**A REPORT FROM**
**THE OFFICE OF INTERNAL AUDIT**

**PRESENTED TO THE CITY COUNCIL**
**CITY OF BOISE, IDAHO**

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| **AUDIT / TASK:** | **#21-09, Purchasing Compliance** |
| **AUDIT CLIENT:** | **Purchasing/Cross-Functional** |
| **REPORT DATE:** | **June 15, 2021** |
| **AUDIT GRADE:** | **Satisfactory** |


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**AUTHORITY:** **Boise City Code, 1-12A**
**FY2021 Work Plan**

# OFFICE OF INTERNAL AUDIT
# ACTIVITY REPORT

## TASK #21-09, Purchasing Compliance
## DATE OF ENGAGEMENT: March 16, 2021

## INTRODUCTION

The Department of Finance and Administration's Purchasing Division oversees the process of acquiring goods and services, and of construction in a quality and cost-efficient manner. Purchasing provides centralized administrative services for purchases of $50,000 and larger citywide. The division is also involved, though to a lesser degree, in purchasing activities occurring within the range of $10,000 to $50,000. Laws and regulations pertinent to these activities are outlined in both State Statute and City Code and are detailed in City Regulations.

To better-align the City's processes with those of the State of Idaho, minimum limits for certain competitive bid thresholds were increased approximately two years ago. Basic thresholds at which bids are required now generally match threshold limits utilized by the State.

Notable impacts to City processes from those changed thresholds included:

- Small Purchases – Departments exercise discretion in purchasing up to $50,000. Previously that limit was set at $25,000.
- Semi-Formal Level Procurements - Previously, bids were required at $25,000 for these procurements; that limit was raised to $50,000.
- Formal Level Procurements – Thresholds were increased to $100,000 for goods and services; and to $200,000 for construction projects.
- Emergency Expenditures – City Council must declare that an emergency exists if anticipated purchase will be $50,000 or greater; previously the threshold was $25,000.

*(Refer to* ***Appendix B*** *for additional details concerning the City's purchasing requirements.)*

The Office of Internal Audit generally undertakes a review of the Purchasing function on a biennial basis to ensure that basic procedures and internal controls are in place and working as intended. Particular attention is placed on the extent to which compliance with purchasing rules and regulations is achieved.

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## SCOPE AND METHODOLOGIES

The scope for this review included all procurement activities occurring during the period from June 1, 2019 to February 28, 2021. The primary focus was on the level of compliance with purchasing regulations that was achieved during that timeframe.

The objectives established for this review included the following:

- Review purchase contracts for basic transaction metrics, evidence of best-price selection techniques, and proper approvals.
- Determine if sole source declarations were made in accordance with applicable laws and regulations.
- Determine if emergency expenditures followed the proper documentation and notification process as required by laws and regulations.
- Determine if surplus property disposals were made in accordance with applicable laws and regulations

Internal Audit utilized various methodologies during the review including communication with the Central Purchasing Department, the review of associated documentation, detailed testing of procurements, and validation techniques as were appropriate to the circumstances. The methods employed and the evidentiary materials developed were deemed to be adequate to support the conclusions contained within this report.

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## EVALUATION AND COMMENTS

Based on the work performed, it appears that administrative controls and processes related to purchasing and procurement activities are functioning in a **"Satisfactory"** manner. The evaluation scale used by Internal Audit in assigning an audit grade defines key attributes of a "Satisfactory" level of performance as:

> *"… Overall, systems of internal control are effective, and management oversight is adequate and effective."*

(Refer to **Appendix A** for additional details concerning Internal Audit's existing grading scale.)

Internal Audit reviewed bid requests, bid specifications, contracts and supporting documentation associated with 30 randomly selected procurements. Those items Internal Audit reviewed totaled approximately $7,778,207 in authorized spending. The procurements tested included construction projects, the purchase of goods and services, and sole source and emergency purchases. Internal Audit also tested the disposal of surplus properties for compliance with relevant laws and regulations.

During this biennial engagement, Internal Audit placed increased emphasis on the review of bid specifications, and the efforts that were undertaken to ensure a competitive environment existed within which to award contracts and / or procure goods and services. We noted a high level of compliance with established purchasing processes and procedures had been achieved. Bid solicitations and procurements were conducted in an apparently fair, open, and competitive environment. Also, the transactions received the proper level of scrutiny by City officials for each item tested. We did not identify any conditions that were worthy of separate mention.

## FINDINGS AND RECOMMENDATIONS

There are no formal findings or recommendations included within this report. Any comments or observations provided to management were done so informally, with any follow-up left solely to management's discretion.

## CONCLUSION

For the procurements tested, overall compliance with statute, code, and regulation was demonstrated and achieved by the City's Purchasing Division. The results of our work indicate processes and procedures are effective in helping Purchasing to satisfy its defined mission:

> "*…Our mission is to ensure that City Departments obtain quality and cost efficient goods, services and products in a timely manner, and to ensure that all bid processes are fair and equitable…*"

Internal Audit would like to thank management and staff of the Department of Finance and Administration for their valuable assistance and input during the project.

## MANAGEMENT PARTICIPANTS

Colin Millar, Purchasing Manager / Department of Finance and Administration
Missy Grothaus, Purchasing Supervisor / Department of Finance and Administration
Deborah Lindley, Contract Specialist / Department of Finance and Administration

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## APPENDIX "A"

### Evaluation and Grading of Audits

Each audit will be evaluated or graded, and will receive one of the three following ratings. Grades will be assigned based on the perceived "best fit." Thus, not all attributes associated with an assigned grade may be present within a given Department or Division.

- Satisfactory – No significant weaknesses or operational issues were noted during the audit. If any issues were noted, they did not materially detract from the business unit's ability to deliver services and / or to accomplish defined mission, goals, and objectives. Overall, systems of internal control are effective, and management oversight is adequate and effective.
- Needs Improvement – Weaknesses or issues detrimental to operational efficiency or effectiveness existed within the audited area, and were encountered frequently enough to lose the appearance of "isolated." Issues noted were strongly suggestive of an impaired ability to provide services at needed levels, or to accomplish mission, goals, and objectives successfully. Internal control mechanisms may not be universally in place, implemented, or actively observed. Management oversight is weak.
- Unsatisfactory – Material or significant issues were noted within the operations under review. Issues posed risks that were mission-fatal; the business unit could not successfully deliver services in an acceptable fashion. Management failed to implement appropriate internal control mechanisms. Management oversight is ineffective, absent, or willfully avoided.

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# APPENDIX "B"

## Boise City Purchasing Requirements*

| Transaction Type | Items Purchased | Dollar Limits | Solicitation Method | Contract / Purchase Order | Bid Requirements | Approval Level |
|---|---|---|---|---|---|---|
| Informal | Design / Professional | < $50,000 | Informal Solicitations | ≥ $10,000 | Discretion | Department Director |
| Informal | Goods, Services, Construction | < $50,000 | Informal Solicitations | ≥ $10,000 | Discretion | Department Director |
| Semi-Formal | Design / Professional | ≥ $50,000 < $100,000 | Written Requests | Mandatory | Sealed Bids – Public Opening | Department Director |
| Semi-Formal | Professional / Consulting | <$100,000 | Satisfy Statutes | Mandatory | Exempt | Department Director |
| Semi-Formal | Goods and Services | ≥ $50,000 < $100,000 | Written Request | Mandatory | Sealed Bids – Public Opening | Department Director |
| Semi-Formal | Construction | ≥ $50,000 < $200,000 | Written Request | Mandatory | Sealed Bids – Public Opening | Department Director |
| Formal | Goods and Services | ≥ $100,000 | Published Invitations | Mandatory | Sealed Bid – Public Opening | City Council |
| Formal | Construction | ≥ $200,000 | Published Invitations | Mandatory | Sealed Bid – Public Opening | City Council |
| Formal | Professional / Consultant | ≥ $100,000 | Satisfy Statutes | Mandatory | Sealed Bid – Public Opening | City Council |
| Exempt | Professional / Service Contract | < $100,000 | n/a | ≥ $10,000 | n/a | Department Director |
| Sole Source | All Purchases | ≥ $50,000 | Satisfy Statutes | Mandatory | Declaration by City Council | City Council |
| Emergency | All Purchases | ≥ $50,000 | Official Declaration | Expedited | Exempt | City Council |
| Change Orders | All Purchases | < $10,000 / < 10% of Contract | n/a | n/a | n/a | Department Director |
| Change Orders | All Purchases | < 10% up to $1 million | n/a | n/a | n/a | Purchasing Agent |
| Change Orders | All Purchases | ≥ 10% of Contract, and / or ≥ $1million | n/a | n/a | n/a | City Council |

***Table illustrates basic purchasing scenarios; it is not inclusive of all applicable procurement scenarios or requirements.***