

**Post-Audit Review 13-01:
Office Supply Contracts**

February 2014

City Auditor

Stan Sewell, CPA, CGFM, CFE

Senior Auditor

Lisa Culver, CFE





OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

February 25, 2014

To: Mayor Andy Berke
City Council Members

Subject: Post-Audit Review of Office Supply Contracts (Report #13-01)

Dear Mayor Berke and City Council Members:

Attached is a summary report on the status of audit recommendations in our 2013 Office Supply Contracts report. The purpose of this report is to confirm whether, and to what degree, management has implemented the recommendations made in the original audit. In December 2013, a new *Procurement Instructional Manual* was approved by Council and was introduced to City employees last week.

The original audit concluded:

1. Proper procedures were not followed in bidding and contracting for supplies, paper and ink cartridges and contract terms are not followed in pricing office supplies.
2. The automated computer systems have not been utilized to maximize efficiency and effectiveness of contract management.

The audit had 11 recommendations to improve efficiency and effectiveness of the Purchasing Division in regards to developing and evaluating bids, monitoring of contract pricing and blanket contracts and updating the City's *Procurement Instructional Manual* as needed to address the recommendations. At the time of this Post-Audit Review, one was partially implemented, and ten were implemented. Please see attachment for detail. The recommendation partially implemented is herein reported to the Audit Committee for follow-up, as appropriate.

This Post-Audit Review consisted principally of inquiries of City personnel and examinations of various supporting documentation. It was substantially less in scope than an audit in accordance with generally accepted government auditing standards. The evidence obtained provided a reasonable basis for our conclusions; however, had an audit been performed, other matters might have come to our attention that would have been reported to you and our conclusions may have been modified.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Travis McDonough, Chief of Staff
Jeff Cannon, Chief Operating Officer
David Carmody, Purchasing Agent
Daisy Madison, Chief Financial Officer
Audit Committee Members

RECOMMENDATION PARTIALLY IMPLEMENTED (1)

Recommendation	Actions Taken
10 We recommended determination be made of the amounts overpaid to COS for office supplies since July 2010 and COS return that amount to the City.	The Purchasing Agent has been in contact with COS and they agreed to refund the overpayment. However, the payment has yet to be remitted.

RECOMMENDATIONS FULLY IMPLEMENTED (10)

Recommendation	Actions Taken
1 We recommended compliance to <i>The Internal Control and Compliance Manual for Tennessee Municipalities</i> , Title 5, Chapter 17, section 8, and the <i>City Procurement Instructional Manual</i> , section 2.05(7).	The Purchasing Division utilized the relatively new competitive RFP process for the recent procurement of contracts for office supplies and toner. We reviewed the procurement files and noted documentation of the evaluation process and selection of the best evaluated proposals. Also, Council is being provided with a summary of pertinent bid information for contracts over \$10,000. This includes a notation of whether the low bidder was selected. A sample review also indicated bid tabulation forms are being submitted to City Council.
2 We recommended all qualifying factors that will be used in the determination of a bid winner be clearly stated in the bid package.	The Auditor reviewed the toner and office supplies contract files and found the evaluation criteria detailed in the Request for Proposals provided to bidders matched the criteria on the evaluation forms for each contract.
3 We recommended future bids be based upon items with the greatest total expenditures, not always the greatest quantity, when only a sample of items is used for evaluation. An example would be instead of high volume but low cost items (staples or paper clips), include more expensive but lower quantity items (surge protectors and batteries). Alternatively, when bids are solicited for a single contract including a high number of differing items, the Purchasing Division might consider requests for the entire catalog with an overall stated discount. Evaluation of bids could then be based on a sample of items from the catalog (determined after bid opening).	The Purchasing Division developed the recent office supplies bid evaluation based on 104 items that represent the largest portion of the previous year's annual spend, and a percentage discount on a catalog of items. The catalogs presented by the vendors had differing list prices. So in order to accurately evaluate the cost, a sample of ten items was taken and compared between all four proposals.

Recommendation

- 4 We recommended minimum requirements be developed, and the *City Procurement Instructional Manual* revised, to describe the minimum detail to be included in a bid, along with the method to be used in determination of the bid winner. We also recommended the manual be revised to require all bid solicitations to include the methodology to be used to evaluate the bids.
We recommended criteria be developed, and consistently followed, in determination of bid winners for purchases of like items. The criteria could include standardized templates specifying certain factors be considered in determining the winner of a bid (e.g. quantity multiplied by price, percentage discount on other items, time of delivery, services offered at no charge with purchases), and a weighting system developed to determine the bid winner. This process might consist of several templates, dependent on the type of product being purchased. We further recommended these steps be added to the purchasing checklist to track compliance with these additional steps.
- 5 We recommended training be given to the Buyers to provide working knowledge of the relevant portions of State law, *The Internal Control and Compliance Manual for Tennessee Municipalities* and City Code. We also recommended further training to help Buyers determine important elements of a bid (discounts on the entire catalog, free or inexpensive service add-ons, etc.) having the greatest effect related to the overall cost of a contract. We also recommended quality/supervisory review of Buyer activities.
- 6 We recommended purchase order #517932 (printer/toner cartridges) be revised to include all items in the bid, and all pricing confirmed and changed as appropriate. We further recommended a methodology be developed to ensure pricing on new purchase orders is correct. One method would be to have a Purchasing Division employee double check all items/pricing prior to completion of the purchase order (a simple control total comparison of the bid versus the system).

Actions Taken

The Purchasing Division's default bid evaluation is based upon the lowest bid that meets the specifications. The new *Procurement Instructional Manual* requires Request for Proposals to state the required evaluation criteria and an evaluation committee to evaluate the bids. The Purchasing Division used the competitive RFP process for the recently procured office supplies and toner contracts. The evaluation process was followed as required by the new manual. The Purchasing Agent is collaborating with IS to develop standardized formulas for assessing bids and compiling bid tabulation databases, that would be a more automated process than the manual one currently being used.

The Purchasing Division has issued a new *Procurement Instructional Manual* which has been approved by Council. The Purchasing staff has been provided in-house training on the new manual and processes associated with it. The Purchasing Agent reviews all contracts over \$10,000 before they are finalized.

The Purchasing Agent has systematically been reviewing all blanket purchase orders as they come up for renewal. This involves reviewing the prior bid process and contract terms and if applicable rebidding some contracts. Recently, the toner cartridge contract was rebid using a competitive RFP and was awarded to Staples. Staples utilizes online ordering and purchasing with a City purchase card. This process eliminates the need to individually enter the products and pricing into the Oracle system. A Buyer has been assigned the responsibility of verifying the accuracy of the online pricing (see recommendation 7).

Recommendation

Actions Taken

<p>7 We recommended the Purchasing Division institute a policy to spot check prices charged on purchase cards for office supplies under contract each month. One method to accomplish this would be to obtain an electronic file of purchases for the previous month from the vendor containing item number, quantity, price per unit and total charge. This file could be electronically compared to the prices bid for static priced parts, as well as those to be purchased at a 50% discount by the City.</p>	<p>The Purchasing Agent has setup a procedure requiring an assigned Buyer to regularly review Staples online prices to verify their accuracy. Staples provides standard reports which will help in this review process also.</p>
<p>8 We recommended the Purchasing Division send a memo to all departmental personnel responsible for ordering supplies twice annually as a reminder of available discounts on products currently under contract, as well as how to obtain the discounts. We also recommended actions be taken to ensure updated Office Essentials catalogs are delivered to users as they are published by the vendor.</p>	<p>Under the COS office supply contract (in place during our audit), the Office Essentials catalog was distributed to users, as recommended, before the contract expired. The new Staples office supplies contract utilizes online purchasing with the City's purchase card. They also provide a smaller catalog to choose from with larger discounts than the full Staples catalog. The Staples website displays the lowest priced item in a search. The website also provides the option to sort by lowest price.</p>
<p>9 We recommended when contracts are being developed for products with many similar items in the catalog, the items available for purchase by City employees be reduced to a few products of the most popular items of each type, and a catalog containing those products be supplied, limiting purchases to only those products. Implementation of such policies would reduce cost to the City.</p>	<p>As noted above in recommendation 8, the Purchasing Division is trying, when applicable, to require vendors to provide a full online catalog. They will require vendors provide larger discounts for more frequently purchased items. A requirement of online purchasing would be to set parameters, such as in the Staples website, where some items are blocked from purchase.</p>
<p>11 We recommended all blanket purchase orders be researched prior to renewal, ensuring the products under contract are currently being used and the contract continues to provide a greater financial benefit than may be provided by other vendors if rebid, with this determination documented in the purchase order file.</p>	<p>All blanket contract renewals must be reviewed and approved by the Purchasing Agent three months prior to the contract renewal date.</p>

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