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Audit Report

**COMPETITIVE AND SOLE SOURCE
PURCHASING**

June 17, 2008

Office of the City Auditor
Austin, Texas

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Date: June 17, 2008
To: Mayor and Council Members
From: Stephen L. Morgan, City Auditor
Subject: Competitive and Sole Source Purchasing

I am pleased to present our report on the City's Competitive and Sole Source Purchasing. This audit assessed whether City departments followed relevant purchasing policies and procedures for competitive and sole source purchases.

We found that departmental purchases, which are purchases under \$5,000, are not consistently processed in compliance with City policies regarding competition, coding of purchases, and encumbrance of funds. We identified repeated use of vendors without contracts which may cost the City more than establishing long-term contracts for the same goods and services. Additionally, due to inaccuracies of vendor information contained in the City's financial system, a number of vendors do not receive notification of upcoming opportunities for bidding on purchases over \$5,000. Finally, while we did not identify misuse of sole source and emergency purchases, which are exempted from competitive bidding requirements, we observed that departments did not always document these purchases according to City policies.

We have issued six recommendations to ensure that purchasing staff in the various departments conduct purchases in adherence with applicable City policies and that the Purchasing Office takes a more proactive approach to ensure that the City is getting the "best deal" for City purchases.

Management has concurred with five recommendations made in this report and partially concurred with one. We appreciate the cooperation and assistance we received from staff in the City's Purchasing Office during this audit.

Stephen L. Morgan, CIA, CGAP, CFE, CGFM
City Auditor

COUNCIL SUMMARY

This report presents the results of our Competitive and Sole Source Purchasing audit. The purpose of this audit was to determine whether City departments were appropriately soliciting competition for purchases, including following policies and procedures related to sole source purchases.

City procurement policies establish that purchases made by the City must be subjected to competition, unless exempted by state law. In the City of Austin, purchasing is primarily conducted by a central Purchasing Office, but purchases under \$5,000 are delegated to individual departments. Purchases conducted by departments represent the vast majority of the City's yearly purchases.

We found that departmental purchases, which are purchases below \$5,000 made at the discretion of departments, are not consistently processed in compliance with City policies regarding competition, coding of purchases, and encumbrance of funds.

Further, the Purchasing Office needs a more proactive approach to ensure the City is getting the "best deal" for competitive purchases. We identified repeated use of vendors without a contract. Additionally, due to problems with the accuracy of vendor contact information, a number of vendors are not notified of upcoming opportunity for bids for purchases above \$5,000.

Finally, we did not identify any misuse for allowed exceptions to competitive requirements, particularly sole source and emergency purchases. However, departments did not always document these purchases according to City policies.

We have issued six recommendations to ensure that purchasing staff in the various departments conduct purchases in adherence with applicable City policies and that the Purchasing Office takes a more proactive approach to ensure that the City is getting the "best deal" for City purchases.



ACTION SUMMARY COMPETITIVE AND SOLE SOURCE PURCHASING

Recommendation Text	Management Concurrence	Proposed Implementation Date
01. In order to ensure that purchasing staff in departments conduct purchases in adherence with applicable laws and policies, the Purchasing Officer should implement regular, required training refreshers for staff with departmental purchasing responsibilities.	Concur	September 30, 2008
02. In order to ensure that purchasing staff in departments conduct purchases in adherence with applicable laws and policies, the Purchasing Officer should establish periodic monitoring of purchases conducted by departments. At minimum, monitoring activities should verify: a. Compliance with competition requirements; and b. Compliance with encumbrance of funds requirements.	Concur	October 1, 2008
03. In order to ensure the accuracy and validity of information capturing the types of procurements (competitive, sole source, other exceptions per state law, interlocal agreement, etc.), included in the City's financial system, the Purchasing Officer should: a. Work with the Controller's Office to eliminate the default value from the field that captures the purchase category; and b. Ensure that discussion of the purchase category field and related requirements included as part of the training refreshers.	Concur	October 1, 2008

Recommendation Text	Management Concurrence	Proposed Implementation Date
04. In order to reduce costs related to recurring purchases of goods and services, the Purchasing Officer should assign the responsibility for systematically reviewing data on repetitive purchases conducted by departments to identify needed master agreements.	Concur	October 1, 2008
05. In order to increase the number of vendors reached by the City electronic procurement system and therefore increase opportunity for competition, the Purchasing Officer should work with the Controller's Office to address data problems related to vendors' electronic contact information.	Partially concur	August 31, 2008
06. In order to ensure compliance with laws and regulations related to emergency purchases, the Purchasing Officer should clarify City policies regarding emergency purchases and include discussion of these policies in training refreshers contained in recommendation #1 of this report.	Concur	October 1, 2008

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BACKGROUND

According to the City Charter, all purchases made by the City shall provide an opportunity for competition unless they are exempt by state law. It is the policy of the City to use competitive principles in awarding all public contracts of any amount with very limited exceptions. City policies establish competition requirements for all purchases or contracts for supplies, materials, equipment, or services above \$500, unless exempt by state law. City competition requirements are more stringent than state law, which requires competition for all expenditures above \$50,000 (until 2007 this amount was \$25,000).

State law allows for some exemptions from competition requirements. The main exemptions include:

- Sole source purchases, which are goods or services only available from one supplier or precluded from competition due to existing patents, copyrights, or natural monopolies.
- Emergency purchases, which are purchases made to meet a critical, unforeseen government need.
- Procurement of professional services, which include services provided by members of disciplines requiring special knowledge or attainment and a high order of learning, skills, and intelligence. Examples include architectural and engineering services.

The exhibit below shows the breakdown of competitive and non-competitive purchases over \$500 awarded by the City in fiscal year (FY) 2007. However, as discussed in the audit results, reports based on the purchasing category field in the City’s financial system are not entirely reliable.

**EXHIBIT 1
Breakdown of FY 07 Purchases By Category**

Purchase Category	Number of Purchases	Percent of Total Purchases	Dollar Amount	Percent of Total Dollar Amount
Competitive	10,115	86%	\$ 158,452,571	65%
Non-Competitive	1,715	14%	\$ 86,476,901	35%
<i>Sole Source</i>	575	5%	\$ 14,703,816	6%
<i>Exceptions*</i>	209	2%	\$ 14,418,184	6%
<i>Other**</i>	931	8%	\$ 57,354,901	23%
Grand Total	11,830	100%	\$ 244,929,472	100%

* Exceptions include all purchases that are exempt from competition per LGC 252.022 (such as personal, professional, and planning services, as well as emergency purchases).

** Others include public health, cultural arts, interlocal agreement, social grants, state contracts, and other non-competitive purchases.

SOURCE: OCA analysis of FY 07 purchases above \$500 extracted from the City’s financial system.

The City has a centralized purchasing function, but responsibility for lower dollar purchases is delegated to individual departments. In the City, purchasing is primarily conducted by the central Purchasing Office, which is a division of the Financial and Administrative Services Department. The mission of the Purchasing Office is to procure quality goods and services in a timely manner at the lowest possible cost to the City and to assure management that purchasing is conducted in adherence to applicable federal,

state and local laws as well as City policy. To carry out its purpose, in FY 08, the Purchasing Office had 74.57 FTEs and a budget of approximately \$6M.

The City has differing purchasing procedures depending on the dollar amount of the purchase and the nature of the procurement. Specifically:

- For purchases below \$5,000, purchasing authority is delegated to the various departments (with the exception of Austin Energy, whose departmental buyers have authority for all purchases below \$25,000).
- For purchases above \$5,000 the Purchasing Office works with departments to conduct solicitations and approve purchases within the city manager’s authority (currently below \$50,000).
- For purchases above the city manager’s authority, the Purchasing Office conducts solicitation and then submits results to the City Council for award by means of a Request for Council Action (RCA).

While departmental purchases represent a small portion of the dollars spent by the City in a given year, they represent the vast majority of transactions. As shown in Exhibit 2 below, while purchases awarded by departments in FY07 represented 7 percent of the dollars spent by the City, they accounted for 75 percent of all purchase transactions.

**EXHIBIT 2
Breakdown of FY 07 Purchases By Amount**

Purchase Amount	Number of Purchases	Percent of Total Purchases	Dollar Amount	Percent of Dollar Amount
\$500-\$4,999	8,852	75%	\$ 15,939,144	7%
\$5,000-\$24,999	2,215	19%	\$ 25,319,586	10%
\$25,000-\$48,999	482	4%	\$ 18,168,823	7%
Over \$49,000	281	2%	\$ 185,501,919	76%
Total	11,830	100%	\$ 244,929,472	100%

SOURCE: OCA analysis of FY 07 purchases above \$500 extracted from the City’s financial system.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The purpose of this audit was to determine whether City departments were appropriately soliciting competition for purchases, including following policies and procedures related to sole source purchases.

Scope

The scope of our audit included purchases above \$500 executed in FY 06 and FY 07. Additionally, we reviewed records for active vendors included in the City's financial system as of April 2008.

Methodology

In order to perform our audit work we used various methods including:

- Analyzing Citywide and departmental procurement policies and procedures, including processes to establish contracts.
- Reviewing purchasing laws and regulations.
- Interviewing staff in the City Purchasing Office and departmental purchasing functions.
- Extracting and analyzing data from the City's accounting system (AFS2 and AFS3).
- Analyzing a statistically valid sample of 268 purchases from the universe of 21,347 purchase transactions above \$500 awarded in the period FY06 and FY07 (calculated at a 90 percent confidence level).
- Analyzing a statistically valid sample of 320 vendor records from the universe of 11,230 active vendors with an email address that were registered for one or more commodity code in the City's financial system as of April 3rd, 2008 (calculated at a 95 percent confidence level).

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.

AUDIT RESULTS

In our audit we found that departmental purchases, which are purchases below \$5,000 made at the discretion of departments, are not consistently processed in compliance with City policies regarding competition, coding of purchases, and encumbrance of funds. Additionally, the Purchasing Office, which handles purchases above \$5,000, should use a more proactive approach to ensure that the City is getting the “best deal” for competitive purchases. Further, in reviewing allowed exceptions to competitive requirements contained in our sample, we observed a few instances of improper documentation but did not identify any misuse of sole source or emergency purchase exceptions.

Departmental purchases are not consistently processed in compliance with City policies regarding competition, coding of purchases, and encumbrance of funds.

According to City procurement policies, purchases under \$5,000 are made at the discretion of City department directors. However, purchases over \$500 made by departments must be subjected to competition. In our audit, we found that for fourteen percent of purchases, departments did not comply with City competition requirements. For nine percent of purchases, departments coded the purchase incorrectly in the financial system. Also, for thirty percent of purchases, departments did not encumber funds in the financial system prior to placing the order. These problems indicate the need for more training and further Purchasing Office oversight.

Fourteen percent of sampled transactions were not in compliance with competition requirements established by City policies; as a result, departments may not be procuring goods and services at the lowest possible cost. It is the policy of the City to use competitive principles in awarding all public contracts of any amount with very limited exceptions. For departmental purchases, City purchasing policies make departments responsible for obtaining (or making a good faith effort to obtain) at least three competitive bids for purchases above \$500 that are not exemptions allowed by State law. However, in our review of a statistically valid sample of purchase transactions conducted in the period FY06 and FY07, we found that departments did not solicit bids for purchases that should have been subject to competition requirements for fourteen percent of the transactions sampled. For an additional three percent, departments reported that transactions were competitively bid but could not provide evidence that bids were sought. Further, for the departmental purchases sampled, the City obtained an average of 2.4 bids per competitive purchase. Exhibit 3 shows the results of our test of purchase transactions, which include additional audit exceptions that will be discussed later in this report. Exhibit 4 shows the number of purchase transactions conducted without competition or without evidence of competition, by department. See Appendix C for a projection of our test results to the universe of City purchases.

EXHIBIT 3
Audit Exceptions for Sampled Purchase Transactions by Audit Exception

Audit Exception Description	Number of transactions	Percentage of total transactions
Did not seek bids	37	13.8%
Could not provide support for bids obtained	8	3.0%
Did not encumber funds prior to placing the order	80	29.9%
Incorrect coding in the financial system	23	8.6%
Sole Source form not signed by Purchasing Office	14	5.2%
Emergency Purchase not supported by required documentation	4	1.5%
Unable to locate file	6	2.2%
Unable to tie Purchase Order to corresponding invoice	3	1.1%
Did not use existing Master Agreements	1	0.4%
<i>Percent of audit exceptions</i>	176	65.7%
Total Sampled Transactions	268	

SOURCE: OCA analysis of sampled transactions for FY06 and FY07 purchases above \$500 extracted from the City's financial system.

EXHIBIT 4
Sampled Purchase Transactions Conducted Without Competition and Without Evidence of Competition, by Department

Department	Did not seek bids	No support for bids
FLEET	9	
ACCD	8	
PARD	5	1
APL	4	1
FASD	2	3
EGRSO	3	
AWU	1	1
AE	1	1
CTM		1
ABIA	1	
CMO	1	
NHCD	1	
SWS	1	
Total	37	8
Total Sampled Transactions	268	

SOURCE: OCA analysis of sampled transactions for FY06 and FY07 purchases above \$500 extracted from the City's financial system.

NOTE: See Appendix B for City Department abbreviations.

In competitive bidding, available vendors compete with each other to provide goods or services. The bidding process is designed to ensure that public money is spent properly, legally, for public projects only, and that the City receives the best possible value. When departments fail to comply with competition requirements, they risk failing to provide the goods or services at the lowest possible cost and highest value to the City.

The Purchasing Office performs limited monitoring of departmental purchases. The Purchasing Office's mission is to procure quality goods and services in a timely

manner at the lowest possible cost to the City and to assure management that purchasing is conducted with adherence to applicable laws and policies. Purchasing authority for transactions below \$5,000 is delegated to individuals assigned to support individual departments. For these purchases, departments handle the purchases entirely, soliciting bids and awarding the purchase; Purchasing Office approval is required only for non-competitive purchases. Purchasing Office buyers, who are assigned to specific departments, serve as a resource to departmental purchasing staff. However, the Purchasing Office does not routinely conduct reviews of purchases below \$5,000.

Currently, monitoring of purchases below \$5,000 is limited to reviewing compliance with MBE/WBE usage, which has recently been reassigned to the Department of Small and Minority Business Resources and for which the Purchasing Office produces the necessary reports, as described later in this report. Without sufficient monitoring of departmental purchases, the Purchasing Office cannot provide assurance that purchases below the departmental dollar limit are conducted in accordance to City policies.

Problems found in departmental purchasing indicate the need for more training.

Departmental purchases are purchases below \$5,000 which are delegated to staff in individual departments. Depending on the size of the department, departmental staff may also have functions other than purchasing. Prior to gaining access to the financial system (AFS3), and therefore prior to being able to create purchase transactions, departmental purchasing staff are required to take departmental purchasing training. This training consists of seven online modules which describe departmental roles and responsibilities as well as the processes used by the City to acquire goods and services costing more than \$5,000. Following this training, staff take an instructor-led class for two half-days that primarily focuses on how to create documents and navigate AFS3. While departments can request ad-hoc supplemental training, the mandatory training which covers purchasing principles is a one time online training course.

Purchasing Office management has indicated that they are in the process of resuming training refreshers, which will include the purchasing rules and regulations and an overview of the responsibilities of departmental purchasing staff, Purchasing Office buyers, and Purchasing Office Contract Administration staff. According to management, this training will be provided to three departments every month, beginning in May 2008.

Departments incorrectly coded nine percent of sampled transactions in the City's financial system; miscoding results in an overstatement of competitive transactions in summary reports.

The City's financial system has a field that captures the procurement type (competitive, sole source, other exceptions per state law, interlocal agreement, etc.). The procurement type code dictates who will review the transaction. If the code is anything except 10, the code for competitive procurement, the purchase is automatically routed to the Purchasing Office for approval. Currently, the value for this field defaults to 10, competitive procurement, and is sometimes left as the default even if the purchase is actually a different procurement type that should require Purchasing Office approval. Departments are required to code purchases according to the appropriate purchase type; however, as shown in Exhibit 5, we found that almost nine

percent of transactions reviewed should have been coded differently and, more specifically, a total of six percent of transactions reviewed were erroneously coded as competitive.

EXHIBIT 5
Audit Exceptions for Sampled Purchase Transactions by Audit Exception

Audit Exception Description	Number of transactions	Percentage of total transactions
Did not seek bids	37	13.8%
Could not provide support for bids obtained	8	3.0%
Did not encumber funds prior to placing the order	80	29.9%
Incorrect coding in the financial system	23	8.6%
Sole Source form not signed by Purchasing Office	14	5.2%
Emergency Purchase not supported by required documentation	4	1.5%
Unable to locate file	6	2.2%
Unable to tie Purchase Order to corresponding invoice	3	1.1%
Did not use existing Master Agreements	1	0.4%
<i>Percent of audit exceptions</i>	176	65.7%
Total Sampled Transactions	268	

SOURCE: OCA analysis of sampled transactions for FY06 and FY07 purchases above \$500 extracted from the City's financial system.

It is important for departments to accurately code purchases for various reasons. First, if a purchase is anything other than a competitive purchase, it requires the approval of the Purchasing Office; therefore when a purchase is coded incorrectly (e.g., as competitive when it is actually a sole source), controls built into the system may be circumvented, since the system automatically would route all transactions coded as non-competitive to the Purchasing Office for approval. Further, coding purchases correctly allows the Purchasing Office to track competitive and non-competitive purchases. Some purchases are exempt from competitive requirements; if these purchases are included in the total competitive purchases awarded by the City as shown on various purchasing reports, their inclusion distorts the information presented, such as in the quarterly reports on MBE/WBE participation, which are presented to City Council and posted on the City website.

While the purchasing training materials expressly discuss the importance of coding purchases accurately, problems with the coding of purchases indicate the need for a better understanding of this field in departments. To begin addressing this, the Purchasing Office has reiterated the importance of correctly entering the purchase coding in two recent newsletters.

For 30 percent of sampled transactions, the department did not encumber funds prior to placing the order, in violation of City policies and against procurement best practices. According to the City Charter, no contract or order shall be binding for the City unless there is a sufficient unencumbered appropriation balance to cover the purchase. A valid purchase order entered into the financial system ensures that funding is available. As shown in Exhibit 6, in our review of purchase transactions, we found that 30 percent were not encumbered prior to placing the order. Additionally, Exhibit 7 shows

the number of purchase transactions conducted without encumbering funds by department.

EXHIBIT 6
Audit Exceptions for Sampled Purchase Transactions by Audit Exception

Audit Exception Description	Number of transactions	Percentage of total transactions
Did not seek bids	37	13.8%
Could not provide support for bids obtained	8	3.0%
Did not encumber funds prior to placing the order	80	29.9%
Incorrect coding in the financial system	23	8.6%
Sole Source form not signed by Purchasing Office	14	5.2%
Emergency Purchase not supported by required documentation	4	1.5%
Unable to locate file	6	2.2%
Unable to tie Purchase Order to corresponding invoice	3	1.1%
Did not use existing Master Agreements	1	0.4%
<i>Percent of audit exceptions</i>	176	65.7%
Total Sampled Transactions	268	

SOURCE: OCA analysis of sampled transactions for FY06 and FY07 purchases above \$500 extracted from the City's financial system

EXHIBIT 7
Sampled Purchase Transactions Conducted Without Encumbering Funds, by Department

	Funds not encumbered prior to placing order
FLEET	36
PARD	10
AE	9
ACCD	7
APL	3
AWU	3
EGRSO	3
LAW	2
EMS	2
FASD	1
ABIA	1
PWD	1
CMO	1
NHCD	1
Total	80
Total Sampled Transactions	268

SOURCE: OCA analysis of sampled transactions for FY06 and FY07 purchases above \$500 extracted from the City's financial system.

NOTE: See Appendix B for City Department abbreviations.

A purchase order is a written order placed with vendors by the City; when properly created within the City financial system, it also serves to encumber, or set aside, funds to cover the future obligation to the vendor created by the purchase order. For the 80 transactions (or 30 percent of transactions sampled) mentioned above, departments did

not set aside funds in the financial system prior to placing the order with the vendor; instead, they created the order upon receipt of the invoice.

Encumbering funds before placing an order with a vendor is key to controlling City expenditures and preventing over-spending of City funds. By not systematically processing purchasing orders in the proper sequence, departments run the risk of placing an order without knowing if funds are available. Additionally, departments may make a purchase for more than the departmental purchase authority (\$5,000) without Purchasing Office approval.

Additionally, during our audit we found inadequate controls over purchasing transactions performed by Fleet Services; initiatives are under way to address these purchasing related issues. As shown in Exhibit 7, we observed problems with the sequence of purchase orders in several departments. However, Fleet Services had the most occurrences in our sample. Most Fleet Services purchases are initiated outside of the financial system and are entered only upon receipt of the vendors' invoices. This problem is due in part to the lack of interface between Fleet's inventory system (M4) and the financial system. Additionally, Fleet Services has a purchasing structure in which purchases are performed by staff in the various service centers. However, this staff does not report to the department financial supervisor, limiting accountability for purchases. In an effort to address purchasing related issues, the Deputy Purchasing Officer has been temporarily transferred to Fleet Services as Acting Deputy Director.

Recommendations

01. In order to ensure that purchasing staff in departments conduct purchases in adherence with applicable laws and policies, the Purchasing Officer should implement regular, required training refreshers for staff with departmental purchasing responsibilities.

MANAGEMENT RESPONSE: Agree/Underway

- A. The Contract Administration team resumed department visits this year. These visits provide a review of all purchasing and contract administration activities.
- B. Specialized training modules are in development, with the first "Ethics Training" to be released in June 2008 with others to follow.
- C. Refresher training class will be developed and delivered.

-
02. In order to ensure that purchasing staff in departments conduct purchases in adherence with applicable laws and policies, the Purchasing Officer should establish periodic monitoring of purchases conducted by departments. At minimum, monitoring activities should verify:
 - a. Compliance with competition requirements; and
 - b. Compliance with encumbrance of funds requirements.

MANAGEMENT RESPONSE: Agree/Underway

Current department reviews will be expanded to include encumbrance and competitive / non-competitive order coding.

03. In order to ensure the accuracy and validity of information capturing the types of procurements (competitive, sole source, other exceptions per state law, interlocal agreement, etc.), included in the City's financial system, the Purchasing Officer should:
- a. Work with the Controller's Office to eliminate the default value from the field that captures the purchase category; and
 - b. Ensure that discussion of the purchase category field and related requirements is included as part of the training refreshers.

MANAGEMENT RESPONSE: Agree/Underway

Technical feasibility of removing default has been reviewed, but not tested. Once tested, potential impacts on eCapris and on MWBE reporting will be assessed. When impacts are addressed, system change will be scheduled, including revision of training materials.

The Purchasing Office needs a more proactive approach to ensure the City is getting the “best deal” for competitive purchases.

The Purchasing Office promotes and coordinates the creation of contracts for goods and services which are repeatedly used by the City to achieve the best prices and reduce costs associated with repeatedly processing purchases. In reviewing the universe of FY06 and FY07 purchases above \$500, we identified several instances where vendors were used repeatedly for single purchases instead of using a longer-term contract. We also observed that the Purchasing Office only occasionally analyzes this repeated use. Additionally, due to problems with the accuracy of vendor contact information included in the financial system, a number of vendors are not notified of upcoming opportunities for bids which could result in less competition, particularly for transactions over \$5,000.

We identified repeated use of vendors without master agreements in place; setting up such contracts for recurring purchases of goods/services may reduce costs related to repeatedly obtaining these goods. In order to receive better pricing and help prevent fraud, waste, or abuse, the Purchasing Office promotes the creation of contracts, or master agreements, for goods or services that are repeatedly used. As shown in Exhibit 8, in our review of purchase transactions above \$500 conducted in FY06 and FY07, we observed that departments used the same vendor repeatedly without having a contract in place. Additionally, as shown in Exhibit 9, several vendors were used repeatedly by multiple departments across the City.

Master agreements are long term contracts with vendors to provide particular goods and services at a fixed price. These contracts are created as a result of one or more departments identifying a need for a good or service, after which the Purchasing Office conducts a solicitation and makes an award to one or more vendors. According to Purchasing Office guidance, when a department identifies a pattern of repetitive orders of goods or services (defined as ten or more orders in a year from the same vendor or less than ten orders that add up to \$15,000 or more per year) they should work with the Purchasing Office to create a contract. In our review, we found that several departments

used vendors repeatedly, well beyond the suggested guidelines, without a contract in place.

For the majority of the examples in Exhibit 8, departments failed to coordinate with the Purchasing Office to set up a contract for selected goods and services that were repeatedly used, but did procure the goods or services in accordance with competition requirements. However, some departments repeatedly used the same vendor without soliciting bids.

EXHIBIT 8
Examples of Repeated Use of Vendors by Departments

Department	Vendor	# of FY06 purchases	Total FY06 amount	# of FY07 purchases	Total FY07 amount
AE	Techline	118	\$1,229,433	700	\$7,749,453
FLEET	AAMCO Transmission	72	\$158,962	56	\$138,372
AWU	Act Pipe & Supply	65	\$204,665	73	\$238,654
EGRSO	Evins Personnel	36	\$56,285	57	\$84,916
PARD	Austin Screen Printing	35	\$52,191	29	\$41,827
SWS	Holt Cat	23	\$75,947	20	\$66,964
APD	GT Distributors	21	\$307,476	31	\$223,773
PARD	Janet Coplin	18	\$13,896	20	\$14,469
ABIA	Gulf Coast Paper	17	\$131,930	43	\$405,321
SWS	Aus-Tex Printing & Mailing	17	\$28,954	19	\$28,432
AWU	W W grainger	7	\$7,024	40	\$201,895
CTM	Anixter	4	\$6,829	23	\$99,917
WPDR	CAPPS Rent-a-car	0 \$	-	31	\$21,896
WPDR	N Line Traffic Maintenance	0 \$	-	19	\$30,557.00

SOURCE: OCA analysis of universe of FY06 and FY07 purchases above \$500 extracted from the City's financial system.

NOTE: See Appendix B for City Department abbreviations.

EXHIBIT 9
Examples of Repeated Use of Vendors Citywide

Vendor	FY 2006			FY 2007		
	# of depts. that used the vendor	Count	Amount	# of depts. that used the vendor	Count	Amount
Austin Screen Printing	11	73	\$131,094	17	70	\$120,972
Rockford Business Interiors	13	47	\$358,966	16	46	\$335,506
Aus-Tex Printing & Mailing	17	102	\$366,527	16	92	\$420,147
Herman Miller Workplace	11	47	\$343,588	14	40	\$368,427
Gulf Coast Paper	8	53	\$246,777	12	166	\$992,977
W W Grainger	12	56	\$94,191	12	108	\$472,671

SOURCE: OCA analysis of universe of FY06 and FY07 purchases above \$500 extracted from the City's financial system.

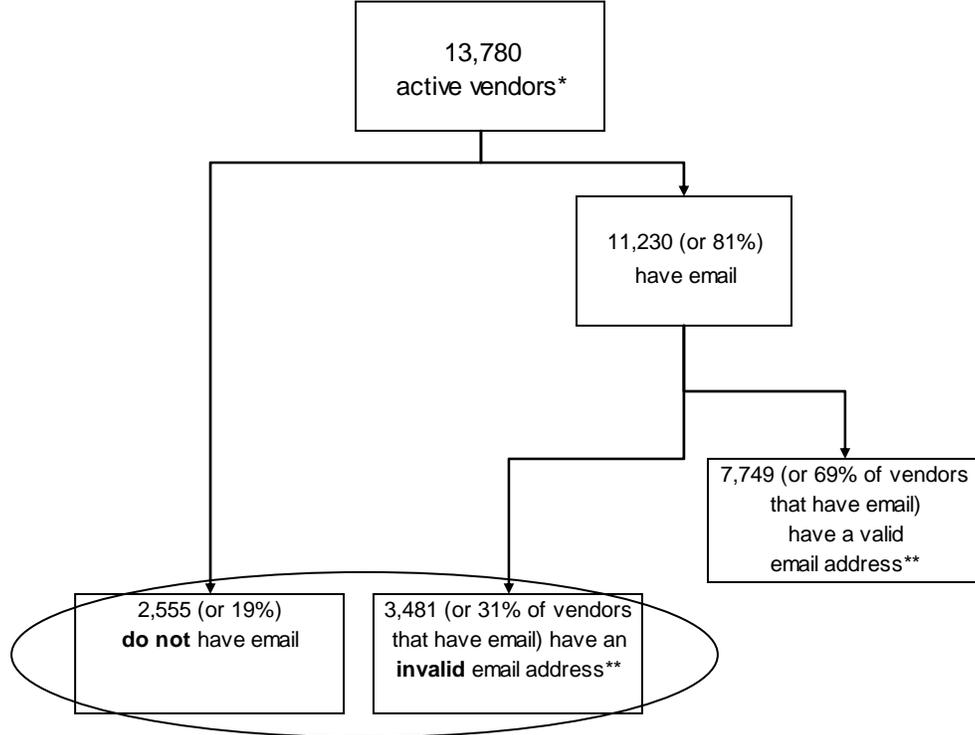
Departments rarely analyze their purchases to identify repetitive patterns, and the Purchasing Office performs only occasional analysis of repeated use of vendors. Most departments do not review repeated use of vendors. However, while the Purchasing Office does not perform any systematic review of repeated vendor use by departments or

citywide, Purchasing Office management occasionally reviews repeated use of commodity codes for a particular good or service and try to identify and set up contracts for these items. For example, recently the Purchasing Office worked with Austin Energy to establish a contract with seven vendors for the procurement of critical electric utility materials and supplies that were purchased on a regular basis, such as Techline included in Exhibit 8 above. This contract, which was submitted to Council for approval in January 2008, awards purchases to the best and lowest offers among the participating vendors. Additionally, management indicated that they are working on setting up contracts with various vendors listed in Exhibits 8 and 9. Further, in an effort to increase coordination and provide departments with a single point of contact for contract issues, the Purchasing Office has also recently reorganized its Administration and Contract Management division, which negotiates, writes, and monitors contracts. Before, contracts were assigned to contract administrators by the division manager according to workload, now contracts are assigned directly to contract administrators, depending on which department they work with.

Without routinely identifying the need for contracts, the City may incur higher costs for goods or services. Purchases made through contracts allow for discounted rates. Additionally, the overhead costs and personnel time consumed on a contract may be lower than when making individual purchases with the same vendors on a recurring basis. With an established contract, departmental staff can reduce time on routine purchase procedures like obtaining, comparing, and awarding bids for each purchase. We tried to compare the price for selected purchases conducted without contracts to comparable purchases with a contract, but we were not able to quantify possible cost savings to the City, due do the specific nature of purchases (e.g. pest control at a particular library, pottery instruction, technical writer) as well as the time elapsed between the identified purchases and this audit.

Due to problems with the accuracy of vendor contact information in the financial system (AFS3), a large number of vendors registered in AFS3 are not notified of upcoming opportunities for bidding on purchases above \$5,000, which could have resulted in less competition. The City has an online procurement system; this means that the Purchasing Office, which handles purchases above \$5,000, notifies those vendors that are registered for one or more commodity codes of upcoming bid opportunities exclusively by email. Vendors that are not registered for any commodity code or do not have an email on file can learn about bid opportunities by accessing the City website. As shown in Exhibit 10, in our review of the accuracy of vendors' electronic contact information, we found that 19 percent of all active vendors that are registered for one or more commodity codes do not have an email listed in the financial system. Additionally, we tested a random sample of vendors that do have an email address in the financial system and found that 31 percent of the email addresses were invalid. This potentially translates into fewer bids and less competitive prices, especially for purchases over \$5,000.

EXHIBIT 10
Analysis of Vendor Contact Information in the City's Financial System



* Active vendors are those vendors that are registered for one or more commodity codes and therefore receive email notifications about bidding opportunities from the City.

** We randomly sampled 320 out of the 11,230 vendors with email, based on the following parameters:

- 95% confidence level;
- 5.4% margin of error.

SOURCE: OCA analysis of active vendors registered in City's financial system as of April 4, 2008.

In October 2006, the City upgraded its financial system. At the same time, the City made an extensive effort to eliminate invalid vendor data and requested that vendors update their information. Additionally, management has indicated that the Communications and Technology Management (CTM) office and the department of Small and Minority Businesses Resources (SMBR) have an initiative to review bounced emails for M/WBE vendors, but the Purchasing Office is not addressing the rest of the missing and inaccurate emails.

Not being able to contact as many vendors as possible for a transaction may reduce the number of bids received and could result in the City paying less competitive prices. Relying on current data may allow meeting the letter of the law (obtaining three bids for purchases), but not achieving the intent of applying competitive principles to the maximum extent possible. While it is the vendor's responsibility to maintain accurate and current contact information, it is in the City's best interest to maintain complete and

accurate vendor email addresses to increase competition, which results in better prices for the City.

Recommendations

- 04. In order to reduce costs related to recurring purchases of goods and services, the Purchasing Officer should assign the responsibility for systematically reviewing data on repetitive purchases conducted by departments as well as identify needed master agreements.

MANAGEMENT RESPONSE: Agree/Underway

An updated recurring purchases report will be developed to assist with the review of purchases to the same vendor during an annual period and purchases of similar products during an annual period to identify potential new master agreements.

- 05. In order to increase the number of vendors reached by the City electronic procurement system and therefore increase opportunity for competition, the Purchasing Officer should work with the Controller’s Office to address data problems related to vendors’ electronic contact information.

MANAGEMENT RESPONSE: Partially agree/Underway

- A. The Purchasing Office has an update prepared for the Vendor Source Guide, a summary document furnished to vendors that helps explain City Purchasing and Payment procedures.
 - B. The Purchasing Office will perform additional vendor contact.
-

For purchases in our sample that were allowed exceptions to competitive requirements, we did not identify any misuse of the exceptions; however some transactions were not documented according to City policies.

According to the City Charter, competitive requirements do not apply to items exempted from competitive bidding provisions by state law. Sole source purchases and emergency purchases are two non-competitive exceptions. In our sample of purchase transactions, we reviewed both types of purchases and observed a few instances of improper documentation but did not identify any misuse of sole source or emergency purchase exceptions.

Departments are substantially complying with state laws and City policies related to sole source purchases, and controls in this area have been strengthened since our analysis. Sole source purchases are purchases of goods and services available from only one supplier. There may be only one vendor because of patent or copyrights or simply because the vendor is the sole supplier of the good or service. According to City policies, all sole source requests need the approval of the Purchasing Office, regardless of the amount of the purchases. In our sample we identified 20 sole source purchases; additionally, we expanded our sample to include four additional sole source transactions

above the city manager's authority. Of the 24 sole source transactions reviewed, 10 were processed according to City policies and 14 were missing documents showing Purchasing Office approval. However, 7 of these 14 transactions were processed in AFS3 and had a purchasing buyer's electronic approval.

Since our analysis, the City has strengthened approval requirements, which together with added controls in the financial system have mitigated sole source risks. In AFS3, if sole source purchases are coded appropriately they are automatically routed to the Purchasing Office for approval. Additionally, approval requirements for sole source have been strengthened in FY08; according to a new policy, every sole source request above \$5,000 requires the approval of the Assistant City Manager before going to the Purchasing Office.

While we did not identify any misuse of emergency purchases, we observed that departments did not document emergency purchases according to City policies.

Emergency purchases are those procurements that must be made immediately to avoid imminent threat or danger to citizens or preserve City property. According to City policies regarding emergency purchases, departments should work with the Purchasing Office to expedite the purchase and attempt to provide competition for emergency purchases. Additionally, department directors are required to submit either a memorandum (for purchases below \$25,000) or an affidavit (for purchases above \$25,000) to the Purchasing Office in which they describe the nature of the emergency and how it was handled. Our sample of purchase transactions included five emergency purchases. All of the emergency purchases reviewed were justifiable emergencies. However, only one was processed according to City policies; the remaining four were missing the required documentation to justify the emergency, indicating the need for a better understanding of documentation requirements for this type of purchases.

Recommendations

06. In order to ensure compliance with laws and regulations related to emergency purchases, the Purchasing Officer should clarify City policies regarding emergency purchases and include discussion of these policies in training refreshers contained in recommendation #1 of this report.

MANAGEMENT RESPONSE: Agree/Underway

The Purchasing Office will include this discussion in the refresher training address in Recommendation 1.

ISSUE FOR FURTHER STUDY

As discussed in this audit report, state law exempts the procurement of professional services from competition requirements. Our sample did not include any professional service purchases; however, as shown in Exhibit 1 on page 2, these purchases (which are included in the exemptions category) made up a small number of purchase transactions (2 percent) but represented 6 percent of the total dollar spent by the City in FY 07, with the average purchase being close to \$70,000. Because of the intrinsic vulnerability of this type of purchases, our future audit work related to purchasing may need to focus on the procurement of professional services.

APPENDIX A
MANAGEMENT RESPONSE

RECEIVED
JUN 13 2008
CITY OF AUSTIN
OFFICE OF THE CITY AUDITOR

June 12, 2008

Mr. Stephen L. Morgan, City Auditor
Office of the City Auditor

Mr. Morgan:

The Financial and Administrative Services Department, Purchasing Office, submits this management response to the Audit Report titled "Competitive and Sole Source Purchasing", dated June 17, 2008.

We concur with the Audit Report recommendations, and have actions underway for each recommendation.

Recommendation 5 deals with vendor email and commodity information, and is noted as a partial concurrence. Staff has, and will continue to do everything possible to maintain and/or improve vendor information. This includes outreaches by several departments in various forms, readily available web-based and printed instructional materials, and notices in various media. However, actually providing the City with this information remains a vendor responsibility, and is thus beyond staff control.

Each recommendation has been individually addressed in the Action Plan, and additional details are attached to this letter.

The recommendations and Action Plan have been reviewed by the Controllers Office as applicable.



Leslie Brower
Chief Financial Officer
Director, Financial and Administrative Services Department

CC: Jeff Knodel, Deputy Chief Financial Officer
Byron E. Johnson, CPM, Purchasing Officer

Action Plan

Recommendations

- 1. In order to ensure that purchasing staff in departments conduct purchases in adherence with applicable laws and policies, the Purchasing Officer should implement regular, required training refreshers for staff with departmental purchasing responsibilities.**

Concurrence

The Purchasing Office concurs with this recommendation.

Historical Information, Discussion and Proposed Strategies for Implementation

Initial training of users, which is conducted in both online and instructor-delivered formats, ensures a basic level of competence in departmental purchasing responsibilities.

This initial training is required before a user may be granted security access to the financial system for the purpose of entering purchase orders. In addition to training users, executive employees are familiarized with the City's procurement activities during their in-processing.

This initial training is supported by the Online Purchasing Manual. This document is updated in real time, and is available to City staff twenty-four hours a day. This delivery method was seen as superior to the use of a printed – and thus immediately out-of-date – purchasing manual.

However, the audit has identified an area in which improvement can be made.

FASD has been working on enhanced user training over the past 12 months, and the first module, Ethics training, will be released this month.

The recommendation for an annual refresher for staff with departmental purchasing responsibilities can be coupled with the requirement to update staff about changing financial thresholds, such as the annual adjustment of the City Manager's approval limit and other changes instituted as the result of City policy, City Ordinances, Charter changes, or the actions of other governments, such as changes in State and Federal law that impact the City's purchasing process.

Status of Strategies

The Contract Administration unit of the Purchasing Office recently resumed visits to department purchasers. These visits provide additional training on procurement rules, regulations and responsibilities.

In addition to these visits, the Purchasing Office will develop a Purchaser's Annual Update course to serve as a refresher on current procedures.

City users with requisition and purchase order security will be required to complete this annual refresher as a pre-requisite for their continued assignment to departmental purchasing responsibilities.

Refresher training will be targeted for a one hour length, with completion counting towards the individual 16 hour training requirement for City employees. To establish the importance of this continuing education requirement, the Purchasing Office will work with the Human Resources Department to add the annual refresher training to individual SSPR as appropriate.

Refresher training will address current purchasing dollar thresholds, methods, controls and reporting. The training will also review the requirement to properly code competitive orders and properly encumber funds (Recommendation 2), and will be also be used to review emergency purchasing processes (Recommendation 6).

Refresher training will also review sources of information and how to access them (i.e. Purchasing Intranet, Controllers Intranet).

Additional online training modules will be released as developed, and the AIMS User Newsletter will be used to advise the user community of their availability.

Responsible Person / Phone Number

The Deputy Purchasing Officer for Contract Administration and Technology, Cynthia Gonzales (Acting), will be responsible for implementation, assisted by the City's Corporate Contract Administrators and the Purchasing Training and Technical Support Team.

Proposed Implementation Date

FASD is already providing refresher training as noted above. The Ethics module will release June, 2008, and others will be released as developed.

2. In order to ensure that purchasing staff in departments conduct purchases in adherence with applicable laws and policies, the Purchasing Officer should establish periodic monitoring of purchases conducted by departments. At a minimum, monitoring activities should verify: a) compliance with competition requirements; and b) compliance with encumbrance of funds requirements.

Concurrence

The Purchasing Office concurs with this recommendation.

Historical Information, Discussion and Proposed Strategies for Implementation

In the “Buying For The City” class, each system user is shown how to access and use a tool on the Purchasing Intranet site that allows the user to know which vendors are available for the purchase of a given commodity code. This search tool is available 24 hours a day.

The tool produces both a printable list of vendors, including their contact information, as well as an Excel spreadsheet download that allows a user to document, in near real time, what the availability of vendors was at the time that a purchase was ready to be made. The download is time and date stamped, and includes the procurement contact information for the vendor, including street address, phone, fax and email, and the vendors’ MWBE certification status.

The tool provides a standard format for vendor information used to support solicitation activity. At present, the tool is deployed as an information resource and is not required for documentation purposes.

Requiring that the documentation package for each department purchase order (PO transaction) include saving the vendor list to Excel would not only provide a competitive requirements monitoring mechanism for the Purchasing Office, but would also provide a time and date stamped electronic copy that could be furnished to DSMBR for MWBE Compliance assessment.

If the document were then saved in the City’s Electronic Document Image Management System (EDIMS), then a permanent record of the competition could be preserved.

Lastly, the City-wide use of this tool would assist in keeping vendor email information up to date as well (See Recommendation 5). As department purchasers make awards, they can confirm that the vendor contact information reflected on the download is correct. When incorrect, the department purchaser could notate any changes and forward a copy of the document to Vendor Registration for action to update the vendor record.

It should be noted that the use of this tool will create an additional administrative requirement on department staff.

As of June 4, 2008, there are 36,908 department purchase orders in a final status in the financial system. On average, that is 1,750 orders per month City wide, or 80+ documents every working day.

Status of Strategies

The current Procurement Card review will be expanded to incorporate a review of department purchase order competitive bidding process.

The vendor / commodity list tool described above is available and is a component of user training. If its use were made a requirement, and a document retention requirement established, it would be immediately ready for use. The Purchasing Officer will apprise Department Directors of these audit recommendations and then work with their Financial Managers to assess the impact of requiring the use of this tool for documentation purposes.

With the assistance of the Controller's Office, a quarterly sample reporting process will be developed that compares the date that an encumbering transaction is placed on the system with the department receipt document, which is normally entered using the vendor's invoice. The report will then be provided to Department Directors and Financial Managers for use.

Responsible Person / Phone Number

Purchasing Office Financial Manager Mike Benson, assisted by Controllers Office Information Technology Unit and the Purchasing Office Training and Technical Support Team.

Proposed Implementation Date

As soon as June 2008 reports are available, the Purchasing Office will begin the expanded reviews described above, with a full implementation date, including encumbrance sampling by October 1, 2008.

3. In order to ensure the accuracy and validity of information capturing the types of procurements (competitive, sole source, other exceptions per state law, interlocal agreement, etc.), included in the City’s financial system, the Purchasing Officer should: a) work with the Controller’s Office to eliminate the default value from the field that captures the purchase category; and b) ensure that discussion of the purchase category and related requirements is included as part of the training refreshers.

Concurrence

The Purchasing Office concurs with this recommendation.

Historical Information, Discussion and Proposed Strategies for Implementation

It is important to record whether a purchase order was the result of competition between two or more vendors, or whether it results from a non-competitive process. The primary need for this coding is in support of the City’s MWBE Procurement Ordinance reporting requirements.

During the Financial System Upgrade Project, the financial system was found to be lacking a data “location” to store competitive / non-competitive procurement coding. In AFS2, this coding had been accomplished by means of embedding a two character code in document numbers, and then recognizing these embedded codes within the reporting process.

CGI, the software author / provider, was tasked with modifying the Financial System according to a City-developed standard so as to include a data mechanism to capture this competitive / non-competitive coding. This was implemented as the Procurement Reporting Code in the header section of requisition and purchase order documents. CGI’s implementation included a data table to store the various values to be used, and to allow for the selection of one value as a default. (NOTE: The City’s design for this modification was seen as so valuable to the long-term functionality of the Advantage Financial System that Austin’s modification was incorporated to the system baseline.)

While a default value is available via inference to the purchase order documents, it is considered a “soft inference”, meaning that the default value can be overridden by the user so as to preserve reporting accuracy.

Since the bulk of the City’s purchasing activity is the result of competition between two or more vendors, the decision was made to set the default value to “Competitive Acquisition”, with the expectation that users would reset the value as necessary. (NOTE: this applies to CT and PO transactions; while the same values are applied to Master Agreements as they are created by Central Purchasing, the Delivery Orders created by departmental purchasers “inherit” the

Procurement Code value set in the header of the Master Agreement as a “hard inference” – meaning that the value can not be changed by the user.)

The City’s training and doctrinal materials address the need for the user to adjust this value; however, the Auditors review has documented substandard performance in this area on departmental purchase order (PO) transactions.

The Purchasing Office Training and Technical Support team has assessed the impact of a) removing the default setting of “Competitive Acquisition”, and b) setting the Procurement Reporting field as required. This combination of settings will ensure that each individual department purchase order can not be processed without the value being set by the user.

Removing the default will improve the accuracy of reporting. The value of this improvement should more than offset the comparatively minor impact of having to set the field value individually for each order.

Status of Strategies

While the technological impacts of changes have been assessed, the removal of the default condition will require testing the function of the financial system for security and workflow impacts.

Since this information is also moved to eCapris as an important field for MWBE compliance reporting at all levels of purchase order activity, additional testing will be required in eCapris.

Once testing had been completed, existing (and proposed Refresher) training materials will need to be revised to incorporate the additional step of setting the Reporting flag.

Responsible Person / Phone Number

The Deputy Purchasing Officer for Contract Administration and Technology, Cynthia Gonzales (Acting), will be responsible for implementation, assisted by the Purchasing Training and Technical Support Team, the Controllers Office Information Technology Unit, and the eCapris / eWeb Support Team in the Budget Office.

Proposed Implementation Date

Department users will be reminded of the need to select the correct code in each order in the next AIMS User Newsletter, and in an email to departments from the Purchasing Officer. This should produce an immediate improvement in the accuracy of competitive / non-competitive coding.

The software default condition and process change can have an effect on MWBE reporting, however. Where possible, keeping a fiscal year's data consistent for methodology increases the reliability of that year's data. Immediately implementing the removal of the default changes the methodology used for Fiscal Year 08. While the effect is probably not sizeable, it is a process change that should be footnoted in our reporting, and it is probably most easily implemented on a Fiscal Year boundary.

And, since the change will require a change in our training materials, some of which include detailed screen shots from the financial system, there will be a need to identify and update impacted sections of manuals and Breeze / Connect online training sessions.

Therefore, we recommend implementing the above listed changes, including the removal of the default value setting, and corresponding software-enforced requirement to select the appropriate value on each individual order, with the start of Fiscal Year 2009 on October 1, 2008.

4. In order to reduce costs related to recurring purchases of goods and services, the Purchasing Officer should assign the responsibility for systematically reviewing data on repetitive purchases conducted by departments as well as identify needed master agreements.

Concurrence

The Purchasing Office concurs with this recommendation.

Historical Information, Discussion and Proposed Strategies for Implementation

In 1998, the Purchasing Office developed a report referred to as “PD Sweep”.

This report was run against department purchase orders (“PD” transactions), and examined purchases made by departments to individual vendors, and purchases made by departments to individual commodity codes. Both views of the data were used to identify procurement activity that might benefit from being placed on long term contracts. Under AFS2, these were called “Price Agreements”; in AIMS, that name (but not function) has been changed to “Master Agreements”.

There is a draft version of this report that can be executed against AIMS data; however, a more formal version of the report would be valuable.

In addition to this report, Purchasing Card activity is reviewed monthly for repetitive purchases. While targeted at preventing serial purchasing activity as defined by State law, this review is valuable for identifying recurring requirements.

On or about July 1 of each year, Purchasing / Controller will produce two reports.

The first report will include department purchase orders (non-contract purchases) by vendor, which will be used to look for patterns in spending with individual vendors. In the event that 10 or more orders are issued in the same 12 month period, or orders to a single vendor total \$15,000 or more, Purchasing and the using department(s) will perform an analysis to see if a Master Agreement should be done for the requirements.

The second report will include department purchase orders (non-contract purchases) by commodity code, which will be used to forecast the need for creation or expansion of Master Agreements available for City use. If there are three orders by any one department totaling \$15,000 or more that are closely related by commodity code, analysis will be performed to investigate adding these non-contract demands to an existing contract, creating a separate contract, or validating that the purchases are appropriate as stand alone documents.

Austin Energy non-contract orders will be separately analyzed by the Austin Energy Purchasing Manager in accordance with the special business security requirements placed on Austin Energy.

Status of Strategies

The draft version of the report will be reviewed, adjusted as necessary, and used to produce a report on July 1, 2008.

Responsible Person / Phone Number

Mike Benson, the Financial Manager for the Purchasing Office, will control report execution, assisted by the Controllers Office Information Technology Unit and the Purchasing Office Training and Technical Support Team. Reports will be provided to Deputy Purchasing Officer Rick Fudge for distribution to buyers.

As noted above, Carole Cameron, the Purchasing Manager for Austin Energy, will review AE activity.

Proposed Implementation Date

The draft report will be reviewed and updated, with a target date of August 1, 2008 for the first production run of the report. Possible new / revised Master Agreements will be identified and implemented in a manner consistent with the exercise of extension options / re-procurement activity, since an increase in contract quantities can be expected as a result of reporting and analysis.

July 1 of each year, the report will be executed using current fiscal year data.

5. In order to increase the number of vendors reached by the City electronic procurement system and therefore increase opportunity for competition, the Purchasing Officer should work with the Controller's Office to address data problems related to vendors' electronic contact information.

Concurrence

The Purchasing Office partially concurs with this recommendation since many of the perceived "data problems" are not under the control of the City, but instead under the control of the City's vendors.

The City's vendor community is provided 24 hour a day, 7 day a week access to the online Vendor Self Service System for the purposes of creating and/or maintaining vendor account information such as email addresses and product lists, as well as for access to published solicitation materials.

In addition, any vendor with either no Internet access or who does not wish to use the Internet based system can provide paper-based information to the Purchasing Office, and staff will make any required changes.

Historical Information, Discussion and Proposed Strategies for Implementation

The report analysis is both accurate and valuable, but the Purchasing Office review of the information identified additional information bearing on the issue.

To gain the maximum value of registering as a vendor, the vendor must provide both an active email address for the City to use for communication AND one or more commodity codes, representing the goods and/or services that the vendor is interested in providing to the City.

A vendor may, at their option, not provide an email address for any number of reasons, and as such, an email address has never been required. However, the City's printed vendor materials, as well as the outreaches performed by various City offices and departments (DSMBR, CTM, OCLM, etc) has always highlighted the City's desire for vendors to have email and the benefits that vendors could expect from having an email address, including the most rapid access to available solicitation information, which is considered the key benefit of email notification. A vendor with email address may gain a two- to three-day advantage in response preparation time over a vendor who must wait for the arrival of mailed materials.

Similarly, a vendor may decline to provide the City with any commodity codes, which also are not required in order to register.

While an up-to-date email account is a key part of alerting vendors about solicitation opportunities, any vendor that has not recorded one or more commodity codes is not furnished with a solicitation notification, and would not have been furnished a notification under AFS2.

The Purchasing Office's actions in preparation for conversion to AIMS, and subsequent vendor contact actions may be of value to review at this point.

Pre-Conversion Processes

All City vendors were contacted by surface mail and asked to update their online vendor account in the (then current) Vendor Registration system.

Our communication with the entire vendor community highlighted the City's need for accurate information for conversion, and the City's desire for an accurate email address for solicitation purposes.

Once the time period for vendor update response had lapsed in late September 2006, a conversion subset of the vendor list was made based on several criteria. The number of active vendors converted from AFS2 to AIMS was 24,144. An additional 11,000 inactive vendors were converted and loaded to eCapris for historical reporting purposes.

The City also developed training materials and support processes to help ease the transition between systems, and to provide each vendor with assistance during and after City business hours.

The Vendor Registration team is available during business hours. The team has a shared phone line, a dedicated facsimile line, and a shared email account, VendorReg@ci.austin.tx.us. These dedicated / shared accounts ensure that vendor communication is available to the entire team for rapid response, and that vendor support requirements are not intermixed with other City business, which improves security of vendor information.

Vendors may access web-based training materials that show them how to register their business, update their accounts, and search for solicitations. These materials are available around the clock on the Purchasing Internet site.

Vendors who experience difficulties with Vendor Self Service can be assisted in real time by means of a software product named "GoToAssist", which allows Purchasing Office staff to share a vendor's web session so that they can assist the vendor in registering or updating their account.

Post GO LIVE Actions

Since GO LIVE, there have been a number of outreaches, both by individual buyers, as well as through City events, with the intent of improving the accuracy of vendor records for competitive purposes.

Whether an individual buyer working with a single vendor to isolate why solicitation email was not being received properly, or CTM's IT Expo held in September, 2007, the consistent message to vendors has been the need for accurate email addresses and product lists.

In addition to this type of contact, the City recently contacted the entire vendor community to inform vendors about new reporting that would be put in place – reporting that has been individualized to each vendor regarding their participation as prime and/or subcontractors on specific contracts.

This outreach was performed in March 2008 by the Department of Small and Minority Business Resources (DSMBR). The vendor records were reviewed, and where there was an email address on the financial system, this notice was sent by email. For those vendors with fax, but no email, a fax was sent. For those vendors with neither email nor fax, a surface mail notice was sent. All were identically worded, and advised vendors that the City would be sending updates on project usage to vendors, and that the best way to receive this information was via email. The notification asked vendors to update their accounts.

Subsequent to the notification of the entire community, the process was reduced simply to those prime and subcontractor vendors who were on active contracts.

What is our continuing maintenance process?

Buyers confirm vendor information at the point of award and when it is different from that in the financial system, vendors are referred to the Vendor Registration team for assistance in updating it.

As DSMBR sends the monthly Prime Contractor / Sub-Contractor Usage Reports, any questionable address information is sent to the Vendor Registration unit for follow up with the vendors.

What are our proposed improvements?

The City's Vendor Source Guide is a general purpose document that is intended to help vendors understand how the City purchases and what the vendor can do to maintain a good working relationship with the City.

One of the updated features of this Guide is a section on actions that a vendor can take to improve their email notification processes inside their business – to ensure that solicitation notifications are timely received without being treated as

spam, and that access to the notifications is not restricted to a single named user.

Continuing the discussion in our response to Recommendation 2, with the requirement to use the downloadable Vendor list for department purchases, each user could verify the awarded vendor data and when it needs updating, could advise the vendor and Vendor Registration about the need for update.

The Purchasing Office will also review alternate means of reminding vendors of the need to maintain their accounts, including the use of Channel 6, the City's main Internet site, and a note in the Solicitation Advertisements in newspapers.

Other Facts Bearing On The Recommendation

The City provides legal notice of solicitations over \$25,000 in anticipated value by advertising in the Austin American-Statesman and in four (4) minority owned newspapers. The actual statutory requirement placed on all Texas municipalities is to advertise solicitations in excess of \$50,000 value; the City has stayed with the lower standard of years passed.

Solicitations of lesser value are not required to be advertised in the newspaper, and typically are not due to volume (publishing expense).

The City's Vendor Self Service (VSS) system provides the list of current solicitations issued by the Purchasing Office and the Office of Contract and Land Management, regardless of dollar values, as long as a solicitation document has been created in the Financial System. VSS also provides all the solicitation documents to any party desiring to access them by means of a Public Access (meaning no requirement for a user id or password or payment of any kind) utility.

NOTE: Department requirements are not listed in VSS since no system-based solicitation document is created.

When a vendor has registered a commodity code that is used on a given solicitation, and has also provided the City with an email address, the vendor is sent an email specific to that solicitation – a “targeted” notification, rather than a general notification of all solicitations, which would likely contain so much extraneous information that the receiving vendor would consider it more as “spam” than anything else.

A targeted notification – that is one that is addressed specifically to a vendor who has registered one or more of the commodity codes on the solicitation, and who has one or more valid procurement email addresses also provides substantial support of the Anti-Lobbying Ordinance enacted in December, 2007. With such

a targeted email, the vendor is given personal notice of the solicitation, and a link to the Anti-Lobbying Ordinance on the City's Internet site.

The effectiveness of electronic notification must therefore be measured by counting vendors with one or more procurement email addresses and a product list (commodity code list) that allows the City to issue solicitation notifications that are targeted to the vendor's interests.

Exhibit 10 to the Audit report uses this methodology in presenting the counts of vendors.

However, vendors have never been required to provide the City with either an email address or commodity codes.

Vendors may decline to provide this information for any number of reasons; operationally, the City can only work with those vendors who have provided both elements of information.

Additionally, vendors sometimes register for special purposes without intending a continuing commercial relationship, such as a one time payment, or to gain access to solicitation information.

Clearly, increasing the number of vendors who provide the City with one or more commodity codes will be of benefit, as will increasing the number who have an email address. However, both of these factors are vendor-based dependencies, and without requiring one or both of the missing elements of information, there is no way to estimate the potential improvement.

Certainly, increasing the number of vendors who have both an up-to-date email address AND one or more commodity codes is in the competitive interest of the City. To that end, Purchasing will again contact the vendor community and request that vendors update their email addresses and commodity code lists.

For the FY09 budget, the Purchasing Office has proposed adding additional funds for postage and to contract services that will identify invalid email addresses and vendors with no commodity information, contact them to obtain correct information and make the updates to the financial system. The Purchasing Office will make one or more vendor outreaches per year as funds allow.

Status of Strategies

Underway; completion dates listed below.

Responsible Person / Phone Number

Mark Walsh, Programmer Analyst Senior, assisted by various Purchasing Office staff as appropriate.

Proposed Implementation Date

By July 31, 2008, the Vendor Source Guide will be updated and made available electronically for vendors. A small number of copies will be printed and made available at the Purchasing Office, at OCLM, at DSMBR and at EGRSO offices.

By July 31, 2008, the 2,111 (or then current number) of vendors with a commodity code list but no procurement email address will be contacted by mail with recommendations for how to secure an email account at little or no expense.

By August 31, 2008, vendors with no commodity code list will be contacted by mail with recommendations on how to improve their vendor account information.

Ongoing, identify, contact, and attempt to improve vendor records.

6. In order to ensure compliance with laws and regulations related to emergency purchases, the Purchasing Officer should clarify City policies regarding emergency purchases and include discussion of these policies in training refreshers contained in recommendation #1 of this report.

Concurrence

The Purchasing Office concurs with this recommendation.

Historical Information, Discussion and Proposed Strategies for Implementation

Currently, emergency purchases, and the use of the Emergency Affidavit, are discussed in the “Buying For The City” class which all department purchasers take before being granted system security.

The Online Purchasing Manual includes a section on emergency purchases, and the Purchasing Intranet site is the location used by all staff to download the preparation instructions for the Emergency Purchase Affidavit.

The Purchasing Office also provides an annual update to the standing Emergency Order that is used to help control purchases during weather emergencies. This Order is published annually, and both electronic and printed copies are furnished to participants and to Directors.

Status of Strategies

The Purchasing Office will incorporate additional information in the instructions for using the Affidavit and will include a review of the emergency purchase process in the Purchasers Annual Update discussed in the response to Recommendation 1.

Responsible Person / Phone Number

The Deputy Purchasing Officer for Contract Administration and Technology, Cynthia Gonzales (Acting), will be responsible for implementation, assisted by the City’s Corporate Contract Administrators and the Purchasing Training and Technical Support Team.

Proposed Implementation Date

Refresher content will be updated each year so as to be available on or about October 1 as noted above.

ACTION PLAN
Competitive and Sole Source Purchasing Audit

Rec #	Recommendation Text	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/ Phone Number	Proposed Implementation Date
01	In order to ensure that purchasing staff in departments conduct purchases in adherence with applicable laws and policies, the Purchasing Officer should implement regular, required training refreshers for staff with departmental purchasing responsibilities.	Concur	A. The Contract Administration team resumed department visits this year. These visits provide a review of all purchasing and contract administration activities. B. Specialized training modules are in development, with the first "Ethics Training" to be released in June 2008 with others to follow. C. Refresher training class will be developed and delivered.	Underway.	Cynthia Gonzales, Deputy Purchasing Officer (Acting), 974-1905	September 30, 2008.
02	In order to ensure that purchasing staff in departments conduct purchases in adherence with applicable laws and policies, the Purchasing Officer should establish periodic monitoring of purchases conducted by departments. At minimum, monitoring activities should verify: a. Compliance with competition requirements; and b. Compliance with encumbrance of funds requirements.	Concur	Current department reviews will be expanded to include encumbrance and competitive / non-competitive order coding.	Underway.	Mike Benson, Financial Manager, 974-2032	October 1, 2008.

Rec #	Recommendation Text	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/ Phone Number	Proposed Implementation Date
03	<p>In order to ensure the accuracy and validity of information capturing the types of procurements (competitive, sole source, other exceptions per state law, interlocal agreement, etc.), included in the City's financial system, the Purchasing Officer should:</p> <ul style="list-style-type: none"> a. Work with the Controller's Office to eliminate the default value from the field that captures the purchase category; and b. Ensure that discussion of the purchase category field and related requirements is included as part of the training refreshers. 	Concur	<p>Technical feasibility of removing default has been reviewed, but not tested. Once tested, potential impacts on eCapris and on MWBE reporting will be assessed. When impacts are addressed, system change will be scheduled, including revision of training materials.</p>	Underway.	Cynthia Gonzales, Deputy Purchasing Officer (Acting), 974-1905	October 1, 2008.
04	<p>In order to reduce costs related to recurring purchases of goods and services, the Purchasing Officer should assign the responsibility for systematically reviewing data on repetitive purchases conducted by departments as well as identify needed master agreements.</p>	Concur	<p>An updated recurring purchases report will be developed to assist with the review of purchases to the same vendor during an annual period and purchases of similar products during an annual period to identify potential new master agreements.</p>	Underway.	Mike Benson, Financial Manager, 974-2032	August 1, 2008

Rec #	Recommendation Text	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/ Phone Number	Proposed Implementation Date
05	In order to increase the number of vendors reached by the City electronic procurement system and therefore increase opportunity for competition, the Purchasing Officer should work with the Controller's Office to address data problems related to vendors' electronic contact information.	Partial Concur. City staff has and will continue to maintain vendor information, but vendors have a significant responsibility for providing and updating their individual account information. Vendors are not required to provide product lists or email addresses.	A. The Purchasing Office has an update prepared for the Vendor Source Guide, a summary document furnished to vendors that helps explain City Purchasing and Payment procedures. B. The Purchasing Office will perform additional vendor contact.	Underway.	Mark Walsh, Programmer Analyst Senior, 974-1891	August 31, 2008
06	In order to ensure compliance with laws and regulations related to emergency purchases, the Purchasing Officer should clarify City policies regarding emergency purchases and include discussion of these policies in training refreshers contained in recommendation #1 of this report.	Concur.	The Purchasing Office will include this discussion in the refresher training address in Recommendation 1.	Underway.	Cynthia Gonzales, Deputy Purchasing Officer (Acting), 974-1905	October 1, 2008.

APPENDIX B

ABBREVIATIONS FOR CITY DEPARTMENTS

ABBREVIATIONS FOR CITY OF AUSTIN DEPARTMENTS

Abbreviation	Department
ABIA	Austin Bergstrom International Airport
ACCD	Austin Convention Center Department
AE	Austin Energy
APD	Austin Police Department
APL	Austin Public Library
AWU	Austin Water
CMO	City Manager's Office
CTM	Communications and Technology Management Office
EGRSO	Economic Growth and Redevelopment Services Office
EMS	Emergency Medical Services
FASD	Financial and Administrative Services Department
FLEET	Fleet Services
LAW	Law Department
NHCD	Neighborhood Housing and Community Development
PARD	Parks and Recreation Department
PWD	Public Works Department
SWS	Solid Waste Services
WPDR	Watershed Protection and Development Review

APPENDIX C

**PROJECTION OF SAMPLE RESULTS
TO UNIVERSE OF
FY06 AND FY07 PURCHASE TRANSACTIONS**

**Audit Exceptions for Sampled Purchase Transaction and
Projections of Results to Population of Purchase Transactions**

SAMPLE RESULTS			PROJECTION TO POPULATION		
Audit Exception Description	Number of sampled transactions	Percentage of sampled transactions	Number of transactions in population	Low Estimate (-5.96%)	High Estimate (+5.96%)
Did not seek bids	37	13.8%	2,947	2,772	3,123
Could not provide support for bids obtained	8	3.0%	637	599	675
Did not encumber funds prior to placing the order	80	29.9%	6,372	5,992	6,752
Incorrect coding in the financial system	23	8.6%	1,832	1,723	1,941
Sole Source form not signed by Purchasing Office	14	5.2%	1,115	1,049	1,182
Emergency Purchase not supported by required documentation	4	1.5%	319	300	338
Unable to locate file	6	2.2%	478	449	506
Unable to tie Purchase Order to corresponding invoice	3	1.1%	239	225	253
Did not use existing Master Agreements	1	0.4%	80	75	84
Total Sampled Transactions	268				
Total Transactions in population			21,347		

SOURCE: OCA analysis of sampled transactions for FY06 and FY07 purchases above \$500 extracted from the City's financial system.

As discussed in the audit report, we analyzed a statistically valid sample of purchase transactions above \$500 awarded in FY06 and FY07, calculated at 90 percent confidence level, for selected audit exceptions. As shown in the exhibit above, the results of this sample can be generalized to the population, with a margin of error of ± 5.96 percent.

As a result, we are 90 percent confident that the number of purchase transactions affected by each of the audit exceptions found in our analysis is comprised between the low estimate and high estimate value shown in the table above, which are calculated based on a margin of error of 5.96 percent.

