



# City of Bowling Green

## Internal Auditor's Office

Purchasing Office Audit Follow-Up

Project# 2015-08

Issue Date: 12/31/15

Finalized: 01/11/16

Deborah Jenkins, CFE, CGAP, CICA

## Transmittal Letter

TO: Kevin D. DeFebbo, City Manager, Ex-officio Member  
Scott Gary, Audit Committee Chair  
Tony Witty, Audit Committee Vice-Chair  
Cristi Pruitt, Audit Committee Member  
David McKillip, Audit Committee Member  
Joe Denning, Commissioner and Audit Committee Member

CC: Katie Schaller, Assistant City Manager/City Clerk  
Marilyn Parrigin, Purchasing Agent

FROM: Deborah Jenkins, Internal Auditor

Pursuant to the *Charter of the Internal Auditor's Office*, I hereby submit the follow-up report covering the Purchasing Office. The objective of this follow-up report was to determine if Purchasing implemented the six (6) recommendations made in an earlier report, *Purchasing Office Audit* (Project# 2012-15, finalized on January 14, 2013). The results of the *Purchasing Office Follow-up Audit* have been discussed with management.

### **Results in Brief**

All six of the audit recommendations have been fully implemented. The Purchasing Office has made many improvements since the initial audit was performed. A new Purchasing Agent was hired in October 2012 as this audit was nearing completion and she has reviewed and improved multiple areas within the division with the assistance of her supervisor. City staff and management are very complimentary of the work performed in the Purchasing Office.

Sincerely,

Deborah Jenkins, CFE, CGAP, CICA  
Internal Auditor

**Objective**

The objective of the Purchasing Office Audit follow-up was to determine if management implemented the six (6) recommendations made in an earlier report, *Purchasing Office Audit* (Project# 2012-15, finalized on January 14, 2013).

**Scope and Methodology**

The scope of this follow-up audit included Purchasing related transactions from July 1, 2014 through June 30, 2015. To determine the implementation status of prior recommendations, I performed the following:

- Interviewed Purchasing related staff
- Reviewed the original audit report
- Performed test work to determine compliance with various recommendations
- Imported Fiscal Year 2014/2015 purchase order data into IDEA Analytical Software for analysis
- Analyzed the results of the test work performed and discussed results with management

**Conclusion**

All six (6) of the audit recommendations have been fully implemented. The Purchasing Office has made many improvements since the initial audit was performed. A new Purchasing Agent was hired in October 2012 as this audit was nearing completion and she has reviewed and improved multiple areas within the division with the assistance of her supervisor. City staff and management are very complimentary of the work performed in the Purchasing Office.

## **Prior Observations and Recommendations**

**1. Online bidder listing should be periodically advertised and maintained; the webpage should be updated timely and additional online services should be researched for additional convenience of bidders.**

### **Prior Audit Recommendation**

*Even though the City has transitioned to electronic advertisement of each specific bid on the City's webpage, periodic advertisement of the actual registry via other means (newspaper, social media, radio, etc.) should also be utilized so all potential vendors become aware of the registry as time goes on.*

*The comments or suggestions provided in the survey should be researched and implemented:*

- 1. Update statuses timely on the website.*
- 2. Implement a plan holders listing for subcontractors.*
- 3. Notify companies that have previously bid on a recurring bid that it is out for bid again.*
- 4. Follow-up with bidders when they are not selected and provide feedback especially if they were not considered due to a procedural error such as not including a bid bond, late arrival or an incomplete or missing required form.*
- 5. Evaluate the vendor codes to see if a different type of organization would be easier for vendors to sign-up for separating professional services from materials and construction type work.*

### **Prior Management Response**

*Management appreciates the responses provided from the survey conducted by the Internal Auditor and will take all suggestions into consideration as we continue to make improvements to the procurement webpage and online registry/bidder system.*

*Periodic advertisement of the actual registry via other means should be utilized so all potential vendors become aware of the registry as time goes on*

*The cost of additional advertising in outside publications is a factor to be considered. The use of the City's website/internal methods helps to keep costs to a minimum. From July 1, 2011 to June 30, 2012, the City had 565 new vendor registrations. To date, there have been over 1,800 registered vendors from its short three year history. Although the survey identifies less than half of the registered vendors having heard about the registry from the City's website, it was by far the most selected response. There are several bid services/publication resources that have registered on the City's procurement website, such as Datafax, National Construction News, The Dodge Lead Center, BidNet, Onvia, Kentucky Procurement Assistance Program (KPAP), and Tennessee and Kentucky's Builders Exchange to name a few, which also help to advertise about Bowling Green's online bidder registry process through a third party service. We average over 30 downloads per bid listing on a regular basis. In December, we experienced as many as 70 downloads for one particular bid. We propose to publish periodic reminders of the Bid Process/Website in the local newspaper and send out e-news releases to encourage more*

competition, as well as advertising in other publications that would reach surrounding areas if costs are reasonable. In addition, we will investigate the possibility of using other resources (Louisville uses Demand Star) to reach as many bidders as possible.

1. Update statuses timely on the website.

The status of the bids/quotes is currently being updated within 24 hours of an action/decision. The problem may exist due to the time lag in the actual process, sometimes two/three months before a bid is awarded. Example: Once bids are opened, the bid is changed to "Pending" on the website and will remain "Pending" throughout the evaluation process, required signature approval, and presentation to the BOC during a regularly scheduled meeting. Since "Pending" has such a broad interpretation, we will request that IT change "Pending" to "Under Evaluation," which we believe will more accurately explain the bid status.

2. Implement a plan holders listing for subcontractors.

The current system setup does not identify bidders as "plan holders", so we are not able to provide such a list. We believe it would be pure speculation on the City's part to make such assumptions without a declaration by the Company itself. Until a bid opening occurs, the list of downloads related to such bid is determined to be preliminary, and therefore, not released in advance of the bid opening. We will look into modifying the system to identify (at the time of registration or bid download) if a Company is considered to be a plan holder. Additionally, when mandatory pre-bid meetings are held and an attendance sign-in sheet is required, we could modify the form to request those in attendance to identify themselves as a plan holder or not. Thereby, obtaining such information directly from the Company.

3. Notify companies that have previously bid on a recurring bid that it is out for bid again.

We believe that this would be a redundant step in the process. Currently, an e-mail is sent to all companies registered on our website if the bid request applies to the codes identified by the Company during registration. So long as a Company maintains its registration status, it should receive the notification. A separate notification process to specific vendors would be time consuming and may not be the best way for that time to be spent, especially since this is a one person office.

4. Follow-up with bidders when they are not selected and provide feedback, especially if they were not considered due to a procedural error such as not including a bid bond, late arrival or an incomplete or missing required form.

A letter is now sent to each bidder not being awarded the project advising of the City's selected company and amount to be awarded. A note can be added to advise the Company if a procedural error occurred which might have disqualified them from consideration. Unfortunately, because not all bids are evaluated and approved within a week of opening, this letter may not get sent in (what some may consider to be) a "timely" manner.

5. Evaluate the vendor codes to see if a different type of organization would be easier for vendors to sign-up, for separating professional services from materials and construction type work.

Currently, there are a total of 74 codes available for selection, with seven different types for professional services to choose from as well as fifteen different sub types for contractor. In further review of the codes in the registration process, it appears that they are not listed in alphabetical order. This may cause some codes to be missed. We will review this with IT and request assistance to determine the best method of (re)organizing this information. Also, we will contact other cities to determine the information/tools used in their processes.

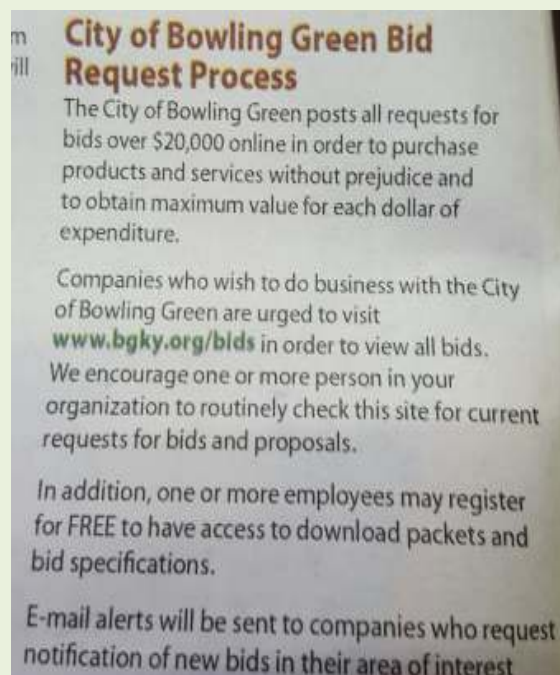
### **Current Status: IMPLEMENTED**

The City's bidding webpage is up to date and updated as each bid is opened and as awards are made. The City still utilizes online bidder registrations to push notifications out to registered bidders, but periodic advertisements are publicized in various outlets to ensure that the general public knows that the City's bids are listed on our website. Examples of the periodic advertisements include:

#### **Bowling Green Daily News**



#### **SOKY Happenings**



A BG Minute was also created on the Bidding Process which plays on the City's Government Channel 4 seven times a day; pamphlets are available in various City locations. The City's Facebook page posts specific bids as they are released by the Purchasing Office on social media.



### City of Bowling Green, KY - Municipal Government

December 22 at 3:04pm - Bowling Green, KY

The City of Bowling Green Police Department is now accepting bids for Police Uniforms. Please visit our website at <http://www.bgky.org> for more information.

The Purchasing Agent reviews the bidders within each bidders listing as the bids are closed to ensure that adequate information is provided by the companies and that no ghost or spam registrations have occurred. Periodic reviews of the registered bidders is conducted and cleanup will take place to either inactivate accounts which have had no activity in multiple years or deleted if a spam registration has made it into the system.

When companies call asking for a plan holders listing, the Purchasing Agent will send them a copy of the bidders list which contains the contact information provided by each company who downloads the bid packet. The requests are recorded and kept on file as an open records request.

Each bidder now receives notification once a bid has been awarded. The company winning the bid will be contacted directly by the City Department who requested the bid and the non-awarded companies receive notification directly from the Purchasing Agent thanking them for their bid, notifying them who received the award and encouraging them to bid again with the City. If a procedural error occurred with their bid; such as not including required forms such as bid bond, Responsibility of Bidder Form or a signed acknowledgement of an addendum; the error will be included in the notification so it can be corrected in later bids.

The email alert codes have been rearranged alphabetically and were reviewed by management to clarify areas such as construction contractor services verses professional services in various areas.

## **2. The Purchasing Office should monitor Citywide Purchasing Activity.**

### **Prior Audit Recommendation**

*The Purchasing Agent should take a more active role in monitoring and analyzing purchases citywide, including but not limited to the following:*

- 1. Create and regularly review PO reports designed to detect policy violations, errors and/or fraudulent purchases as well as identify opportunities for improvement in efficiency and cost savings.*
- 2. Include reviews of all purchasing activity, regardless of payment method (direct payments and P-Card purchases). This will enable Purchasing to identify errors or irregularities that may go undetected without a broad citywide review.*

### **Prior Management Response**

*The Purchasing Agent should take a more active role in monitoring and analyzing purchases citywide.*

Management agrees with this recommendation. It will take cooperation from both the Finance and IT departments to implement an effective solution.

1. Create and regularly review PO reports designed to detect policy violations, errors and/or fraudulent purchases as well as identify opportunities for improvement in efficiency and cost savings.

Access to such information will be required and training will be needed to assist the Purchasing Agent in creating the necessary reports. The use of other software outside of Logos, such as Idea Management Solution, may also be required to assist with obtaining information in a useable format. At a minimum, we propose to 1) establish a quarterly review process of the purchasing activities of two departments per quarter, 2) create a logical approach (with the assistance of the Internal Auditor) to analyzing reports by vendor, in descending dollar, with products/services purchased, and 3) meet with each department after the analysis is complete to ask questions, gather input, and possibly identify potential areas for cost reductions/savings and efficiencies.

2. Include reviews of all purchasing activity, regardless of payment method.

Currently, the Purchasing Agent does not have security access to review or run reports on direct purchases and P-card transactions. In addition, there is no built in notification process in Logos for any purchases exceeding \$5,000 to receive approval by the PA under either of these two methods.

#### **Current Status: IMPLEMENTED**

The Purchasing Agent conducts an annual review of PO's looking for split purchases and total amounts to monitor spending and see if items should start going to formal bid. She also reviews spending by department and specifically looks at items \$2,500-\$5,000 which are below her required approval level to ensure that the appropriate quote process has occurred as required per City policy. Meetings are held between the Purchasing Agent and departmental management to review purchases and plan out any upcoming bid needs. The Purchasing Agent's coordination with the Department of Finance has increased as well to ensure purchases outside of the purchase order system, including credit card purchases, are following required policy and procedures. The one item of note is that the use of analytical software would improve the efficiency of these reviews if some time was spent learning the IDEA Software that the Purchasing Office added in 2013.

### **3. Each Sole Source purchase must contain proper justification, supporting documentation and appropriate approval signatures.**

#### **Prior Audit Recommendation**

*The Sole Source Justification form should be updated to include dollar amounts in which each approval signature must be obtained. All determined signatures must be obtained prior to approval to purchase and maintained in file. Supporting documentation from the department*



*should be attached including purchase price for all sole source purchases. If an item does not comply with approved sole source justifications, it should be denied and the competitive bidding process should begin.*

*Ongoing sole sources should be periodically reviewed to ensure the purchase is still considered a sole source. This review should be done on a consistent basis and documented.*

**Prior Management Response**

*Management agrees and the Sole Source Justification form has been revised as recommended, and now contains the specific signature requirements. Previously, approval may have been given electronically through the PO approval process, but the forms were not updated with the appropriate signatures once approved and reattached to the PO. The process has been modified to require that the form is to be completed, with required memos/documents attached, and submitted for approval prior to a Sole Source number being assigned. Further details are also now specifically required, such as Description of Purchase and Estimated Amount. The signature of the Purchasing Agent and the City Attorney are now required for all Sole Source approvals for transactions over \$2,500 (those requiring at least two or more quotes by Policy). The City Manager's signature is required for all transactions over \$20,000 and BOC approval will be sought for all items with a minimum total of \$25,000. All approved forms with documents are kept on file in the Purchasing Agent's office for a period of three years, after which it can be destroyed per records retention policies, and should be electronically attached to the respective PO. The new form and process has been in place since November 2012, but was formally announced effective January 2, 2013. A copy of the revised form is attached for your reference and review.*

*On-going Sole Sources should be periodically reviewed to ensure the purchase is still considered a Sole Source.*

*Management agrees and new Sole Source approvals are required annually.*

**Current Status: IMPLEMENTED**

The new forms referenced in the management's response have been fully implemented. All sole source forms for FY2014/2015 were reviewed and appropriate backup, justification and required signatures were confirmed on each of the approved forms.

The Purchasing Agent stated that she reviews approvals with each requested purchase order to ensure that any applicable sole source is still within the approved year time frame or she will not approve until they submit the appropriate form and obtain approval for another year.

**4. Non-Competitive purchases must be based only on the determinations provided in Kentucky Revised Statutes (KRS) and must be completed per requirements in City Policy.**

**Prior Audit Recommendation**

*All required signatures must be obtained prior to approval to purchase and maintained in the Purchasing file. Supporting documentation from the department should be attached including purchase price. If an item does not comply with approved non-competitive negotiation justifications, it should be denied and the competitive bidding process should begin. One number should be provided by the Purchasing Agent for each separate purchase. Multi-year contracts should be approved through Board of Commissioners if the total contract amount is above the \$25,000 threshold in City policy.*

*The City Manager's signature is not a required signature on the form; however, if the purchase is within his approval level the City Manager approval must be documented.*

**Prior Management Response**

*Management agrees and the Noncompetitive Negotiations form has been revised as recommended, and now contains the specific signature requirements. Previously, approval may have been given electronically through the PO approval process, but the forms were not updated with the appropriate signatures once approved and reattached to the PO. The process has been modified to require that the form is to be completed, with required memos/documents attached, and submitted for approval prior to a number being assigned. The signature of the Purchasing Agent and the City Attorney are required for all Non-Competitive Negotiation approvals for transactions over \$2,500 (those requiring at least two or more quotes). The City Manager's signature is required for all transactions over \$20,000 and BOC approval will be sought for all items with a minimum total of \$25,000. All approved forms with documents are kept on file in the Purchasing Agent's office for a period of three years, after which it can be destroyed per records retention policies, and should be electronically attached to the respective PO. The new form and process has been in place since November 2012, but was formally announced effective January 2, 2013. A copy of the revised form is attached for your reference and review.*

**Current Status: IMPLEMENTED**

The new forms referenced in the management's response have been fully implemented. All noncompetitive negotiation forms for FY2014/2015 were reviewed and appropriate backup, justification and required signatures were confirmed on each of the approved forms.

**5. Cooperative purchasing through Kentucky State Pricing Contracts or any other "local public agency" must be in compliance with KRS 45A.420 and City policy.**

**Prior Audit Recommendation**

*The Purchasing Agent must verify that any non-competitive purchase that is approved by use of cooperative purchasing contains the correct State Pricing Contract with the item being purchased clearly identified in the supporting documentation. All State Pricing purchases must contain a copy of the current State contract that is being utilized within the supporting documentation, not just the contract number; since all data is deleted from the State site after the*

*contract expires. Purchases via use of cooperative purchasing with other local agencies should be approved by contracts originating with other local agencies within Kentucky who follow the Kentucky Model Procurement Code adopted by the City. This must be verified by the Purchasing Agent and signed off on by the City Attorney prior to purchase.*

*The Purchasing Office should meet with the City Attorney and review requirements for local cooperative agreements to ensure that contracts are only approved with appropriate contracting agencies.*

**Prior Management Response**

*There have been conflicting interpretations in the past regarding which cooperative agreements the City could appropriately use. This has since been clarified and all cooperative purchasing agreements must be associated with either the Commonwealth of Kentucky or a local public agency therein.*

*Purchasing Agent must verify that any non-competitive purchase that is approved by use of cooperative purchasing contains the correct State Pricing Contract with the item being purchased clearly identified in the supporting documentation. All State Pricing purchases must contain a copy of the current State contract that is being utilized within the supporting documentation, not just the contract number. The Purchasing Office should meet with the City Attorney and review requirements for local cooperative agreements to ensure that contracts are only approved with appropriate contracting agencies.*

*Management agrees and a new Determination Form has been developed with the assistance of the City Attorney, titled Cooperative Purchase (KRS 45A.420), to contain the specific signature requirements along with other required information. The form is to be completed, with required memos/documents attached including a copy of the correct State or Local Purchasing Contract identified on the form, and submitted for approval prior to a number being assigned. The signature of the Purchasing Agent and the City Attorney are required for all Cooperative Purchasing approvals for transactions over \$2,500 (those requiring at least two or more quotes). The City Manager's signature is required for all transactions over \$20,000 and BOC approval will be sought for all transactions with a minimum total of \$25,000. All approved forms with documents are kept on file in the Purchasing Agent's office for a period of three years, after which it can be destroyed per records retention policies, and should be electronically attached to the respective PO. The new form and process has been in place since November 2012, but was formally announced effective January 2, 2013. A copy of the new form is attached for your reference and review.*

**Current Status: IMPLEMENTED**

*The new forms referenced in the management's response have been fully implemented. All cooperative purchasing forms for FY2014/2015 were reviewed and appropriate backup, contract*

backup was in compliance with KRS 45A.420 and required signatures were confirmed on each of the approved forms.

**6. The Purchasing Agent should enforce both City and State procurement policies. Any purchases that do not have proper quotes or backup should have a justification memorandum. Items \$20,000 or above must follow Model Procurement Code and bid files should contain essential bid file items.**

**Prior Audit Recommendation**

*The language in the Purchasing Policy should be reviewed and strengthened to remove any vague terms such as the departments “will attempt to adhere” to stated quote levels. Proper approval signatures should be obtained and documented especially for items that require City Manager’s signature for administrative approval. Departmental justifications should be required as stated per policy when the recommended quotes are not obtained.*

*Any agreement or contract should be taken to the City Manager or Mayor for appropriate signatures. Internal procedures should be strengthened and training performed to enhance both departmental and citywide compliance with procurement policies.*

*Purchasing should encourage all supporting documentation to be electronically attached to the Purchase Order in the City’s financial software. The documentation should be attached by the departments requesting the PO or by the Purchasing Agent if she feels additional information is required to be in compliance with policy. The Assistant City Manager/City Clerk as the supervisor of this division should periodically review larger purchase orders to ensure that the Purchasing Agent is obtaining further approvals when required.*

*Once a bid has been finalized and approved, all essential bid file documents should be signed off on and placed in the bid file in a timely manner and close out the bid file. This would allow review, open records requests or audits to be conducted in an efficient manner and ensure that essential forms are finalized per City Policy.*

**Prior Management Response**

*With regard to the observations/issues noted above, the former Purchasing Agent is no longer available to provide additional insight into the outcome which may have a plausible explanation. It is possible that proper authorization/documentation was obtained through email, phone or in-person communication or other means which were unavailable during the auditing process. All processes have been reviewed and improvements implemented with the hiring of a new Purchasing Agent.*

*The language in the Purchasing Policy should be reviewed and strengthened to remove any vague terms such as the departments “will attempt to adhere” to stated quote levels. Proper approval signatures should be obtained and documented, especially for items that require City Manager’s signature. Departmental justifications should be required as stated per policy when the recommended quotes are not obtained.*

*Management agrees. Although, we are reluctant to make policies that are too restrictive and unable to accommodate the needs of the departments. We need to determine an appropriate balance between required paper pushing and the ability to offer necessary services to the public, all while being accountable for how taxpayer dollars are spent. The Manual of Purchasing Policies and Procedures was last updated in October 2011. The language in the Purchasing Policy will be reviewed on a regular basis (at least annually), and recommended changes submitted for approval if applicable. In addition, training programs will be established and periodic sessions will be held with each department to reinforce new language and more structured, disciplined processes, such as those related to the new Sole Source, Noncompetitive Negotiations and Cooperative Purchasing forms.*

*Any agreement or contract should be taken to the City Manager or Mayor for appropriate signatures.*

*Previous Purchasing Policy interpretation had advised that the Purchasing Agent had the ability to sign documents related to transactions within her authority to approve (\$5,000 to \$20,000). However, during the past year, this process has been clearly communicated to all Department Heads, along with the requirement for the City Attorney to review and approve each contract before being signed by the City Manager, his designee or the Mayor. We agree that this subject matter should be a part of all future training to reinforce the requirement.*

*Purchasing should encourage all supporting documentation to be electronically attached to the Purchase Order in the City's financial software.*

*Management agrees and has been encouraging electronic attachment for all departments that have the capability to do so since this past summer. Not all departments had the ability (right equipment) to scan documents that could be attached. However, we have been told by IT that this may no longer be an issue for departments. If that is the case, we would like to take the recommendation further and suggest that this be changed from "encourage" to "require." We believe it is more efficient for all that corresponding documents be electronically attached prior to submitting it for approval in Logos at any level of the approval process. In addition, we believe the Purchasing Agent should have the ability to attach documents to a PO in the system to help reinforce compliance. However, once a PO starts through the approval process at the department level, the PA is not always able to attach documents. This is a software issue that we are not able to control.*

*The Assistant City Manager/City Clerk should periodically review larger purchase orders to ensure that the Purchasing Agent is obtaining further approvals when required.*

*Management agrees. When the previous Purchasing Agent left employment with the City, the ACM/CC filled in as interim PA until a replacement could be hired. This gave the ACM/CC more insight into the processes being utilized and the ability to more readily implement needed improvements. The ACM/CC continues to be more involved in the activities of the Purchasing*

*office in an effort to fill in as Acting PA when necessary. The ACM/CC will also need to receive additional training and access to create reports and may need access to other software (such as Idea Management Solution) to assist in executing the recommended review process.*

*Once a bid has been finalized and approved, all essential bid file documents should be signed off on and placed in the bid file in a timely manner and close out the bid file.*

*Management agrees. However, this action is considered to be a low priority, and as such, it may be necessary for filing to be delayed in order to address higher priority activities. Currently, bid files are updated within 24 hours of an action/decision. We will strive to maintain this timeframe when feasible. The “Essential Bid File Items” form is also being placed in each new bid file as a check-off sheet of items required to be in the bid file and a quick reference to note if in full compliance.*

#### **Current Status: IMPLEMENTED**

The City of Bowling Green’s Manual of Purchasing Policies and Procedures was updated effective October 21, 2014 by Municipal Order No. 2014-211. The changes included revisions to the language as recommended and updates to the local bidder preferences. New Sole Source, Noncompetitive Negotiations and Cooperative Purchasing forms were created which require appropriate signatures and supporting documentation. Procedures have been updated citywide which require the City Attorney to review every contract. The City Manager signs all contracts below \$25,000 and the Mayor signs contracts above that level with Board of Commissioner approval.

The Information Technology Department has worked to improve all City locations so that all supporting documentation can be scanned and attached to each purchase order and backup is maintained electronically within the software system. Purchasing training has been conducted within the various city departments both in a group setting as well as one on one sessions when specific divisions need assistance. The Purchasing Agent also conducts individual meetings each year with department heads and key personnel to see what their upcoming needs are and to review how the department has been doing.

The Assistant City Manager/City Clerk has become very involved in the purchasing process and acts as the backup whenever the Purchasing Agent is out of the office. This allows her to appropriately oversee and ensure that policies and procedures are being followed consistently.

The essential bid items were easy to find in each of the bid files due to a standardized filing system that has been put in place. A reference listing is posted on the Purchasing Agent’s desk to help ensure all items are placed within the bid file as it is closed out.