



City of Chattanooga

Stan Sewell
Director

INTERNAL AUDIT
City Hall
Chattanooga, Tennessee 37402

Ron Littlefield
Mayor

December 31, 2008

Mayor and City Council
City of Chattanooga
City Hall
Chattanooga, TN 37402

RE: Purchasing Contracts, Audit 08-11

Dear Mayor Littlefield and Council Members:

Attached is the Internal Audit Division's report on the Purchasing Department's Blanket Contract Program.

The Purchasing Department has already taken positive actions in response to our recommendations. We thank the management and staff of the Purchasing Department for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM
Director of Internal Audit

cc: Dan Johnson, Chief of Staff
Paul Page, General Services Administrator
Gene Settles, Purchasing Director

**PURCHASING DEPARTMENT
CONTRACTS
AUDIT 08-11
December 23, 2008**

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Auditor



Audit Director

**PURCHASING DEPARTMENT
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INTRODUCTION

The Purchasing Department is a part of the General Services Division of the City of Chattanooga. Its function is to supply the goods and services to the various departments of the City for their daily operations. The staff includes a Purchasing Agent, an Assistant Agent, six Buyers and an Office Assistant. The Purchasing Agent also supervises the mailroom attendant.

The Purchasing Department's mission is to "...ensure that our customers see Purchasing as a value-add in the supply chain process by providing quality services through effective teamwork." The Purchasing Department enters into blanket contracts on a regular basis to meet the needs of the various City departments. An electronic data information system (BUYSPEED) is utilized to aid in contract management.

STATISTICS

	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
Total New Blanket Contracts	164	116	30

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Division's 2008 Audit Agenda. The objectives of this audit were to determine if:

1. Blanket contracts are valid,
2. Payments are being made on expired blanket contracts, and
3. Payments are being made on invalid blanket contracts.

STATEMENT OF SCOPE

The scope of this audit covered a review of blanket contracts in effect as of September 09, 2008. A printout of activity of the selected contract documents was retrieved from the BUYSPEED Purchasing system, for analytical use.

The audit period covered purchases made using the selected documents chosen by random sample, and was limited by the terms of the documents. Source documentation was obtained from the Purchasing Department. Original records as well as copies were used as evidence and verified through physical examination.

STATEMENT OF METHODOLOGY

Using a report of active blanket contracts provided by the Purchasing Department, a sample was selected. A physical review of the selected files was then conducted, along with a comparison of the activity related to each file as reflected in the BUYSPEED system. This data was then compared against the BANNER accounting system.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

STATEMENT OF AUDITING STANDARDS

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. In addition, we abide by the standards of professional practice established by the Institute of Internal Auditors. An internal audit charter has not been approved by the City Council.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. Many blanket contracts have not been properly executed,
2. Purchases are being made on expired blanket contracts, and
3. Purchases are being made on invalid contracts.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Purchasing Department, they do present risks that can be more effectively controlled. The Purchasing Department and Finance personnel have already taken positive steps to address some of our recommendations.

INVALID CONTRACTS

A review of selected open blanket contracts revealed that many (18%) awards were not properly executed (a valid formal contract does not exist). Offers and/or acceptances are not in agreement.

RECOMMENDATION 1

Buyers should assure awards match bids exactly, prior to issuance. Further, the Purchasing Director should ensure a management review process is in place, along with basic contract law training programs for all Buyers. We further recommend the Purchasing Department issue a comprehensive manual to all employees involved in the procurement process. This is a recommendation we have made on multiple occasions.

AUDITEE RESPONSE

Purchasing agrees the Buyers should ensure contract awards exactly match the bids/offers or counter-bids/offers prior to issuing the signed contract award.

Purchasing is implementing a management review process to ensure that the contracts match the bids. We have also begun an in-house training program for our Buyers with temporary operating manuals until the comprehensive manual is approved by the necessary City officials. Since 66 percent of the Buyers on staff have less than three years of City of Chattanooga government purchasing experience. Most for these Buyers just recently have become eligible to enroll in our accredited National Institute of Government Purchasing training classes. We begin using this element of procurement training as well in January 2009.

Purchasing completed the first draft of a comprehensive manual in September of 2007. The manual was reviewed by the City Attorney, and the Director of General Services. The recommended changes were made and the manual resubmitted on March 15, 2008. The City Attorney approved the second draft of the manual in late March 2008. It presently resides in the Director of General Services office to be released and distributed when the Mayor and the Director of General Services determines it to be appropriate. Purchasing suggests any further discussion about the comprehensive procurement manual be pursued with the Director of General Services.

ENDING DATES CHANGED

A review of selected open blanket contracts revealed that the ending dates of 27% of contracts were changed in the (electronic) BUYSPEED system to allow purchases on expired contracts. This appears to be an intentional and affirmative act to violate the State and City Codes requiring public advertising, sealed bids, and Council approval of contracts in excess of \$10,000.00. In addition, it creates an appearance of favoritism toward certain vendors.

RECOMMENDATION 2

We recommend disciplinary action be taken with regard to those responsible for entering false information into the BUYSPEED system. We further recommend the Purchasing Department issue a comprehensive manual to all employees involved in the procurement process. This is a recommendation we have made on multiple occasions.

AUDITEE RESPONSE

It is true that the ending dates of some blanket contracts were changed in the Buyspeed system to allow payment of invoices for purchases of releases that were issued against the blanket contract after the contract's expiration date. The Buyers have been instructed to discontinue this practice immediately.

Purchasing will administer disciplinary action to any Buyer deemed to be intentionally perpetrating to circumvent the laws or create an unfair competitive environment with vendors.

For Purchasing's response to the comprehensive manual recommendation, please refer to the Auditee Response, Recommendation 1, paragraph 4.

TERMS CHANGED AFTER AWARD

A review of selected open blanket contracts revealed the Purchasing Department has been changing the terms of contracts after the award. Examples of such changes are: Shifting freight charges from the vendor to the City; changing unit prices, and adding additional products not originally included in the bid process.

RECOMMENDATION 3

We recommend the Purchasing Department issue all awards based on the bids received during the formal sealed bid process. Changing terms post-award is not fair to other bidders and creates an appearance of favoritism. Further, such actions are a violation of State and City Code if taken without re-bid and approval of the City Council. We further recommend the Purchasing Director institute training programs for Buyers and/or take disciplinary action regarding the alteration of terms post-award. We also recommend the Purchasing Department issue a comprehensive manual to all employees involved in the procurement process. This is a recommendation we have made on multiple occasions.

AUDITEE RESPONSE

Purchasing agrees that changing freight charges and the Freight On Board point of shipment from the original bid should not be occurring.

For Purchasing's response to the comprehensive manual recommendation, please refer to the Auditee Response, Recommendation 1, paragraph 4.

PURCHASING AGENT SIGNATURES MISSING

A review of selected open blanket contracts handled through Purchasing found that some contracts (exceeding \$25,000.00) were not signed by either the Purchasing Agent or his Assistant, per departmental policy.

RECOMMENDATION 4

All contracts over twenty-five thousand dollars should be forwarded to the Purchasing Agent or the Assistant Purchasing Agent for signature, per department policy.

AUDITEE RESPONSE

Purchasing agrees with this finding completely. This finding has been discussed with the Buyers and is being addressed in the temporary Buyers Operating manual that will be issued in January 2009.

REQUIREMENTS CONTRACT TERMS

A review of selected open blanket contracts handled through Purchasing found that most requirements contracts were being offered with terms of over one year with more than one year options to renew. This is a violation of the City Code Section 2-542(5). This states that no "requirements contract shall be let for a period in excess of more than one (1) year, but may contain a one-year renewal option by the City." Per the sample, there were twenty-five requirements contracts selected. Of those twenty-five, seventy-six (76) percent were in violation.

RECOMMENDATION 5

Per City Code, no requirements contract should be offered for a term of more than 12 months with one additional 12 month period of renewal.

AUDITEE RESPONSE

Purchasing agrees with this finding completely. The Buyers will adhere to the code. This finding has been discussed with the Buyers and is being addressed in the temporary Buyers Operating manual that will be issued in January 2009.

The Purchasing Division with the support of the General Services Department, the Public Works Department, and the City Attorney will recommend a change to this City Code in January 2009. By lengthening the present City Code maximum renewal option to exceed the present two year maximum, and allow for a longer maximum renewal period, as does the State of Tennessee Code, will perpetuate more cost effective blanket and requirement contracts.