

AUDIT REPORT

Date:	November 3, 2021
Department:	Business Services Purchasing Division
Subject:	Procurement Processes
Lead Auditor:	Dawn von Epp and Karen Newman, Sr Internal Auditors

OBJECTIVE

This audit was conducted to determine whether effective controls are in place over procurement processes to prevent or detect errors, fraud, waste, or abuse, and ensure compliance with policies, statutes, and other applicable requirements.

SCOPE & METHODOLOGY

The scope of the audit was FY 2021 procurement activities, except for the annual commodity spend analysis, which was most recently completed in FY 2020. To accomplish our objective, we interviewed key staff, sampled and tested small and large purchases, sole source, competitive impractical, and emergency purchases, as well as cooperative contract usage. We also analyzed Purchasing's annual commodity spend analysis.

BACKGROUND & DISCUSSION

The Purchasing division within Business Services is positioned to provide a centralized procurement role, aiding City of Mesa staff by combining procurement expertise with knowledge of City department needs. Their purchase-specific activities include leading the competitive selection process (e.g., Request for Bids/Proposals/Qualifications), identifying and recommending existing cooperative contracts that meet City needs, administering the Procurement Card (P-Card) program; and reviewing requisition requests which can include sole source, competition impractical, and emergency purchases, to ensure documentation supports the purchase type and is in compliance with Management Policy 200, *Procurement Policy and Procedures*, and other applicable procedure documents. During the audit period, award documents totaling \$179 million were issued and \$23 million in P-Card purchases were made.

Purchasing staff also assists with establishing new contracts, initiating contract renewal steps, leveraging cost savings through various rebate programs, and monitoring annual purchases to understand shifts in citywide purchasing trends, identifying when multiple departments can benefit from a mutual contract, and educating staff about existing contracts when purchases have been made outside of those agreements.

CONCLUSION

In our opinion, Purchasing has implemented several effective controls to prevent or detect errors, fraud, waste, or abuse, and ensure compliance with applicable requirements. However, we identified a few areas that could be strengthened, which are summarized below and are detailed in the Issue and Action Plans on the following pages.

SUMMARY OF OBSERVATIONS & RECOMMENDATIONS

1. Observation: Conflict of Interest is not always specifically addressed.

Recommendation 1-1: Update existing procurement forms and/or create a method to include Conflict of Interest documentation for employees participating in large procurements.

2. Observation: Cooperative contract agreement and lead agency vetting frequency.

Recommendation 2-1: Develop a process that ensures a written agreement is in place between the City Manager and the cooperative contract agency prior to using cooperative contracts.

Recommendation 2-2: Confirm that cooperative agencies use methods in alignment with City competitive selection requirements at initial use and then every five years after that.

Issue and Action Plan #1

Issue #1: Conflict of Interest is not always specifically addressed.

Observation: 21 of the 33 larger (> \$25,000) purchases/contracts sampled did not address Conflict of Interest as part of the documented procurement activities. Requests for Proposal (RFPs), Requests for Qualifications (RFQs), and Covid-19/CARES specific purchases do include potential Conflicts of Interest as part of the process and are documented as such; however, other types of procurements do not.

Criteria: Arizona Revised Statutes §38-503 and MP 200 Section IV, #B require the following, (in summary):

Employees and agents of the City having responsibility for procurement at all levels shall disclose any potential conflict of interest and recuse themselves from any specific procurement for which they have a conflict of interest.

Comments: This is not a compliance issue; however, if potential conflict of interest is not given active consideration within the process, it is easily dismissed or forgotten.

Recommendation and Management's Action Plan: **Recommendation #1-1:** Update existing procurement forms and/or create a method to include Conflict of Interest documentation for employees participating in large procurements. Additionally, retain the form/document with other procurement related files.

Action Plan #1-1: The RFP evaluation process includes a statement by each evaluator that they do not have a conflict of interest. Bids don't use this particular process. A statement that there is no known conflict of interest on the part of those recommending award has been added to the Award Recommendation form for both bids and proposals.

Individual or Position Responsible: Ed Quedens, Business Services Director

Estimated Completion Date: Complete

Issue and Action Plan #2

Issue #2: Cooperative contract agreement and lead agency vetting frequency.

Observation:	<p>A cooperative contract was used with an agency without a cooperative agreement in place between the City Manager and the agency. Additionally, lead agencies from whom the City has previously used cooperative contracts, have not been verified recently for using procurement methods that are in alignment with City competitive selection requirements. Vetting of 6 of the 7 cooperative agency's procedures has not occurred for some time, ranging from 9 to 17 years ago. A one-time check over a prolonged period of time is not necessarily representative of current practices.</p>
Criteria:	<p>City Code Title 1, Chapter 21 "The Procurement of Materials, Non-Professional Contract Services and Capital Improvements", Section 1-21-7 states:</p> <p><i>"The City Manager or Designee is authorized to participate with any Government Agency or Government Organization for the procurement of Materials or Non-Professional Contract Services in cooperative purchasing agreements, provided:</i></p> <p><i>B. Procedures were used in the applicable procurement which are similar to the City's competitive selection requirements (summarized).</i></p> <p><i>C. There is a written agreement with the Governmental Agency or Governmental Organization executed by the City Manager or Designee establishing the Cooperative Procurement relationship."</i></p>
Comments:	<p>The cooperative contract that was used without an agreement between the City Manager and the agency appears to be an isolated occurrence due to unique circumstances.</p>
Recommendations and Management's Action Plans:	<p>Recommendation #2-1: Develop a process that ensures a written agreement is in place between the City Manager and the cooperative contract agency prior to using cooperative contracts.</p> <p>Action Plan #2-1: We have developed a Cooperative Purchasing Agency Assessment/Approval form that will be used on the first use of a new cooperative. The form will capture that the cooperative issues contracts with the intent to be used cooperatively, that the agency used competitive selection with processes similar to those</p>

outlined in the Mesa City Code, procedures similar to those outlined in the Mesa City Code and the Mesa Procurement Rules were used, that the agreement was signed by the City Manager or designee and that a copy of the cooperative agreement is on file in Purchasing. The assessment will be valid for 5-years at which point a reassessment will be completed.

Individual or Position Responsible: Ed Quedens, Business Services Director, and Kristy Garcia, Procurement Administrator

Estimated Completion Date: The Assessment/Approval form has been created and an assessment of all current agreements is underway. The process is in place for new cooperative use. A review of the existing cooperatives is underway and is planned to be completed by 1/31/2022.

Recommendation #2-2: Confirm that cooperative agencies use methods in alignment with City competitive selection requirements at initial use and then every five years after that in order to ensure the agencies' practices are continued. The confirmation should be documented.

Action Plan #2-2: Included in the response to 2-1 above.

Individual or Position Responsible: Ed Quedens, Business Services Director, and Kristy Garcia, Procurement Administrator

Estimated Completion Date: The Assessment/Approval form has been created and an assessment of all current agreements is underway. The process is in place for new cooperative use. A review of the existing cooperatives is underway and is planned to be completed by 1/31/2022.