A REPORT FROM
THE OFFICE OF INTERNAL AUDIT

PRESENTED TO THE CITY COUNCIL
CITY OF BOISE, IDAHO

AUDIT / TASK:	#23-05, Purchasing Compliance
AUDIT CLIENT:	Purchasing/Cross-Functional
REPORT DATE:	July 18, 2023
AUDIT GRADE:	Satisfactory

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AUTHORITY: Boise City Code, 1-12A
FY2023 Work Plan

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ACTIVITY REPORT

TASK #23-05, Purchasing Compliance
DATE OF ENGAGEMENT: December 12, 2022

INTRODUCTION

The Department of Finance and Administration's Purchasing Division oversees the process of acquiring goods and services 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. Regulations pertinent to these activities are outlined in the city code and are detailed in city regulations.

Basic thresholds at which bids are required include the following:

- Small Purchases – Departments exercise discretion in purchasing up to $50,000.
- Semi-Formal Level Procurements - Bids are required at $50,000 for Construction, Design Professionals, Goods, and Personal Service purchases.
- Formal Level Procurements – Bids are required at $200,000 for Construction, and $100,000 for Design Professionals, Goods, and Personal Service purchases.

*(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.

SCOPE AND METHODOLOGIES

The scope for this review included all procurement activities occurring during the period from March 1, 2021 to November 30, 2022. 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 and proper approvals.
- Determine if sole source declarations were made in accordance with applicable regulations.
- Determine if surplus property disposals were made in accordance with applicable regulations.

Internal Audit utilized various methodologies during the review including communication with the Purchasing Division, the review of associated documentation, detailed testing of procurements, and validation techniques 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.

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 selected procurements. The items Internal Audit reviewed included $76,812,615 in authorized spending. The procurements tested included construction projects, purchases of goods and services, sole source declarations, and exempt purchases.

We identified an isolated number of instances where purchase orders had not been completed, per city policy. An opportunity to improve the purchase order process was documented within the **"Findings and Recommendations"** report section that follows.

The surplus property disposals we reviewed appeared to positively align with city goals and objectives and were generally consistent with operating practices.

During the review, Internal Audit also provided management with additional observations and recommendations that were left to their discretion as to how follow-up and correction would occur.

FINDINGS AND RECOMMENDATIONS

While reviewing exempt bids, for professional legal services, we identified instances where the aggregate payment amount, or an individual payment, met or exceeded $10,000 without an established purchase order. Per city policy, purchase orders are required to be created when procurement is ≥ $10,000, regardless of exempt status.

Purchasing Policy B8.04a, III, stipulates:

> *"…All expenditures or contracts for goods, personal services and construction of $10,000 or more…require a purchase order approved by the Department Director or designee and the Purchasing Agent…"*

RECOMMENDATION:
Internal Audit recommends that management strengthen controls to ensure that professional services procurement complies with the requirements established in the city's purchasing regulations.

MANAGEMENT RESPONSE
We will now be tracking legal contracts to make sure PO's are opened after contracts are executed. We are handling this two ways:

1. We are reminding the contract requester to open a PO and including the appropriate Department Accounts Payable Specialist in the correspondence, so all parties are aware.
2. Our contracts specialist will follow-up with the appropriate Department Accounts Payable Specialist to make sure we have a PO #.

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CONCLUSION

For the procurements tested, overall compliance with city code and regulation was demonstrated and achieved by the City's Purchasing Division. The results of our work appear to indicate that purchasing processes and procedures are effective in helping the Purchasing Division 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 Purchasing Division for their valuable assistance and input during the project.

MANAGEMENT PARTICIPANTS

Missy Grothaus, Purchasing Supervisor / 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"

City of Boise Purchasing Requirements*

Transaction Type	Items Purchased	Dollar Limits	Bid Tabulation	Advertisement	Purchase Order	Written Contract	Approval Level
Informal	Construction, Goods, Personal Services	< $50,000	No	No	≥ $10,000	≥ $10,000, Can be Waived	Department Director
Semi-Formal	Construction	≥ $50,000 to $199,999	Yes	May be Requested	Yes	Yes	Department Director
Semi-Formal	Design Professionals	> $50,000 to $99,999	Yes	May be Requested	Yes	Yes	Department Director
Semi-Formal	Goods	> $50,000 to $99,999	Yes	May be Requested	Yes	Yes, Can be Waived	Department Director
Semi-Formal	Personal Services	≥ $50,000 to $100,000	Yes	May be Requested	Yes	Yes	Department Director
Formal	Construction	≥ $200,000	Yes	Yes	Yes	Yes	City Council
Formal	Design Professionals	≥ $100,000	Yes	Yes	Yes	Yes	City Council
Formal	Goods	≥ $100,000	Yes	Yes	Yes	Yes, Can be Waived	City Council
Formal	Personal Services	≥ $100,000	Yes	Yes	Yes	Yes	City Council
Exempt	Professional Service Contracts	< $100,000	No	No	≥ $10,000	Yes	Department Director
Sole Source	All Purchases	≥ $50,000	No	Yes	Yes	≥ $10,000	City Council
Emergency	All Purchases	≥ $50,000	No	No	Yes	Yes	City Council

Obtained from the Procurement Process Matrix. The table illustrates basic purchasing scenarios; it is not inclusive of all applicable procurement scenarios or requirements.