

PROCUREMENT CONTRACT AUDIT

PHASE II

Exit Conference Date: October 23, 2018

Release Date: December 5, 2018

Report No. 19-05

City of Orlando Office of Audit Services and Management Support

George J. McGowan, CPA
Director

Perez Goree, CPA
Audit Program Manager

Joanne Cambridge, CIA
Senior Auditor



TABLE OF CONTENTS



MEMORANDUM OF TRANSMITTAL.....	3
ISSUES, RECOMMENDATIONS AND MANAGEMENT ACTIONS	7
<i>ISSUES AND RECOMMENDATIONS</i>	9
<i>Goods or services provided by some vendors were not reflected in the contract</i>	9
<i>Prices paid for certain items did not agree with contract rates</i>	10

MEMORANDUM OF TRANSMITTAL



To: David Billingsley, Chief Procurement Officer

From: George J. McGowan, CPA
Director, Office of Audit Services and Management Support

A handwritten signature in black ink, appearing to be 'GJM'.

Dates: Exit Conference: October 23, 2018
Release: December 5, 2018

Subject: Annual Procurement Contracts Audit (Report No. 19-05)

The Office of Audit Services and Management Support performed an audit of the processes and controls over Procurement Contracts. The audit objectives were to ensure that the Purchasing function protects the best interest of the City in getting the highest quality products at the lowest price and agreed upon quantities.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following report contains the issues identified during the audit, recommendations for improvement and management's replies regarding actions taken/planned to be taken with respect to the identified issue.

We appreciate the cooperation and courtesies extended by the staff of Procurement Division during the course of this audit.

GJM/PG

c: The Honorable Buddy Dyer, Mayor
Jody Litchford, Deputy City Attorney
Christopher McCullion, Chief Financial Officer
Brian Battles, Deputy Chief Financial Officer

SUMMARY OF RECOMMENDATIONS, MANAGEMENT RESPONSES AND ACTION PLAN



		MANAGEMENT RESPONSE & ACTION PLAN				
#	RECOMMENDATIONS	CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	ACTION PLAN	TARGET DATE
1.	The Chief Procurement Officer should instruct the operational divisions regarding the proper procedures to follow to acquire goods and services not listed in contracts.	X			A new training program for operational divisions will be developed relating to contract management. Content will include how to order from contracts, confirming goods/services are on contract and what to do if they are not included on the contract. Training will also include supplier performance and invoice processing. In addition, a project is currently underway to add contract documents to the Workday Supplier Contract page. This will allow easier access to confirm what is included on the contract.	July 2019

		MANAGEMENT RESPONSE & ACTION PLAN				
#	RECOMMENDATIONS	CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	ACTION PLAN	TARGET DATE
2.	The Chief Procurement Officer should instruct the affected operational divisions to properly review invoices to ensure prices for goods and/or services listed on the invoice agree with the negotiated price in the contract.	X			A new training program for operational divisions will be developed relating to contract management. Content will include how to confirm contract pricing and what to do if there is a discrepancy with the invoice. Training will also include supplier performance and how to order from a contract. In addition, a project is currently underway to add contract documents to the Workday Supplier Contract page. This will allow easier access to confirm pricing.	July 2019



ISSUES, RECOMMENDATIONS AND MANAGEMENT ACTIONS



BACKGROUND

The Office of Audit Services and Management Support performed an audit of the processes and controls over Procurement Contracts. The audit objectives were to ensure that the Purchasing function protects the best interest of the City in getting the highest quality products at the lowest price and agreed upon quantities.

The mission of Procurement and Contracts Division is to purchase, rent, lease, or otherwise acquire goods and services at the lowest possible cost consistent with the quality needed to provide the very best services to the public in accordance with the Purchasing Code, Chapter 7.

The Procurement and Contracts Division is responsible for the acquisition of materials, supplies, equipment and services at the lowest possible cost while remaining consistent with the quality needed to provide the very best service to the public.

Once contracts have been procured the operating departments are responsible for ensuring that the City is charged the contractual price for items included in annual contracts.

OBJECTIVES AND SCOPE

The audit objectives were to ensure that the Purchasing function protects the best interest of the City in getting the highest quality products at the lowest price and agreed upon quantities.

The scope of this audit focused on contract price compliance and oversight after the term contracts have been procured. We focused on contracts with an effective date of July 1, 2016, or thereafter. As of June 12, 2018, there were 235 contracts in effect.

METHODOLOGY

We reviewed the data base of existing contracts and haphazardly selected and reviewed twenty-four contracts. Additionally we selected up to three invoices from each term contract with the goal of reconciling the invoice prices back to the contract prices; and ensuring that proper approvals were obtained. We also had discussions with the Chief Procurement Officer to understand the invoice review process and reviewed contract amendments to gain an understanding of the current terms of the selected contracts.

ISSUES AND RECOMMENDATIONS

Goods or services provided by some vendors were not reflected in the contract terms

When reviewing the invoices for Active Network, Applied Industrial Technologies, DeSanto Plumbing, DG Investments Intermediate Holdings and BSN Sports Inc., we found instances where items listed on the invoices were not identified in the contract. The annual value of these term contracts are \$334,756, \$225,000, \$132,600, \$85,000 and \$84,000, respectively. Based on invoice activity, we reviewed one to three invoices for each contract and several of the invoice prices could not be traced back to the contract. Audit determined that the respective operational divisions reviewed and approved these invoices for payment. However, they did not identify the goods or services that were acquired outside the contract terms.

Recommendation 1

We recommend that the Chief Procurement Officer instruct the operational divisions regarding the proper procedures to follow to acquire goods and services not listed in contracts.

Management Response

Concur. A new training program for operational divisions will be developed relating to contract management. Content will include how to order from contracts, confirming goods/services are on contract and what to do if they are not included on the contract. Training will also include supplier performance and invoice processing. In addition, a project is currently underway to add contract documents to the Workday Supplier Contract page. This will allow easier access to confirm what is included on the contract.

Prices paid for certain items did not agree with contract rates	During our review of the Groundtek of Central Florida, DeSanto Plumbing Services, and Brenntag Mid South Inc. contracts we found that invoice prices did not match the contract prices. The annual values of these term contracts are \$2,040,732, \$132,600, and \$21,235 respectively. Based on invoice activity, we reviewed one to three invoices and each of the invoices had discrepancies in invoice prices when compared to contract prices. Several invoice prices were higher than the contract price negotiated. Audit determined that the operational divisions reviewed and approved invoices for payment.
Recommendation 2	We recommend that the Chief Procurement Officer instruct the affected operational divisions to properly review invoices to ensure prices for goods and/or services listed on the invoice agree with the negotiated price in the contract.
Management Response	Concur. A new training program for operational divisions will be developed relating to contract management. Content will include how to confirm contract pricing and what to do if there is a discrepancy with the invoice. Training will also include supplier performance and how to order from a contract. In addition, a project is currently underway to add contract documents to the Workday Supplier Contract page. This will allow easier access to confirm contract pricing.