the Sole Source Procurement policies and procedures to assure proper accountability based on valid justification. **Current Due Date:**			

Details of Implementation: We agree with the recommendation but note the following:

Page 27 of the Audit Report states that "Procurement Services provided a list of 38 emergency transactions in which the City procured $49 million or 15% of total citywide procurements." It should be noted that over $42M or 85 percent of the $49M in procurements was directly related to Battery Park.

Note "e" on page 29 makes a determination with regard to certain contracts that a "real emergency" did not exist. Notwithstanding the Auditor's opinion, it should be noted that one City Attorney opined that "*Based upon my review of the contract file, I do not believe the City violated any law in entering into these contracts. City Code § 74-43 sets out a process by which the Director of Procurement Services must make a written determination that an emergency exists to justify the departure from the standard competitive procurement requirements. The Director made and signed this determination, relying on subsections (b) (3) (b), (b) (3) (c) and (b) (3) (d) of City Code § 74-43, and, as required by subsection (a) of City Code § 74-43, this determination is included in the contract files. Thus, I believe the City has complied with the legally required process.*" (E-mail dated March 22, 2007 to a City Council member).

The first contract discussed on Page 30 of the Audit Report is Contract 07134-1 which was executed in February 2007 in order to timely implement RichmondWorks. This project was directly tied to the Mayor's initiative to enhance access, accountability, and action. The appropriate determination was executed and placed in the contract file. The contract included a base year and four one-year options. The work conducted during the base year led to the discovery of significant management issues that dove-tailed closely with a highly critical and visible Fleet Audit Report that was released in May 2007. This Audit Report widely publicized alleged findings of abuse and mismanagement at Fleet.

As a result of the report, all recommendations made by the Auditor in the Fleet Audit Report were treated by the Director as high priority items that needed to be addressed in an expedient manner. The option exercised under Contract 07134-1 sought to take advantage of the contractor's previous in-depth fact-finding and analysis related to Fleet operations so as to enable management to take appropriate and timely action (e.g., conduct the first-ever comprehensive physical inventory and bar-coding of all City vehicles and equipment). The arrest this past summer of the former Interim Fleet Manager for theft of City-owned laptops and the more recent arrest of a School employee (as reported in the Richmond Times Dispatch) for a $73,000 fuel theft using Fleet fuel cards issued under the City's contract exemplifies why *the drain on City resources, whether through abuse or mismanagement, must be treated as "emergencies" requiring bold and swift corrective action to stop the bleeding.*

Purchasing Policies and Procedures Manual dated 09-01-02 is out of date and needs substantial revision to bring the Manual into compliance with applicable State and City Codes and to incorporate current policies and procedures. Until the Manual can be rewritten in its entirety, updated, coordinated, and issued, interim changes in procurement policies and procedures are being implemented through Memorandum issued to City Agencies and Departments. During the period April through December 2007, the following policies have been implemented:

Purchasing Policies and Procedures No. 33, Revision to Contract Signature Authority
Purchasing Policies and Procedures No. 17, Emergency Purchases
Purchasing Policies and Procedures No. 43, Unauthorized Commitments

Purchasing Policies and Procedures No. 44, Richmond Supply Schedule Purchases

Purchasing Policy No. 17, Emergency Purchases, had not been updated since September 2002. However, as a result of issues that were identified subsequent to the aforementioned emergency procurements, the Director collaborated closely with the City Attorney's Office in developing detailed guidance on defining, documenting, and reporting emergency procurements. This included guidance on the propose performance period of the emergency contract but did not include a specific prohibition on contract term (duration). The revised policies and procedures (Purchasing Policy No. 17) were issued on June 20, 2007 and are available on the Department's website.

Purchasing Policy No. 22, Only Practical Source, has not been updated since September 2002. During the FY 2008 budget process, the Director requested of and was denied by Council additional funding of $300,000 that would have facilitated the Department's ability to develop an appropriate procurement training program and revise out-dated as well as develop new policies and procedures. Prior to the hiring of an experienced analyst in April 2007, a formal management oversight function did not exist within the Procurement Department to assist in developing and providing workforce training, provide customer assistance in specification development, assist in and perform acquisition planning, and perform effective oversight of City procurements. Efforts to implement such a function stalled in June 2007 when the analyst and the Director focused their efforts on assuming management control of the Department of General Services during the period June through November 2007. As such, no revised Sole Source Procurement Policy has yet been developed.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 # 11. The City Council needs to consider reviewing all sole source/only practical source and emergency purchases over predetermined amounts to assure appropriateness. **Current Due Date**:	☐YES	☒NO	☐
Details of Implementation: We disagree with this recommendation. Section 17-6.8.3 of Purchasing Policy No. 17, Emergency Purchases, which was developed in collaboration with the City Attorney's Office and issued June 20, 2007, requires the Director to annually report emergency purchases to the Mayor, Chief Administrative Officer, and City Council. We anticipate that a future updated Policy No. 22 on Sole Source purchases will contain the same reporting requirement.			
Revised Due Date:			
Delays if any:			

10

CITY OF RICHMOND
INTRACITY CORRESPONDENCE

Title and Responsible Employee:

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #12. Evaluate the total costs (product costs and lost productivity costs) of using RSS and compare it with prices negotiated in an exclusive contract. **Current Due Date**	☐YES	☐NO	☒

Details of Implementation: We disagree with this recommendation, in part, because the Richmond Supply Schedule (RSS) Program has only recently been implemented and we do not have sufficient data to conduct the type of analysis recommended. The RSS is being implemented under the CFO Reform Initiative to simplify the acquisitions of small, recurring purchases. The first Schedule contracts were awarded in August 2007 and the contracts are open for use by other governmental entities. The Program provides both variety and flexibility to enter into contract awards to meet agency requirements with the most favorable standard terms and conditions and at the lowest overall cost. Schedule contracts are negotiated using "most favored" customer pricing discounts. The Program allows for like items to be captured and placed under the same Commodity Code, thus achieving economies of scale. Agencies are encouraged to plan before placing orders. Best practice is to order one or two months of supplies. Lost productivity would not be a factor with proper planning and forecasting.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 # 13. Compare the outcome of the above analysis of RSS with the outcome of the alternate method (eVA) described in the following section. **Current Due Date**:	☐YES	☐NO	☒

Details of Implementation: We disagree with the recommendation. The Richmond Supply Schedule (RSS) Program is being implemented under the CFO Reform Initiative to simplify the acquisitions of small, recurring purchases. The first Schedule contracts were awarded in August 2007 and the contracts are open for use by other governmental entities. The Program provides both variety and flexibility to enter into contract awards to meet

agency requirements with the most favorable standard terms and conditions and at the lowest overall cost. Schedule contracts are negotiated using "most favored" customer pricing discounts. The Program allows for like items to be captured and placed under the same Commodity Code, thus achieving economies of scale. Agencies are encouraged to plan before placing orders. Best practice is to order one or two months of supplies. Lost productivity would not be a factor with proper planning and forecasting.

eVA cannot take the place of the human factor of the City's professional relationship with the Emerging Small Business and Minority Small Business Community. The RSS Program allows the Emerging Small Business and Minority Small Business the opportunity to do business with the City. The Schedule does not lock one or two companies in for five years on a contract. The schedule allows all businesses that are qualified and deemed to have fair and reasonable pricing the opportunity to grow their business with the City.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #14. Implement eVA as the main procurement system with the City. **Current Due Date:**	☐YES	☒NO	☐

Details of Implementation: We disagree with the recommendation. The Richmond Supply Schedule (RSS) Program is being implemented under the CFO Reform Initiative to simplify the acquisitions of small, recurring purchases. The first Schedule contracts were awarded in August 2007 and the contracts are open for use by other governmental entities. The Program provides both variety and flexibility to enter into contract awards to meet agency requirements with the most favorable standard terms and conditions and at the lowest overall cost. Schedule contracts are negotiated using "most favored" customer pricing discounts. The Program allows for like items to be captured and placed under the same Commodity Code, thus achieving economies of scale. Agencies are encouraged to plan before placing orders. Best practice is to order one or two months of supplies. Lost productivity would not be a factor with proper planning and forecasting.

eVA cannot take the place of the human factor of the City's professional relationship with the Emerging Small Business and Minority Small Business Community. The RSS Program allows the Emerging Small Business and Minority Small Business the opportunity to do business with the City. The Schedule does not lock one or two companies in for five years on a contract. The schedule allows all businesses that are qualified and deemed to have fair and reasonable pricing the opportunity to grow their business with the City.

The Audit report states on Page 39 (first paragraph) that eVA "…is available to the City of Richmond virtually free of cost." eVA is not free of cost to the City because eVA charges the vendors 1% and that cost will ultimately be reflected in the price of goods and services provided to the City. There will be a fiscal impact to use eVA for the vendors, particularly small business vendors, and the City. The RSS Program does not charge the vendor.

Revised Due Date:			
Delays if any:			

Title and Responsible Employee:

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 # 15. Determine the responsibilities between Procurement and DIT relative to the approval of the procurement method for IT related transactions. **Current Due Date**:	☒YES	☐NO	☐
Details of Implementation: We agree with the recommendation. The Director of Information Technology (DIT) has established policies and procedures as it relates to the approval of IT related purchase requirements and is currently in the process of revising such guidance. The policies and procedures are on the Department of Information Technology's website and will be linked to the Procurement website.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 # 16. Review the existing approval process in DIT for IT related procurements and streamline it to prevent unnecessary delays. **Current Due Date**:	☒YES	☐NO	☐
Details of Implementation: We agree with the recommendation. The Director of Information Technology (DIT) has established policies and procedures as it relates to the approval of IT related purchase requirements and is currently in the process of revising such guidance. The policies and procedures are on the Department of Information Technology's website and will be linked to the Procurement website.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #17. Revisit implementation of prior audit recommendations and ensure that the control weaknesses identified in the previous audits have been properly addressed. **Current Due Date:**	☐YES	☒NO	☐

Details of Implementation: We agree with the recommendation but note the following:

Prior to the hiring of an experienced analyst in April 2007, a formal management oversight function did not exist within the Procurement Department to assist in developing and providing workforce training, provide customer assistance in specification development, assist in and perform acquisition planning, and perform effective oversight of City procurements. Efforts to implement such a function stalled in June 2007 when the analyst and the Director focused their efforts on assuming management control of the Department of General Services during the period June through November 2007.

In December 2007, the Department sought and gained approval to pay-band procurement professional job classifications. The Department is also planning a reorganization to enhance its abilities to more effectively assume the responsibilities addressed in the preceding paragraph. This would include having a single focal point for addressing such issues as responding to, tracking, and reporting on all outstanding audit recommendations. Currently there is a lack of resources in the Department to effectively to implement this activity.

It should also be noted that during the FY 2008 budget process, the Director requested of and was denied by Council additional funding of $300,000 that would have facilitated the Department's ability to develop an appropriate procurement training program and revise out-dated as well as develop new policies and procedures. The Department will once again request additional resources to formalize an effective oversight, planning, training, and customer assistance function in FY 2009. However, progress on efforts associated with developing and providing work force training, providing customer assistance in specification development, effective oversight of City procurements, and acquisition planning will continue to be limited or hampered without a firm commitment of additional resources to the Department.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #18. Establish procedures to review vendors against the federal and state listing of debarred vendors prior to registering the vendor. **Current Due Date**:	☐YES	☒NO	☐

.**Details of Implementation:** We agree with the recommendation. Purchasing Policies and Procedures Manual dated 09-01-02 is out of date and needs substantial revision to bring the Manual into compliance with applicable State and City Codes and to incorporate current policies and procedures. Until the Manual can be rewritten in its entirety, updated, coordinated, and issued, interim changes in procurement policies and procedures are being implemented through Memorandum issued to City Agencies and Departments. During the period April through December 2007, the following policies have been implemented:

Purchasing Policies and Procedures No. 33, Revision to Contract Signature Authority
Purchasing Policies and Procedures No. 17, Emergency Purchases
Purchasing Policies and Procedures No. 43, Unauthorized Commitments
Purchasing Policies and Procedures No. 44, Richmond Supply Schedule Purchases

The Department will review its practices as it relates to debarment and in collaboration with the City Attorney's Office develop any appropriate policies and procedures. This includes a review of the Contract Checklist to determine when the debarment verification of vendors will be done during the Request for Proposal and Invitation for Bid process.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #19. Continue to work towards an automated system in order to implement a process for identifying vendors that owe the City delinquent taxes. **Current Due Date**:	☐YES	☒NO	☐

Details of Implementation: We agree that the City needs an automated system to correct the deficiencies noted in this regard but lack of resources to fund such an effort is at issue. Currently, the Department sends the names of the proposed contractors identified in the "Intent to Award" letters to the Department of Finance to ensure contractor compliance with all City related taxes. We will enter into a dialogue with the Department of Finance and the Department of Information Technology as it relates to automating the process for identifying vendors who may be delinquent in their taxes to the City. However, as discussed elsewhere in the response to the Audit Recommendations, identifying and committing the resources to resolve this issue is an issue in itself.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #20. Continue with the focus group efforts to develop an enhanced vendor performance process. **Current Due Date**:	☐YES	☐NO	☒

Details of Implementation: We agree for the need to continue the focus group efforts. Since March 2007, the Department has been working with the Department of Public Works to develop a contractor performance assessment tool for A-E services. The focus group included members from the City Attorney's Office, Office of Minority Business Development, Department of Information Technology, and others. The group has developed a contractor performance evaluation form to document an A-E contractor's performance after a project or task. The bulk of the hard work for A-E contracts has been accomplished and the form has been included in new A-E solicitations and contracts as of January 2008. More work needs to done to fully implement this initiative for A-E contracts, including developing implementing policies and procedures and working with DIT to capture the evaluation data in a database so as to facilitate transparency for all user agencies as well as contractors. The plan is to expand the program to include all types of contracts (construction, services, and commodities), developing implementing procurement guidance, and automating the process for those contracts. However, as discussed elsewhere in other responses to the Audit Recommendations, progress may be hampered by a lack of available resources for development, automation, and training.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008	☐YES	☒NO	☐

#21. Segregate duties between the buyers, the employee making vendor database changes and the employees reviewing them. **Current Due Date**:			

Details of Implementation: We agree with the recommendation. However, a resource is required to effectively implement Recommendations 21 through 27. One administrative assistant assigned to the Department and with multiple other duties enters data into the vendor database. Vendor data responsibilities currently entail about one-half of that individual's time on a daily basis. This is insufficient for the level of management and oversight that needs to be afforded to this function. The Department will once again request additional resources to formalize an effective oversight, planning, training, and customer assistance function in FY 2009. Meaningful progress on efforts associated with addressing the issues identified in this section of the report will continue to be limited or hampered without a firm commitment of additional resources to the Department. Nonetheless, the Departments of Procurement Services and Finance will work to develop Standard Operating Procedures governing the vendor database including defining individual staff responsibilities.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #22. Require periodic reviews of the vendor database in order to ensure compliance with management policies. **Current Due Date**:	☐YES	☒NO	☐

Details of Implementation: We agree with the recommendation. However, a resource is required to effectively implement Recommendations 21 through 27. One administrative assistant assigned to the Department and with multiple other duties enters data into the vendor database. Vendor data responsibilities currently entail about one-half of that individual's time on a daily basis. This is insufficient for the level of management and oversight that needs to be afforded to this function. The Department will once again request additional resources to formalize an effective oversight, planning, training, and customer assistance function in FY 2009. Meaningful progress on efforts associated with addressing the issues identified in this section of the report will continue to be limited or hampered without a firm commitment of additional resources to the Department. Nonetheless, the Departments of Procurement Services and Finance will work to develop Standard Operating Procedures governing the vendor database including conducting periodic compliance reviews.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 # 23. Centralize the function of vendor database update and maintenance in Procurement Services. Discontinue vendor database updates currently conducted by Finance. **Current Due Date**:	☐YES	☒NO	☐

Details of Implementation: We agree with the recommendation. However, a resource is required to effectively implement Recommendations 21 through 27. One administrative assistant assigned to the Department and with multiple other duties enters data into the vendor database. Vendor data responsibilities currently entail about one-half of that individual's time on a daily basis. This is insufficient for the level of management and oversight that needs to be afforded to this function. The Department will once again request additional resources to formalize an effective oversight, planning, training, and customer assistance function in FY 2009. Meaningful progress on efforts associated with addressing the issues identified in this section of the report will continue to be limited or hampered without a firm commitment of additional resources to the Department. Nonetheless, the Departments of Procurement Services and Finance will work to develop Standard Operating Procedures governing the vendor database to delineate attendant organizational responsibilities.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #24. Implement a procedure for Procurement staff to verify the validity of approvals using the authorized signature listings prior to the input of a new vendor. **Current Due Date**:	☐YES	☒NO	☐

Details of Implementation: We agree with the recommendation. However, a resource is required to effectively implement Recommendations 21 through 27. One administrative assistant assigned to the Department and with multiple other duties enters data into the vendor database. Vendor data responsibilities currently entail

about one-half of that individual's time on a daily basis. This is insufficient for the level of management and oversight that needs to be afforded to this function. The Department will once again request additional resources to formalize an effective oversight, planning, training, and customer assistance function in FY 2009. Meaningful progress on efforts associated with addressing the issues identified in this section of the report will continue to be limited or hampered without a firm commitment of additional resources to the Department. Nonetheless, the Departments of Procurement Services and Finance will work to develop Standard Operating Procedures governing the vendor database particularly as it relates to comparing authorized signatures on vendor registration forms to the City's authorized signature list.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #25. Work with Finance to obtain a daily vendor change report that shows all vendor file activities and verify appropriateness of changes. **Current Due Date**	☐YES	☒NO	☐

Details of Implementation: We agree with the recommendation. However, a resource is required to effectively implement Recommendations 21 through 27. One administrative assistant assigned to the Department and with multiple other duties enters data into the vendor database. Vendor data responsibilities currently entail about one-half of that individual's time on a daily basis. This is insufficient for the level of management and oversight that needs to be afforded to this function. The Department will once again request additional resources to formalize an effective oversight, planning, training, and customer assistance function in FY 2009. Meaningful progress on efforts associated with addressing the issues identified in this section of the report will continue to be limited or hampered without a firm commitment of additional resources to the Department. Nonetheless, the Departments of Procurement Services and Finance will work to develop Standard Operating Procedures governing the vendor database particularly as it relates to changes in vendor data.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement			

Services January 2008			
#26. Establish appropriate practices to verify various vendor attributes such as authenticity, good standing, liquidity, etc. using third party services. **Current Due Date**:	☐YES	☒NO	☐

Details of Implementation: We agree with the recommendation. However, a resource is required to effectively implement Recommendations 21 through 27. One administrative assistant assigned to the Department and with multiple other duties enters data into the vendor database. Vendor data responsibilities currently entail about one-half of that individual's time on a daily basis. This is insufficient for the level of management and oversight that needs to be afforded to this function. The Department will once again request additional resources to formalize an effective oversight, planning, training, and customer assistance function in FY 2009. Meaningful progress on efforts associated with addressing the issues identified in this section of the report will continue to be limited or hampered without a firm commitment of additional resources to the Department. Nonetheless, the Departments of Procurement Services and Finance will work to develop Standard Operating Procedures governing the vendor database particularly as it relates to assessing vendor attributes through third party sources such as Dun and Bradstreet.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #27. Develop procedures to review the vendor database to eliminate duplicates, errors and incorrect entries. **Current Due Date**:	☐YES	☒NO	☐

Details of Implementation: We agree with the recommendation. However, a resource is required to effectively implement Recommendations 21 through 27. One administrative assistant assigned to the Department and with multiple other duties enters data into the vendor database. Vendor data responsibilities currently entail about one-half of that individual's time on a daily basis. This is insufficient for the level of management and oversight that needs to be afforded to this function. The Department will once again request additional resources to formalize an effective oversight, planning, training, and customer assistance function in FY 2009. Meaningful progress on efforts associated with addressing the issues identified in this section of the report will continue to be limited or hampered without a firm commitment of additional resources to the Department. Nonetheless, the Departments of Procurement Services and Finance will work to develop Standard Operating Procedures governing the vendor database to eliminate duplicates, errors, and incorrect entries.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED?	YES/NO	IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #28. Establish an annual Code of Ethics/Conflict of Interest certification process in order to comply with existing regulations. **Current Due Date**:	☐YES	☒NO	☐

Details of Implementation: We agree with the recommendation and note the following:

Purchasing Policies and Procedures Manual dated 09-01-02 is out of date and needs substantial revision to bring the Manual into compliance with applicable State and City Codes and to incorporate current policies and procedures. Until the Manual can be rewritten in its entirety, updated, coordinated, and issued, interim changes in procurement policies and procedures are being implemented through Memorandum issued to City Agencies and Departments. During the period April through December 2007, the following policies have been implemented:

Purchasing Policies and Procedures No. 33, Revision to Contract Signature Authority
Purchasing Policies and Procedures No. 17, Emergency Purchases
Purchasing Policies and Procedures No. 43, Unauthorized Commitments
Purchasing Policies and Procedures No. 44, Richmond Supply Schedule Purchases

Policy No. 23, Conflict of Interest, and its attendant Code of Ethics Certification, has not been updated since September 2002, nor has executing such certificates been enforced. It should be noted that during the FY 2008 budget process, the Director requested and was denied additional funding of $300,000 that would have facilitated the Department's ability to develop an appropriate procurement training program and revise out-dated as well as develop new policies and procedures. In order to facilitate this effort, the Department will once again request additional resources in FY 2009, as the request will include additional funding for employee development and training. While progress on such efforts will continue to be limited or hampered without a firm commitment of additional resources to the Department, the Department will collaborate with the City Attorney's Office to update Policy No. 23.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED?	YES/NO	IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement			

Services January 2008			
#29. Establish a career path program in order to promote advancement within the department. **Current Due Date**:	☒YES	☐NO	☐

Details of Implementation: We agree with the recommendation. In December 2007, the Department sought and gained approval to pay-band procurement professional job classifications. This change will help reduce the turn-over rate within the Department due to trained and degreed employees leaving for higher paying procurement positions within the Richmond area. The new job classifications have created a career path for opportunity to be promoted within the Department and make the City more competitive with the surrounding communities. The Department is also planning a reorganization to enhance its abilities to more effectively serve its customer agencies and Departments. The reorganization will begin to better address the customer agencies' needs for oversight, planning, and specification development.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #30. Consult the Human Resources Department to evaluate the competitiveness of salary and benefits with other organizations such as other local government and state government. **Current Due Date**:	☒YES	☐NO	☐

Details of Implementation: We agree with the recommendation. At the request of the Director, a job study was performed by Human Resources in 2007 for salary and benefits comparisons prior to seeking Council approval to pay-band the procurement staff. The new salary ranges are within the norm to be competitive and the Department gained approval in December 2007 to pay-band procurement professional job classifications.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement			

Services January 2008 #31. Establish a certification or training program to compliment the career path and address staff competencies and skill sets. **Current Due Date**:	☐YES	☐NO	☒

Details of Implementation: We agree with the recommendation. In December 2007, the Department sought and gained City Council approval to pay-band procurement professional job classifications. This change will help reduce the turn-over rate within the Department due to trained and degreed employees leaving for higher paying procurement positions within the Richmond area. The new job classifications have created a career path for opportunity to be promoted within the Department and make the City more competitive with the surrounding communities. Various staff members have attended outside training classes and become certified as a licensed contracting officer. Staff members are encouraged to attend training for continuous education. Progress through the recently approved career path will require completion of certain education, training, and certification requirements. While the details associated with degrees have been identified, further details as they relate to training and professional certification need to be addressed.

Revised Due Date:

Delays if any:

Title and Responsible Employee:

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #32. Establish a process to capture data for a periodic review of the agency's effectiveness and develop strategies to improve the timeliness of the procurement activity. **Current Due Date**:	☐YES	☐NO	☒

Details of Implementation: We agree with the recommendation but note that without the appropriate automation tools, progress in this regard has been and will be negligible. At the request of the Auditor's Office, over a 2-month period during the conduct of this audit, the Procurement staff spent a significant amount of time carefully recording and tracking its daily activities and associated timelines based upon a comprehensive list of tasks identified in an Excel spreadsheet. The intent was to capture the types of activities the staff was typically involved in conducting their procurement and procurement-related business. The draft Audit Report makes no mention of this data and/or any conclusions derived from interpreting such data. We had hoped that the results of such data collection and analysis would be made known to us so that the Department would have at least a preliminary tool to assess staff productivity and /or identify other workload issues.

In the absence of an automated procurement management system and funding for same, the staff has been working with the Department of Information Technology to better capture procurement data and staff activity related to processing procurements. Such a tool would facilitate the Department's ability to assess workload, status of procurements, and identify impediments to improving individual and Departmental accountability, performance, and efficiency.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report 2008 Department of Procurement Services January 2008 #33. Establish detailed policies and procedures for managing the surplus property program. **Current Due Date:**	☐YES	☐NO	☒

Details of Implementation.   We agree with the recommendation but an additional resource is required. Currently, one Departmental person is assigned to establish the policies and procedures for surplus property and to administer the City's surplus property program. The position discussed in the Audit Report also serves as the Procurement Department's budget analyst, payroll clerk, asset manager, file room manager, and human resources liaison. Thus, the lack of resources causes challenges in implementing an effective and efficient program.

Purchasing Policies and Procedures Manual dated 09-01-02 is out of date and needs substantial revision to bring the Manual into compliance with applicable State and City Codes and to incorporate current policies and procedures. Until the Manual can be rewritten in its entirety, updated, coordinated, and issued, interim changes in procurement policies and procedures are being implemented through Memorandum issued to City Agencies and Departments. During the period April through December 2007, the following policies have been implemented:

Purchasing Policies and Procedures No. 33, Revision to Contract Signature Authority
Purchasing Policies and Procedures No. 17, Emergency Purchases
Purchasing Policies and Procedures No. 43, Unauthorized Commitments
Purchasing Policies and Procedures No. 44, Richmond Supply Schedule Purchases

Policy No. 38, Surplus Property; Policy No. 39, Sale of Abandoned, Confiscated, or Lost Property; and Policy No. 40, Federal/State Surplus Property have not been updated since September 2002. It should be noted that during the FY 2008 budget process, the Director requested and was denied additional funding of $300,000 that would have facilitated the Department's ability to develop an appropriate procurement training program and revise out-dated as well as develop new policies and procedures. In order to facilitate this effort, the Department will once again request additional resources in FY 2009. The Department will collaborate with the City Attorney's Office to update Policies Nos. 38, 39, and 40. However, as stated elsewhere in the response to the Audit Recommendations, efforts to update the relevant policies and procedures, train the workforce on such policies and procedures and institute an effective and efficient Surplus property program will continue to be limited or hampered without a firm

CITY OF RICHMOND
INTRACITY CORRESPONDENCE

commitment of additional resources to the Department.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #34. Ensure that the current or replacement financial system includes electronic approval capabilities in the automated three-way match process. **Current Due Date**:	☐YES	☐NO	☒

Details of Implementation: We agree with the recommendation.   Workflow, document attachment, and electronic signature have all been included in the ERP (Enterprise Resource Planning) requirements as critical items. Further, Finance will assess the cost benefit of changes to the current business process in conjunction with current system capabilities.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #35. Once the new system is implemented, ensure that duties of entering and electronically approving procurement documents are segregated. **Current Due Date**:	☐YES	☐NO	☒

Details of Implementation. We agree with the recommendation. All current business processes will be evaluated and improved in the areas of efficiency, controls, best practice, and industry standard where applicable.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #36. Require the City departments and agencies to send approved invoices in a timely manner. **Current Due Date**:	☒YES	☐NO	☐
Details of Implementation: We agree with the recommendation. This requirement is currently in place. Enforcing adherence to this requirement is incumbent on the agency Managers and Supervisors, and ultimately the agency Directors.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #37. Require the inclusion of early payment discounts as a standard procedure in the procurement negotiation process. **Current Due Date:**	☐YES	☒NO	☐
Details of Implementation: We agree with the recommendation. Due to the current decentralized environment, the vast majority of vendor invoices are submitted to accounts payable after the typical discount (0 – 15 days) period has passed, therefore, effort in establishing and maintaining discount terms would not reap the full			

intended benefit of the effort.

Purchasing Policies and Procedures Manual dated 09-01-02 is out of date and needs substantial revision to bring the Manual into compliance with applicable State and City Codes and to incorporate current policies and procedures. Until the Manual can be rewritten in its entirety, updated, coordinated, and issued, interim changes in procurement policies and procedures are being implemented through Memorandum issued to City Agencies and Departments. During the period April through December 2007, the following policies have been implemented:

Purchasing Policies and Procedures No. 33, Revision to Contract Signature Authority
Purchasing Policies and Procedures No. 17, Emergency Purchases
Purchasing Policies and Procedures No. 43, Unauthorized Commitments
Purchasing Policies and Procedures No. 44, Richmond Supply Schedule Purchases

Policy No. 28, Vendor Invoices, has not been updated since September 2002. It should be noted that during the FY 2008 budget process, the Director requested of and was denied by Council additional funding of $300,000 that would have facilitated the Department's ability to develop an appropriate procurement training program and revise out-dated as well as develop new policies and procedures. In order to facilitate this effort, the Department will once again request additional resources in FY 2009. The Department will collaborate with the City Attorney's Office and the Finance Department to update Policy No. 28. However, as stated elsewhere in the response to the Audit Recommendations, efforts to update the relevant policies and procedures, train the workforce on such policies and procedures and institute an effective and efficient Surplus property program will continue to be limited or hampered without a firm commitment of additional resources to the Department.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #38. Establish a set of policies and procedures to ensure taking advantage of early payment discounts offered by vendors. **Current Due Date**:	☐YES	☒NO	☐
Details of Implementation: We agree with the recommendation. Due to the current decentralized environment, the vast majority of vendor invoices are submitted to accounts payable after the typical discount (0 – 15 days) period has passed, therefore, effort in establishing and maintaining discount terms would not reap the full intended benefit of the effort. Purchasing Policies and Procedures Manual dated 09-01-02 is out of date and needs substantial revision to bring the Manual into compliance with applicable State and City Codes and to incorporate current policies and procedures. Until the Manual can be rewritten in its entirety, updated, coordinated, and issued, interim			

changes in procurement policies and procedures are being implemented through Memorandum issued to City Agencies and Departments. During the period April through December 2007, the following policies have been implemented:

Purchasing Policies and Procedures No. 33, Revision to Contract Signature Authority
Purchasing Policies and Procedures No. 17, Emergency Purchases
Purchasing Policies and Procedures No. 43, Unauthorized Commitments
Purchasing Policies and Procedures No. 44, Richmond Supply Schedule Purchases

Policy No. 28, Vendor Invoices, has not been updated since September 2002. It should be noted that during the FY 2008 budget process, the Director requested of and was denied by Council additional funding of $300,000 that would have facilitated the Department's ability to develop an appropriate procurement training program and revise out-dated as well as develop new policies and procedures. In order to facilitate this effort, the Department will once again request additional resources in FY 2009. The Department will collaborate with the City Attorney's Office and the Finance Department to update Policy No. 28. However, as stated elsewhere in the response to the Audit Recommendations, efforts to update the relevant policies and procedures, train the workforce on such policies and procedures and institute an effective and efficient Surplus property program will continue to be limited or hampered without a firm commitment of additional resources to the Department.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #39. Track savings from early payment discounts and use it as a performance measure. **Current Due Date**:	☐YES	☒NO	☐

Details of Implementation: We agree to the recommendation. Due to the current decentralized environment, the vast majority of vendor invoices are submitted to accounts payable after the typical discount (0 – 15 days) period has passed, therefore, effort in establishing and maintaining discount terms would not reap the full intended benefit of the effort.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement			

Services and Accounts Payable Section, Department of Finance January 2008 #40. Implement a procedure of batching and printing checks less frequently such as once a week. **Current Due Date**:	☐YES	☒NO	☐

Details of Implementation: We disagree with the recommendation. Implementing a process that would require printing checks less than daily would result in preparing more manual checks. Also, Social Services has specific needs that may also impact that decision as it relates to case management.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #41. Eliminate the printing of checks under $100 where possible. Use either petty cash reimbursements or ACH for these transactions. **Current Due Date**:	☐YES	☒NO	☐

Details of Implementation: We disagree with the recommendation. Many vendor payments are under $100 and the use of petty cash would increase internal control exposure.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable			

Section, Department of Finance January 2008	☐YES	☒NO	☐
#42. Consider negotiating a 45 day payment term with the vendors not offering early payment discounts. **Current Due Date**:			

Details of Implementation: We agree with the recommendation. Currently, Invitation for Bids (IFB) contain payment terms of 2% 20 net 30. Request for Proposals (RFP) states net 30 terms. Purchasing Policies and Procedures Manual dated 09-01-02 is out of date and needs substantial revision to bring the Manual into compliance with applicable State and City Codes and to incorporate current policies and procedures. Until the Manual can be rewritten in its entirety, updated, coordinated, and issued, interim changes in procurement policies and procedures are being implemented through Memorandum issued to City Agencies and Departments.   During the period April through December 2007, the following policies have been implemented:

Purchasing Policies and Procedures No. 33, Revision to Contract Signature Authority
Purchasing Policies and Procedures No. 17, Emergency Purchases
Purchasing Policies and Procedures No. 43, Unauthorized Commitments
Purchasing Policies and Procedures No. 44, Richmond Supply Schedule Purchases

Policy No. 28, Vendor Invoices, has not been updated since September 2002. It should be noted that during the FY 2008 budget process, the Director requested of and was denied by Council additional funding of $300,000 that would have facilitated the Department's ability to develop an appropriate procurement training program and revise out-dated as well as develop new policies and procedures. In order to facilitate this effort, the Department will once again request additional resources in FY 2009. The Department will collaborate with the City Attorney's Office and the Finance Department to update Policy No. 28. However, as stated elsewhere in the response to the Audit Recommendations, efforts to update the relevant policies and procedures, train the workforce on such policies and procedures and institute an effective and efficient Surplus property program will continue to be limited or hampered without a firm commitment of additional resources to the Department.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008	☐YES	☒NO	☐

# 43. Track additional earnings due to deferred payments and use it as a performance measure. **Current Due Date**:			
Details of Implementation: We disagree with the recommendation. Due to the current decentralized environment, the vast majority of vendor invoices are submitted to accounts payable after the typical discount (0 – 15 days) period has passed, therefore, effort in establishing and maintaining discount terms would not reap the full intended benefit of the effort.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 # 44. Evaluate increased use of ACH as the preferred method of payment. **Current Due Date**:	☐YES	☐NO	☒
Details of Implementation: We agree with the recommendation. In 2006, the City's Finance and DIT departments completed a year long project to begin offering ACH as a third vendor payment mechanism (paper check and wire transfer being the other two). A number of City vendors have been converted to this method of payment. During the coming year, the Finance Department will evaluate whether a greater number of vendors can be migrated to ACH.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008	☒YES	☐NO	☐

# 45.Monitor the implementation of and compliance with the revised procedures related to ACH transactions changes. **Current Due Date:**			
Details of Implementation: We agree with the recommendation. Upon notification, the Deputy Director of Finance instructed his staff to revise the procedures so that the changes made to vendor data will be independently reviewed by the Assistant Controller or her designee. The reviewer will contact the bank to ensure that the account information is valid and will try to verify that the vendor is valid by utilizing resources such as the State Corporation Commission's website.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 # 46. Implement procedures to provide responsibility and accountability for verifying ACH and wire transfer information. **Current Due Date:**	☐YES	☐NO	☒
Details of Implementation: We agree with the recommendation. The City does currently have a written Wire Transfer Policy which details various duties within the Finance Department related to the electronic transfer of funds. The policy will be reviewed and updated to address changes to current procedures and to provide more specific accountability for Procurement and Finance Departments in verifying that accurate ACH and wire transfer bank information is being used.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #47. Establish procedures that allow ACH as a means of payment for employee travel purposes. **Current Due Date**:	☐YES	☒NO	☐
Details of Implementation: We agree with the recommendation. The majority of City employees already receive their bi-weekly payroll via ACH direct deposit. The Finance Department will investigate to determine if the bank account deposit information already on file on many employees can also be used to generate ACH payments for the reimbursement of travel expenses.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #48. Implement positive pay with all of the City's major checking accounts. **Current Due Date**:	☐YES	☐NO	☒
Details of Implementation: We agree with the recommendation. Procurement and City staffs are currently reviewing banking proposals for the renewal of the City's primary banking contract. All of the proposing banks have offered some form of a Positive Pay product and outlined the monthly costs. Once the winning bank has been chosen, the Finance Department will weigh the costs and the benefits of adding this banking service to the major accounts on which we write the majority of City checks.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

CITY OF RICHMOND
INTRACITY CORRESPONDENCE

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #49. Discontinue the process of keeping the safe open during the day. **Current Due Date**:	☒YES	☐NO	☐
Details of Implementation: We agree with the recommendation. The process of opening the safe at the start of the business day and closing it at the end of each business day follows Accounts Payable policy # 6-016, File Room and Safe Security. Accounts Payable staff, however, were directed on September 17, 2007 to keep the safe locked during the day and also keep the signature stamp in the safe during the day.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #50. Discontinue allowing any employee to have access to both the manual checks and the signature stamp. **Current Due Date**:	☐YES	☐NO	☒
Details of Implementation: We agree with the recommendation. Management has designated specific individuals to open the safe.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

34

CITY OF RICHMOND
INTRACITY CORRESPONDENCE

RECOMMENDATION	IMPLEMENTED?	YES/NO	IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #51. Review the check security policy and adopt best practices standards. **Current Due Date**:	☐YES	☐NO	☒
Details of Implementation: We agree with the recommendation. This policy will be reviewed and revised where reasonable.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED?	YES/NO	IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #52. Ensure that proper documentation exists for employees authorized to pick up printed checks. **Current Due Date**:	☒YES	☐NO	☐
Details of Implementation: We agree with the recommendation. Prior authorization is currently required for check pick ups with the exception of travel checks.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED?	YES/NO	IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable			

Section, Department of Finance January 2008	☒YES	☐NO	☐
#53. Mail the checks, unless justification is provided on an exception basis. **Current Due Date**:			

Details of Implementation: We agree with the recommendation. With the exception of travel advance & reimbursement checks for employees, justification for check pick ups is currently required.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #54. Establish procedures relative to the proper input of invoice numbers into the financial system. **Current Due Date**:	☒YES	☐NO	☐

Details of Implementation: We agree with the recommendation. Accounts Payable has established procedures for the proper input of invoice numbers into the system. Accounts Payable has met with those agencies/departments that weren't concurring with those procedures and have reviewed the procedures with them.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008	☐YES	☐NO	☒

#55. Revisit the procedures for entering generic vendor codes and establish policies and procedures that limit the City's risk of duplicate payments accordingly. **Current Due Date**:			
Details of Implementation: We agree with the recommendation. Accounts Payable is reviewing current procedures for generic vendor codes. Concluding the review, Accounts Payable will establish Policy and Procedures that limit the City's risk, as appropriate.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #56. Research the entries with blank invoice numbers that were presented to the City Auditor's Office for duplicate payments. **Current Due Date**:	☒YES	☐NO	☐
Details of Implementation: We agree with the recommendation. Entries in question have been researched and a copy of the results has been provided to the City Auditor for review.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008	☒YES	☐NO	☐

#57. Research the actual duplicates, as found by the Auditor's Office, and determine the cause for each item and ensure that the revised procedures address the causes. **Current Due Date**:			
Details of Implementation: We agree with the recommendation. Each duplicate payment was researched during the audit. Various procedures have been addressed to lessen the likelihood of duplicate payments and those procedures were shared with the City Auditor.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #58. Recover the duplicate payments made to vendors. **Current Due Date**:	☐YES	☐NO	☒
Details of Implementation: We agree with the recommendation. Accounts Payable had initially requested a Recovery Audit that, as a part of the scope of their audit, would attempt to recover the duplicate payments to vendors. A good faith effort to recover the duplicate payments is in process.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008	☐YES	☐NO	☒

#59. Review the audit trail feature that was not put into place by the prior administration and determine whether the cost-benefit of the feature warrants implementation based upon the City's current needs and resources. **Current Due Date**:			

Details of Implementation: We agree with the recommendation. Audit trail feature will be reviewed and feasibility and benefits will be considered.

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED?	YES/NO	IN PROGRESS

City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008
 	
#60. Implement one of the following options:
 	
    A. If the City decides to stay with the existing software vendor, management should review the feasibility of the additional modules and features that would help in the day-to-day operations.
 	
    B. If the City decides to replace the current financial system, ensure that the new system contains the foregoing features including the audit trail feature.
 	
Current Due Date:
	☐YES
	
	☒YES
		☐NO
		
		☒NO
			☐

Details of Implementation: We agree with the recommendations. A. Finance will assess the cost benefit of changes to the current business process in conjunction with current system capabilities. B. Over 2300 system requirements, in 17 functional areas, were identified and documented in the ERP (Enterprise Resource Planning) Requirements phase. The majority, if not all, of the foregoing features were included, including the audit trail feature; however, Finance will review the document to ensure that all of the foregoing features have been included.

CITY OF RICHMOND
INTRACITY CORRESPONDENCE

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #61. Provide additional and mandatory staff training on the Advantage Financial system, and the InfoAdvantage/Business Objects reporting applications. **Current Due Date**:	☒YES	☐NO	☐
Details of Implementation: We agree with the recommendation. Training is currently offered in the areas of Sign-On & General Navigation, Purchasing, Receiving, Invoicing, Not Encumbered Invoices, Budget, Fixed Assets, and InfoAdvatage/Business Objects. For the size of the user base and what is being recommended, this function would require a dedicated FTE.			

Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #62. Provide an end-user training manual specifically tailored to their needs. **Current Due Date**:	☒YES	☐NO	☐
Details of Implementation: We agree with the recommendation. On-line training documentation is currently available for the functions indicated in response to recommendation #60 above. For the size of the user			

base and what is being recommended, this function would require a dedicated FTE.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			

RECOMMENDATION	IMPLEMENTED? YES/NO		IN PROGRESS
City of Richmond Audit Report Department of Procurement Services and Accounts Payable Section, Department of Finance January 2008 #63. Evaluate the adequacy of existing resources for both day to day functional "help-desk" activities and training initiatives. **Current Due Date**:	☒YES	☐NO	☐
Details of Implementation: We agree with the recommendation. Help Desk support and training programs are currently staffed by FTE's who are assigned various functions in addition to the aforementioned functions. For the size of the user base and what is being recommended, these functions would require a dedicated FTE for each function.			
Revised Due Date:			
Delays if any:			
Title and Responsible Employee:			