



OFFICE OF THE CITY AUDITOR
Long Beach, California

R-21

LAURA L. DOUD, CPA
City Auditor

December 15, 2009

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file the attached Parks, Recreation, and Marine Purchasing and Competitive Bidding Process Audit Report.

DISCUSSION:

We recently concluded our audit of the Parks, Recreation, and Marine (PRM) Purchasing and Competitive Bidding Process. Attached for your consideration is our audit report that highlights some areas for improvement as well as several recommendations for Management.

Purchasing controls are important to ensure that the City is always receiving the best price for its purchases, as well as to ensure transparency and fairness in the procurement process. Our audit identified the need for written policies and procedures to formalize the bidding process as well as regular training to ensure that standard bidding practices (e.g., proper time stamping of bids, not accepting bids after the submission deadline, etc.) are followed. Additionally, we found that sole-source exceptions to the competitive bidding process should be properly documented according to policy, and care should be taken to ensure that all purchases over the required threshold (\$10,000) are bid competitively. Detailed discussion of all issues examined in our audit is contained in the attached report.

Changes have already occurred in the processes observed since the initiation of our audit, including the transfer of bidding responsibilities from PRM to the Purchasing Division of the Financial Management Department. Furthermore, PRM concurs with our report in its attached response and agrees to implement the recommendations. We thank the Department for its cooperation with the audit, and for implementing the changes as outlined in their response.

TIMING CONSIDERATIONS:

Action by the City Council is not time sensitive.

FISCAL IMPACT:

Competitive purchasing and bidding processes are essential in all city departments to ensure the City is receiving the best price on all of its purchases, and thus taxpayer dollars are maximized as best as possible.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



LAURA L. DOUD, CPA
CITY AUDITOR

Attachment

Office of the City Auditor

Audit Report

Parks, Recreation and Marine Purchasing and Competitive Bidding Process

December 2009



Audit Staff

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Executive Summary

We recently concluded our audit of the Department of Parks, Recreation and Marine's (Department) competitive bidding process. The objective of the audit was to determine whether the Department's competitive bidding process was in compliance with City policies and procedures and conducted in an effective and efficient manner.

The City's policy allows a department to waive the competitive bidding process for commodities if it is determined that there is only one source for the equipment, materials or supplies sought. For the procurement of services, the Administrative Regulation provides for an "exception to policy" if at least one of the following three criteria are met: 1) an unpredictable emergency occurred that required an immediate response; 2) only one known source can meet a justified geographical requirement; and/or 3) a substantial financial savings can be clearly identified by selecting the recommended company.

The scope of our audit was limited to purchases and /or services between \$10,000 and \$100,000 made in fiscal years (FY) 2007 and 2008 by the Maintenance Operations, Marine, and Planning and Development Bureaus (Bureaus). We identified approximately \$1.7 million in purchases and/or services within our scope that were subject to an informal bid process. We tested a sample of 21 out of a total of 50 purchases and/or services for compliance with City policies and procedures. The 21 items sampled totals \$1,054,000 or approximately 60% of the 50 items.

As a result of our audit, we found deficiencies in the Department's competitive bidding process that need improvement. The following briefly highlights the findings that are addressed in this audit report.

- The Department lacks written policies and procedures for the competitive bidding process.
- Project files maintained by the Bureaus lacked evidence of the following critical documents:
 - *Written job specifications:* 71% of projects that required written job specifications did not have them on file. Without written job specifications, we could not determine the justification of change orders issued for three projects.
 - *Evidence of job walks:* During a job walk, the Department familiarizes potential bidders with the project site and details and responds to questions related to the project. 56% of projects that were solicited for bids did not have evidence of a job walk on file.
 - *Vendor Insurance and Risk Management approval of insurance:* One project did not have evidence of vendor insurance on file. Additionally,

13% of projects that required vendor insurance lacked evidence of Risk Management approval of vendor insurance as required by the City's Financial Policies and Procedures.

- Standard public competitive bidding practices for receiving and documenting bids are not consistently followed.
 - Bids are not opened publicly in the presence of one or more witnesses.
 - Bids have been accepted from vendors after the submission deadline.
 - Not all bids received are date stamped.
- Our audit sample showed that 12 out of 21 (57%) purchases or services totaling approximately \$768,000 were made through a sole source/exception to policy request instead of a competitive bidding process. While PRM had reasons for sole sourcing, there was a lack of proper documentation for five of the sole-sourced items to support their position.
- While we recognize that PRM issues over 3,000 purchase orders annually, we identified multiple payments made to vendors that exceeded the \$10,000 purchasing threshold limit which is contrary to City policy.

Details of the above issues, including background information, audit objectives, and scope and methodology are discussed in the body of this report.

Background

The Department of Parks, Recreation and Marine is responsible for overseeing the operation and maintenance of the City's public recreational facilities and for providing various recreational programs and services to Long Beach residents. The Department's operations are organized into six distinct bureaus: Business Operations, Community Recreation Services, Maintenance Operations, Marine, Planning and Development, and Special Events and Filming. The Maintenance Operations, Marine, and Planning and Development bureaus oversee the majority of contracted maintenance and development projects under \$100,000. The Public Works Department handles the execution of most major construction contracts over \$100,000. Since our audit focused on the Department's bidding process, the scope of our audit was limited to purchases between \$10,000 and \$100,000 made by these three bureaus for fiscal years 2007 and 2008.

Informal Purchasing Thresholds

The City of Long Beach (City) Charter sections 1800-1808 and Municipal Code Section 2.84 establish the overall framework for the City's procurement practices. The City's Administrative Regulation (AR) 23-3 and Financial Policies and Procedures (FPP) 3-1.4 provide detailed rules and regulations regarding informal purchases.

The City's informal purchasing threshold is set at \$100,000. Departments may make purchases up to \$10,000 without advertising for bids. Purchases over \$10,000, but not exceeding \$100,000 must follow informal bidding requirements. Purchases greater than \$50,000, but not exceeding \$100,000 require City Manager approval. The minimum amount for purchases requiring City Manager approval was temporarily reduced to \$25,000 on December 12, 2008; however, this date is outside the timeframe of our audit. Purchases greater than \$100,000 require City Council approval and must follow the City's formal bidding requirements.

Purchasing Methods

There are several purchasing methods available for Departments to procure goods and services on behalf of the City: Direct Purchase Orders, Purchasing Requisitions, Blanket Purchase Orders, Direct Payments and Purchasing Cards. Two of the methods relevant to this audit are as follows:

Direct Purchase Orders

Direct Purchase Orders (DPO's) are purchase orders issued by individual departments for goods or services, not available under an existing Blanket Purchase Order (BPO) that will not exceed \$10,000 in one year. City policies and procedures encourage departments to obtain three verbal quotes for these types of purchases.

Purchase Requisitions

Purchase Requisitions are purchase requests for purchases exceeding \$10,000. For all purchases over \$10,000 and not exceeding \$100,000 written quotes are required from a minimum of three suppliers. In most cases, the Purchasing Division processes an Invitation to Bid (ITB); however, Purchasing may coordinate with departments to solicit bids if agreed. Purchasing oversees the ITB process through the vendor selection, and ensures that required approvals and insurance are in place before issuing a purchase order. The Purchasing Division establishes a Standard Purchase Order for a fixed price procurement or a Blanket Purchase Order for term procurements.

Department Bidding Authority

During FY 2007 and FY 2008, the Maintenance Operations, Marine, and Planning and Development Bureaus issued approximately \$1.7 million in purchase orders subject to an informal bid process. For efficiency purposes, in February 2006, the prior Purchasing Agent authorized the Department to facilitate its own competitive bidding process, including holding job walks for projects up to \$100,000 and soliciting and receiving bids. Job walks are required when contractors perform construction, installation or maintenance work on site. Job walks are not necessary for purchases of goods, such as playground equipment that will not be installed by the contractor.

Department Job Walk Process

During our audit, we discovered a lack of written policies and procedures over the competitive bidding process. We therefore interviewed PRM management and documented their explanation of how they perform the bidding process.

A project begins with the job specification that outlines the scope of work to be performed and other necessary details pertaining to the project. The job specification is sent to the Purchasing Division to post a "job walk" announcement on-line at the City's bidding website (<http://www.planetbids.com/LongBeach/bidsearchform.cfm>) for prospective bidders to view. In order for their bids to be considered, potential bidders must attend the mandatory job walk. During the job walk, the Department familiarizes potential bidders with the project site and details, and responds to questions related to the project.

After attending the job walk, interested vendors must submit their bids by the submission deadline. A designated Department staff member receives and opens the bids and ensures that the date and time of receipt is noted on all bids. The staff prepares a bid summary listing the vendors and their respective bids amounts and forwards it to the Superintendent or Bureau Manager in charge of the project for review. An "intent to award" letter is sent out to the lowest responsible bidder. The Department then creates a purchase requisition and submits all the required documents (i.e., W9, certificate of insurance, City Manager Approval Form for purchase greater than \$50,000, etc.) to the Purchasing Division for approval. The Purchasing Division reviews

the documents and establishes a Purchase Order (PO). Upon approval of the PO, the Superintendent or Bureau Manager sends notice of award to the winning bidder.

Audit Objectives, Scope, and Methodology

The Office of the City Auditor has recently completed an audit of the Department of Parks, Recreation and Marine's competitive bidding process. The objective of the audit was to determine whether the Department's competitive bidding process was in compliance with City policies and procedures and conducted in an effective and efficient manner.

The scope of our audit was limited to purchases between \$10,000 and \$100,000 made by the Maintenance Operations, Marine, and Planning and Development bureaus in fiscal years 2007 and 2008.

During the audit, we performed the following procedures:

- Obtained and reviewed all City purchasing-related policies and procedures, including the City's Charter, Municipal Code, Administrative Regulations, and Financial Policies and Procedures;
- Researched competitive bidding process best practices;
- Interviewed Department Management and the City's Purchasing Agent to obtain an understanding of the competitive bidding process;
- Selected a sample of 21 purchase orders between \$10,000 and \$100,000 that were issued in FY 2007 and FY 2008 and reviewed each project file to determine whether the competitive was awarded in accordance with City policies and procedures and whether all applicable documents were on file, including:
 - Written job specifications;
 - Evidence that at least three bids were received;
 - Evidence of job walk;
 - Vendor's insurance with proof of Risk Manager's approval;
 - Sole source or exception to policy memo;
 - City Manager approval for all jobs greater than \$50,000; and
 - City Manager approval for all change orders greater than 10% of the original bid amount;
- Developed a list of criteria for reviewing the project files based on City policies and procedures, as well as policies and procedures represented to us by Management and the City's Purchasing Agent;

- Identified and reviewed all payments made to vendors during FY 2007 and FY 2008 to ensure that combined purchases for each vendor did not exceed the \$10,000 per vendor, per fiscal year, threshold limit requiring competitive bidding;
- Obtained and reviewed the 2005 Citywide purchasing audit report; and
- Discussed the issues found during our review with the City's Purchasing Agent and obtained his concurrence.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Issues and Recommendations

Issue #1 – Lack of Written Policies and Procedures and Lack of Documentation Supporting Competitive Bidding Procedures

Lack of Formal Written Policies and Procedures

The Department does not have formal written policies and procedures for the competitive bidding process. Written policies and procedures are necessary to ensure compliance with the City's purchasing policies and procedures and to provide guidance and consistency in the bid solicitation and awarding process.

Lack of Written Project Job Specifications

During our interviews with management, we were informed that written job specifications are created during the early stages of the competitive bidding process. Of the 21 purchases that we selected for review, we identified 17 that required written job specifications. Of these 17 purchases, 12 (or 71%) lacked written job specifications on file. We inquired with management as to how the job specifications for these 12 projects were communicated to the vendors. For seven of the 12 projects, management stated that job specifications were communicated verbally. We did not receive management's response for the remaining five projects.

Written job specifications provide details of the scope of the work to be performed, including the time frame for completing the project, required knowledge, skills, licenses and/or certifications, insurance coverage, and other information pertinent to the project. It ensures that potential bidders have an equal opportunity to bid on the same job specifications. Further, job specifications provide potential bidders with the submission deadline date and time and require the signature of bidders acknowledging that they have read and understood the terms of the project.

Written job specifications are also critical in ensuring that all change orders submitted by vendors are justified, that is, the work authorized by the change order was not included in the original job specifications. We identified one project without written job specifications, as shown in the table below, where the change order caused the total project cost to increase by 33% of the original purchase order amount.

Original PO Amount	Change Order Amount	Total Project Cost
\$75,000.00	\$24,500.00	\$99,500.00

Lack of Evidence of Job Walk

Job walks are conducted for construction and maintenance projects to familiarize interested vendors with the job site and to communicate the scope of work to be performed. Job walk announcements are posted on-line to notify vendors of the date and time of the job walk. Only bids submitted by vendors that attend the job walk are considered. Without evidence of job walks, there is no assurance of a fair and competitive bidding practice.

During our interviews with management, they stated that job walks were conducted as part of the competitive bidding process and sign-in sheets were used to document the vendors who attended the job walk. Of the 21 purchases that we selected for review, nine purchases were solicited for bids. We did not find evidence that a job walk was conducted for five (or 56%) of the nine projects that were solicited for bids. Due to the lack of written policies and procedures, there are inconsistencies with the procedures represented by management and those actually performed.

Lack of Vendor Insurance and/or Approval by Risk Management

The City's policy requires that vendor insurance be reviewed by Risk Management to ensure adequate coverage. The City's purchasing policies and procedures state that the Department must have on file valid certificates of insurance and the required endorsements. If there is no vendor insurance policy on file, the Department is responsible for obtaining vendor insurance and Risk Management approval of the insurance certificate before the vendor begins work on site.

Of the 21 purchases that we selected for review, we identified 16 purchases that required vendor insurance. However, two out of 16 (or 13%) purchases that required vendor insurance did not have evidence of Risk Management approval of vendor insurance on file. Further, one purchase did not have evidence of vendor insurance on file. Since there are no written policies and procedures over the Department's competitive bidding process, the Department's responsibility for obtaining Risk Management approvals is not clearly communicated.

The lack of vendor insurance and review and approval of vendor insurance by Risk Management increases the City's exposure to potential legal and/or financial liabilities.

Recommendations to Issue #1:

- Provide regular training to ensure all personnel are aware of the City's purchasing policies and procedures.

Issue #2 – Standard Competitive Bidding Practices are not Consistently Followed

We found a lack of adherence to standard competitive bidding practices in the following areas:

- Bids are not opened publicly in the presence of one or more witnesses, at a time and place designated in the invitation to bids. In practice, the Department has assigned one individual in each bureau to receive and open bids for the bureau.
- Bids are not consistently date-stamped to ensure that they are received within the submission deadline. Although the majority of bids received by the Department are through the fax machine with the date and time printed on the bids, we identified several instances where there was no date stamp on bids received by the Department. We identified five instances where the project was awarded to vendors whose bids were not date stamped.
- Bids are accepted after the submission deadline. We verified late bids by comparing the bid deadline with the date/time stamp marked on the bid documents. We identified six instances where the Department accepted bids from vendors who submitted their bid after the submission deadline time. Additionally, one of the vendors who submitted a late bid was awarded the project. Receiving and awarding bids after the submission deadline raises serious questions about the integrity and fairness of the process.

The American Bar Association's publication, *2007 Model Code for Public Infrastructure Procurement*, provides standards for proper competitive bidding including standards for bid opening, bid acceptance and bid evaluation. The Department lacks policies and procedures for competitive bidding practices that would provide guidance for following standard bidding practices. As a result, the Department is not consistently following competitive bidding practices.

Note: PRM management has since represented to us that all bidding responsibilities have been transferred back to the Purchasing Division, in the Financial Management Department.

We concur that the transfer of bid responsibilities to the Purchasing Division addresses this issue.

Recommendations to Issue #2:

- As noted in Recommendation to Issue #1, provide regular training to Department staff on proper purchasing procedures.

Issue #3 – Non-Compliance with City’s Sole Sourcing/Exception to Policy Regulations

For purchases greater than \$10,000 and up to \$50,000, a written sole source or exception to policy memo with background justification must be prepared and approved by the Purchasing Agent. For purchases in excess of \$50,000, a memo for City Manager approval is required and must include the following: 1) identification of the sources with information on the type of services sought; 2) number of those sources contacted; 3) identification of the unique feature or emergency or reason it is impossible to advertise for bids; and 4) name of the City employee who can testify regarding all of the above.

Our audit sample showed that 12 out of 21 (57%) purchases or services totaling approximately \$768,000 were made through a sole source/exception to policy request instead of a competitive bid process. While PRM had reasons for sole sourcing, there was lack of proper documentation for five of the sole-sourced items to support their position.

A sole sourcing/exception to policy request must follow the City’s regulations to ensure that the request is necessary and justifiable, that due diligence has been performed in seeking other vendors, or that the emergency nature of the request requires immediate action thereby precluding a bid process. When sole sourcing/exception to policy regulations are bypassed, the City is not ensured of getting a competitive price for the product or service.

Recommendations to Issue #3:

Department

- Solicit all purchases for products and services exceeding \$10,000 through the competitive bidding process unless the criteria for a sole source or an exception to policy are met. When the criteria for a sole source or an exception to policy are met, ensure that the proper documentation is on file.

Purchasing Division

- Ensure that the Departments’ reasons are justified and comply with City policy before approving requests for sole source and exception to policy.

Issue #4 – Multiple Payments Made to Vendors Exceeding the \$10,000 Threshold

The City’s policy allows managers in each City department to make purchases for up to \$10,000 without advertising for bids. However, total combined purchases made from any one vendor for a similar commodity or service during a fiscal year cannot exceed

\$10,000. There is nothing in the City's policy that exempts construction projects from this rule.

While we recognize that PRM issues over 3,000 purchase orders annually, we identified multiple payments made to vendors in FY 2007 and in FY 2008 that exceeded the \$10,000 purchasing threshold limit.

Adherence to City policy regarding purchasing threshold limits is crucial in allowing the City the opportunity to contact vendors to obtain competitive prices and to ensure that the City is receiving the highest quality product at the lowest possible cost.

Recommendations to Issue #4:

- Ensure that combined payments to vendors have not reached the \$10,000 threshold limit per vendor per fiscal year before purchases are made. If the \$10,000 limit has been reached, contact the Purchasing Department to obtain a competitively priced blanket purchase order for the vendor.
- Develop a proactive versus a reactive approach to purchasing by setting up purchase orders in advance to meet Department needs.

Appendix A

Management Response

Department of Parks, Recreation and Marine



Date: December 7, 2009
To: Laura L. Doud, City Auditor
From: Phil T. Hester, Director of Parks, Recreation and Marine
Subject: Response to Audit Report on Informal Bidding Practices for Construction Projects of Less Than \$100,000 for FY 2007 and 2008

We have reviewed the audit report on informal bidding practices for construction projects of less than \$100,000 in the Department of Parks, Recreation and Marine (PRM). As mentioned, the scope of the audit was limited to purchases and/or services between \$10,000 and \$100,000 made in fiscal year 2007 and 2008, by the Maintenance Operations Bureau and Planning and Development Bureau. Please find below management responses to each recommendation in the report.

Issue #1 – Lack of Written Policies and Procedures and Lack of Documentation Supporting Competitive Bidding Procedures.

Recommendations to Issue #1:

- Provide regular training to ensure all personnel are aware of the City's purchasing policies and procedures.

The Department is in full agreement with the requirement for written job specifications and has new managers in charge of both of the involved bureaus to make sure this takes place. In addition, the Department initiated an aggressive training program on purchasing processes in July 2009, and is systematically holding a mandatory training session with every departmental division individually. The first round of training will be completed in December 2009, with quarterly updates being scheduled for FY 10.

Two items of clarification that should be noted relate to job walks and insurance requirements. Not all construction projects have or require mandatory job walks. And as for insurance, no construction work was performed without insurance in place. While management fully agrees that adequate insurance verification should always be in the file, the Purchasing Bureau is the last check for the City and will not issue a purchase order without appropriate proof of insurance in hand.

Issue #2 – Standard Competitive Bidding Practices are not Consistently Followed.

Recommendations to Issue #2:

- As noted in recommendation to Issue #1, provide regular training to Department staff on proper purchasing procedures.

Management Response:

The Department transferred all bidding responsibilities back to the Financial Management Department, Purchasing Division in late 2008. However, as stated in management response to Issue #1 above, an aggressive training program on purchasing processes is under way and will be completed in December 2009, continued into FY 10.

Issue #3 – Non-Compliance with City's Sole Sourcing/Exception to Policy Regulations.

Recommendations to Issue #3:

Department

- Solicit all purchases for products and services exceeding \$10,000 through the competitive bidding process, unless the criteria for a sole source or an exception to policy are met. When the criteria for a sole source or an exception to policy are met, ensure that the proper documentation is on file.

Purchasing Division

- Ensure that the Department's reasons are justified and comply with City before approving requests for sole source and exception to policy.

Management Response:

As the City Auditor points out, there were reasons for requesting sole sourcing of certain transactions and the Purchasing Bureau approve all transactions. With that, the Department fully supports the recommendation for having thorough documentation in the files. Moreover, much of this issue has been alleviated or improved with the transfer of bidding practices back to the Purchasing Bureau and the current departmental training sessions will enforce the need for proper documentation.

Issue #4 – Multiple Payments Made to Vendors Exceeding the \$10,000 Threshold.

Recommendations to Issue #4:

- Ensure that combined payments to vendors have not reached the \$10,000 threshold limit per vendor per fiscal year before purchases are made. If the \$10,000 limit has been reached, contact the Purchasing Department to obtain a competitively priced blanket purchase order for the vendor.
- Develop a proactive versus a reactive approach to purchasing by setting up purchase orders in advance to meet Department needs.

Management Response:

With over 3,000 POs issued annually, and dozens of supervisors making purchases, management recognized the \$10,000 purchasing limit as on-going challenge and began working with Purchasing staff in FY 08 to identify vendors approaching the \$10,000 limit, and identify suitable solutions. Purchasing staff assisted with part of the problem by issuing purchase orders for particularly troublesome vendors. However, the implementation of EZFAMIS has provided the tools to properly address the problem. Using EZFAMIS, PRM accounting staff now checks for compliance with the \$10,000 limit before issuing every purchase order.

Finally, as noted, this audit was made for the fiscal years 2007 and 2008, in the Maintenance Operations Bureau and the Planning and Development Bureau. It is important to note that the two (2) managers for these bureaus are no longer with the City and these new procedures have been put in place to address these issues identified.

We want to thank you and your staff for looking at this important activity and assisting our Department in becoming more efficient and identifying areas needing attention. If you have any questions or need more information, please let me know.

PTH:JCS:rb
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cc: Patrick H. West, City Manager
Suzanne Frick, Assistant City Manager
Lori Ann Farrell, Director of Financial Management
JC Squires, Manager, Business Operations
Tara Yeats, Financial Services Officer