



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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17-22 City of Colorado Springs Procurement Audit

August 2017

Purpose

The purpose of this audit was to evaluate whether the City of Colorado Springs acquired goods and services in accordance with City policy, while adequately safeguarding resources.

Highlights

Overall, we conclude that goods and services were being acquired in accordance with City procurement policy. We identified three observations to strengthen internal controls and three opportunities for improvement.

The Procurement Audit was performed on a recurring basis. Our audit period was January 1 through December 31, 2016.

To accomplish our audit objectives, we obtained an understanding of the internal control structure related to procurement activities. We reviewed City contract terms and conditions to confirm compliance with federal requirements. In addition, we reviewed available literature related to procurement processes to identify best practices. We compared competitive bid limits to policies in other government entities. Based on our testing, it appeared that the current purchasing limits for Colorado Springs were significantly higher than those in place in similar jurisdictions. Competitive bid limits had not been modified since the prior audit conducted in 2012.

As part of audit procedures, a test was performed to verify that purchases were made in compliance with limits and no exceptions were noted for decentralized purchasing.

Our audit included interviews with key personnel along with a review of 46 contracts (20 of which had change orders) and 40 purchase orders for compliance with City procurement policies. Most transactions complied with policy.

Management Response

Management agreed with our observations. See detailed responses from management on the following pages of this report.

Recommendations

1. The City should implement a contracts management system. Until that system is implemented, Procurement Services should use available reports to monitor procurement activity.
2. Procurement Services should review bid limits. Centralizing purchasing activities may decrease risk. Resource requirements should be considered for any potential changes to competitive bid policy limits.
3. Procurement Services should review procurement files to ensure that all required information is retained.

Opportunity for Improvement

1. Procurement Services should consider implementation of a process for logging, tracking, and reporting vendor complaints including final resolution.
2. Procurement Services should inform vendors of the fraud hotline during the purchasing process. The hotline should be referenced in contract clauses.
3. Procurement Services should implement and manage an ongoing vendor performance evaluation program.

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17-18 CITY OF COLORADO SPRINGS PROCUREMENT AUDIT

Observation 1

The contracting process relied on manual processes for workflow, approvals, document retention, and the processing of change orders. Visibility was limited related to the status of contracts. An electronic document management system was not in place to retain procurement documents.

The accounting system had limited functionality related to contracting. It did not provide reports of upcoming contract expirations, which would be beneficial to plan for solicitations or renewals. Procurement Services did not use specific reports to monitor expiring contracts. Management of the \$178M of contracts approved in 2016 merits a robust contracts management system.

When funding is available, we recommend the implementation of a contracts management system and document repository.

Management Response

We agree with the recommendation. The process of reviewing and purchasing a contracts management system was initiated by the previous Procurement Services Manager. The purchase of a contracts management system has been approved and it is expected that full implementation of the software will occur by 1st Quarter of 2018.

Recommendation

The City should implement a contracts management system to serve as a document repository as well as a reporting tool. Until a contracts management module is implemented, we recommend that Procurement Services utilize available queries or track contracts using spreadsheets.

Observation 2

We reviewed the procurement policies for comparable municipalities and El Paso County. We reviewed the purchasing thresholds for each entity to determine the levels where no bids were required, informal bids were required, and formal bids were required. Based on our testing, it appeared that the current purchasing limits for Colorado Springs were significantly higher than the other entities we tested.

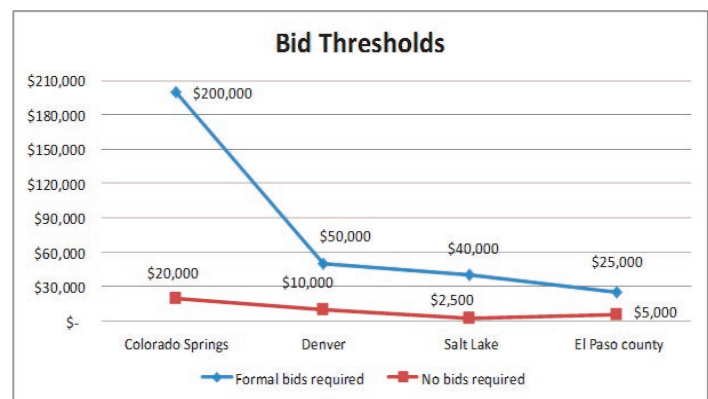
City Management was in the process of proposing lower thresholds over which bids are required. The Mayor's Office has approved proposed changes, but the changes had not yet been submitted to City Council.

Management Response

We agree with the recommendation. Revisions to the procurement rules and regulations, including lower thresholds, are currently under review and final approval is anticipated by 4th Quarter 2017. When the new thresholds take effect, Procurement Services will revisit staffing resources to ensure compliance and will encourage the centralization of procurement by having contracting specialists or buyers facilitate informal purchases wherever possible.

Recommendation

Procurement Services should review bid limits. Centralizing purchasing activities may decrease risk. Resource requirements should be considered for any potential changes to competitive bid policy limits.



17-18 CITY OF COLORADO SPRINGS PROCUREMENT AUDIT

Observation 3

During our contract review, we found 5 instances out of 18 requests for proposal (RFP) did not have signed procurement integrity statements from RFP evaluation team members.

City Procurement Rules and Regulations, section 3-305.3, states, "Furthermore, all committee members shall read and sign the Procurement Integrity Non-Disclosure Statement prior to reviewing any of the received proposals. This statement serves as a briefing to each evaluator of the confidentiality that must be maintained while evaluating the proposals".

Management Response

We agree with the recommendation. We will accomplish this via the implementation of a contracts management system, as noted in the response to Observation 1, requiring that proposal evaluators fill out an integrity form prior to evaluating proposals. The integrity forms will be retained along with other required documents and will be confirmed by the use of a contract file index completed by contracting specialists.

Recommendation

Procurement Services should review files for completeness, including signed procurement integrity statements. The importance of this statement should be noted during annual procurement training sessions.

Opportunity for Improvement 1

Vendor complaints and inquiries were not documented to review for patterns, trends, and to ensure that they have been adequately addressed in a timely manner. This documentation would also facilitate periodic reviews by management.

Under City Procurement Rules and Regulations, several options for appeal were available to vendors that should be considered. Vendors may request a debriefing session to obtain more information about the basis for selection and award of the contract. Procurement rules also allowed the vendor to file a protest, which requires a written response from the Procurement Services Manager. Additionally, vendors could contact Procurement Services to make informal complaints.

Management Response

We agree with the recommendation. A system for documenting vendor complaints is anticipated by July 1, 2018. This will be a separate process from a protest which is addressed in the Procurement Rules and Regulations, section 4-105. The vendor complaint implementation process will include developing a written procedure specific to vendor complaints, updating the City website, and finally updating Procurement contract and solicitation templates.

Recommendation

The Procurement Services Department should consider implementing a process for logging, tracking, and reporting of vendor complaints including final resolution. The process could be facilitated via the Procurement Services portal on the City website.

17-18 CITY OF COLORADO SPRINGS PROCUREMENT AUDIT

Opportunity for Improvement 2

The Procurement Services Department does not notify vendors of the fraud hotline during the purchasing process. The fraud hotline is not mentioned in the contract clauses we reviewed.

Recommendation

Procurement Services should include communication related to the fraud hotline in the RFP process by noting the number and link to the online reporting form. The fraud reporting process should be referenced in all standard contract templates.

Management Response

We agree with the recommendation. Procurement contract and solicitation templates will be updated by October 1, 2017 to include reference to the fraud reporting process, telephone number, and a link to the fraud reporting form.

Opportunity for Improvement 3

The City does not have a formal vendor performance management or vendor evaluation process.

The Procurement Services Department indicated they intend to implement a vendor performance evaluation process in 2017 to assess performance as compared to contractual requirements. This program will be launched after the annual procurement training is conducted.

We reviewed the proposed evaluation form and noted that it includes a number of key assessment criteria and clearly defined ratings definitions.

Recommendation

Procurement Services should continue to implement and manage an ongoing vendor performance evaluation program.

We recommend that Procurement Services consider adding additional performance elements such as communication and accessibility, along with the prompt and effective correction of issues. We also recommend that Procurement Services consider adding numerical ratings for performance elements for the future development of supplier scorecards.

Management Response

We agree with the recommendation. A vendor evaluation form is now available on the City intranet for access by City staff. Implementation will continue in 2017 with contract close outs requiring a vendor performance evaluation starting January 1, 2018.