

**City of Detroit**

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**OFFICE OF THE AUDITOR GENERAL**



**Audit of the Finance Department  
Purchasing Division  
July 2007 – March 2010**



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LOREN E. MONROE, CPA  
AUDITOR GENERAL

**MEMORANDUM**

**DATE:** March 7, 2011

**TO:** Honorable City Council

**FROM:** Loren E. Monroe, CPA *Loren E. Monroe*  
Auditor General

**RE:** Performance Audit of the Finance Department - Purchasing Division

**CC:** Mayor Dave Bing  
Norman L. White, Chief Financial Officer  
Andre DuPerry, Chief Procurement Officer  
Kimberly Hall-Wagner, Director, Human Rights Department

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Attached for your review is our report on the audit of the Finance Department Purchasing Division. This report contains our audit purpose, scope, objectives, methodology, conclusions; executive summary; background; noteworthy accomplishments; our audit findings and recommendations; audit concerns and issues; comparative data from other cities and Wayne County; and the responses from the Purchasing Division, the Human Rights Department, and the Finance Department.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with Purchasing Division, the Human Rights Department, and the Finance Department. Responsibility for monitoring the implementation of recommendations is set forth in Section 4-205 of the City Charter which states in part:

Recommendations that are not put into effect by the department shall be reviewed by the Finance Director who shall advise the Auditor General and the City Council of the action being taken with respect to the recommendations.

We would like to thank the employees of the Purchasing Division, the Human Rights Department, and the Finance Department for their cooperation and assistance extended to us during this audit.

Copies of all of the Office of the Auditor General reports can be found on our website at [www.detroitmi.gov/CityCouncil/LegislativeAgencies/AuditorGeneral/tabid/2517/Default.aspx](http://www.detroitmi.gov/CityCouncil/LegislativeAgencies/AuditorGeneral/tabid/2517/Default.aspx).

# Performance Audit of the Finance Department Purchasing Division

July 2007 – March 2010

## Contents

	<u>Page</u>
AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS	1
EXECUTIVE SUMMARY	3
BACKGROUND	6
NOTEWORTHY ACCOMPLISHMENTS	7
STATUS OF PRIOR AUDIT FINDINGS	9
AUDIT FINDINGS AND RECOMMENDATIONS	
1. There Are Several Deficiencies in the Procurement Competitive Bidding Process	10
2. Purchasing Division Does Not Effectively Monitor Contracts or Contract Files	12
3. Purchasing Division Lacks Good Internal Controls	14
4. Purchasing Division Reports Are Insufficient and Inaccurate	17
5. Purchasing Division Has Not Evaluated the Effectiveness and Efficiency of the City's Equalization Ordinance	19
FINDINGS RELATED TO OTHER DEPARTMENTS	
1. Human Rights Department (Human Rights) Does Not Properly Certify Detroit-based Businesses	21
2. Finance Department Directives, Policies and Procedures Are Not Updated and Do Not Agree with City Ordinances	22
3. City Agencies and Departments "Split" Contracts to Circumvent Approvals	25
AUDIT CONCERNS AND ISSUES	26

COMPARATIVE DATA FROM OTHER CITIES AND WAYNE COUNTY	30
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APPENDICES: Informational Data

APPENDIX A: Purchasing Statistics	32
APPENDIX B: Procurement Process Timeline	36
APPENDIX C: Glossary of Acronyms and Terms	38

AGENCIES RESPONSES

Purchasing Division	ATTACHMENT A
Human Rights Department	ATTACHMENT B
Finance Department	ATTACHMENT C

## **AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS**

### **AUDIT PURPOSE**

The audit of the Finance Department Purchasing Division was performed in accordance with the Office of the Auditor General's (OAG) charter mandate to audit the administration and operation of all City agencies at least once every two years and report findings and recommendations to the City Council and the Mayor.

### **AUDIT SCOPE**

The scope of this audit was an independent review and assessment of the effectiveness and efficiency of the Finance Department's Purchasing Division's operations and its compliance with Finance Directives, policies, plans, procedures, laws, and regulations regarding procurement practices for the City of Detroit, during the period of July 1, 2007 through March 31, 2010. The scope also includes a review of the purchasing activity of other City agencies.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

### **AUDIT SCOPE LIMITATION**

Our audit included testing the effectiveness and efficiency of the City's equalization policies for Detroit-based businesses. An adequate criterion was needed to evaluate operations and controls. The Purchasing Division did not have established criteria or sufficient records to support an efficient evaluation of the City's Equalization Ordinance and Executive Orders relating to Detroit based businesses. This issue is discussed further in finding 5 on page 19 of this report.

### **AUDIT OBJECTIVES**

The overall audit objectives were:

- To assess the Purchasing Division's internal controls related to purchasing and contracts management;
- To determine the Purchasing Division's compliance with Finance Directives, policies, plans, procedures, laws, and regulations;
- To evaluate the effectiveness and efficiency of core operations of the Purchasing Division;
- To evaluate the effectiveness and efficiency of the Equalization Ordinance; and
- To determine the status of findings and issues of non-compliance from prior related audit reports.

### **AUDIT METHODOLOGY**

To accomplish our audit objectives, our audit work included:

- A review of prior audit reports.

- A review of the City Charter, Finance Directives, Equalization Ordinance, Municipal Manual, Detroit Resource Management System reports, budget reports, the Comprehensive Annual Financial Report, and organization charts.
- Gathering policies and procedures of core operations and other similar data.
- Conducting an audit-planning meeting to determine the scope and audit objectives.
- Developing questions regarding the Division's transactions, controls, functions, records, and personnel, and intensive interviewing.
- Documenting and testing processes.
- Determination of the status of the audit findings and recommendations related to purchasing included in prior audit reports.
- Preparing a risk assessment to determine high-risk areas.
- Interview personnel of other city agencies to obtain their procurement process.
- Comparing the City's purchasing process with other cities' procurement processes for developing ideas that if implemented, would improve the effectiveness and efficiency of the Purchasing Division.
- Other audit procedures that we considered necessary to achieve our audit objectives.

## **CONCLUSIONS**

Based on our audit, we have concluded that:

- The Purchasing Division lacks good internal controls.
- The Purchasing Division does not comply with some Finance Directives, policies, procedures, laws, and regulations.
- There were deficiencies in the effectiveness and efficiency of core purchasing operations.
- The effectiveness of applying the Equalization Ordinance to qualifying contracts could not be determined.
- Three prior audit findings remain unresolved, two were resolved, and two are no longer applicable.

We also concluded that:

- The Human Rights Department does not effectively certify Detroit-based businesses.
- Finance Department has not updated many of the directives, policies and procedures. Several of the directives do not agree with City Ordinances.
- Agencies and departments citywide do not comply with the Purchasing Ordinance and Finance Directives.

## EXECUTIVE SUMMARY

The Purchasing Division is authorized under the City Charter Section 6-306 to procure all real and personal property and services for the City of Detroit. For fiscal years 2007-2008 to 2008-2009, and the first half of fiscal year 2009-2010, the Purchasing Division purchased \$3.3 billion in personal property and professional services, which resulted in processing 58,693 purchase orders.

As a result of our audit, we have concluded that the overall operation of the Purchasing Division falls short of the Division's goals and objectives. However, we applaud the continuing initiatives of the Chief Procurement Officer who is charged with the task of restructuring the Purchasing Division.

One of the many challenges confronting the Purchasing Division is the procurement autonomy of the Detroit Water and Sewerage Department (DWSD). During our audit, DWSD was responsible for 64% of the City's purchases of goods and services. However, due to the independent nature of DWSD's procurement process, the Purchasing Division has no formal oversight of the department's purchasing activity.

Departments citywide also contribute to the Purchasing Division poor oversight position. Professional service contracts are created at the department level. Poor contract file maintenance and the ability of departments to circumvent purchasing policies and Finance Directives exacerbate problems in the procurement process.

This audit report cites several deficiencies in the Purchasing Division's competitive bidding process, monitoring, internal controls, and reporting. We also determined the City's Equalization Ordinance along with other Purchasing Ordinances, and Directives should be reviewed to determine whether the results of the Ordinances and Directives effectively and efficiently achieve the City's goals. Many of the Finance Directives and City Codes pertaining to procurement are outdated or conflict with one another. Moreover, we discovered that the City does not have the ability to determine whether there is an economic benefit to applying the equalization factors to bids from Detroit-based businesses.

The schedule on the next page presents comprehensive lists of recommendations. A detailed explanation of the findings behind each of these recommendations is contained in the report. In addition to our findings, we identified other issues of concerns, which are also discussed in this report.



Recommendations		Page
1.	Train internal and external staff to ensure compliance with Finance Directives and City Ordinances.	11
2.	Inform all City agencies and departments that the Purchasing Director/Chief Procurement Officer and/or his designee has the authority to review, evaluate and deny any requested purchase should it not comply with the City's laws, ordinances, and any established City policy or procedure.	11
3.	Ensure that professional selection committees are operating according to policy and that a member of the Purchasing Division is included on the committees.	11
4.	Develop monitoring procedures to ensure that procurement regulations, policies, and procedures are communicated, followed, and conveyed to all operating departments, including internal purchasing staff.	13
5.	Revise contract checklist used to review Professional Services Contracts to include all items required for a properly documented procurement file (i.e., source selection documentation, evidence of competitive bidding, list of sources solicited, and determination that price is fair and reasonable).	13
6.	Determine the appropriateness and feasibility of the Purchasing Division's review of Personal Services Contracts. If feasible, work with Finance Administration to develop and implement a process and procedures.	13
7.	Receive and review routine contract monitoring reports developed and approved by management of agencies and departments.	13
8.	Adequately safeguard keys and access to sealed bids and contract files.	16
9.	Retain copies of all documentation relating to the procurement process and be able to provide the documents as needed by auditors, departments, and others.	16
10.	Review the document retention policy and modify it to include all forms of electronically stored data and central electronic depositories.	16
11.	Update departmental policies and procedures manuals to reflect the current operating environment.	16
12.	Train staff on the importance of internal controls as it relates to procurement activities.	16
13.	Review contracts and supporting documents to ensure that they are consistently accurate, up-to-date, and free from errors before they are presented to the Research and Analysis Division for review.	18



14. Poll internal and external report recipients to see if they still need the reports they receive, and if they could be improved.	18
15. Work with the Research and Analysis Division and the Office of the City Clerk to streamline and improve the process and accuracy of the City Council Agenda letters.	18
16. Determine if report data can be provided in a more effective format (e.g., table or columnar format).	18
17. Create a process to assess the effectiveness of the equalization ordinance to ensure the City of Detroit is economically benefiting from it.	20
<b>Recommendations Related to Other Departments</b>	
18. We recommend that site visits are performed in a timely manner on all new and renewal business certifications in accordance with the departmental guidelines.	<b>Page</b> 21
19. Undertake a review of all Finance Directives to determine which directives should be cancelled, updated, or revised to agree with the City's Purchasing Ordinances or Oracle DRMS. Issue a list of all cancelled or superseded directives via the City's intranet website so that all agencies and departments have access to the most current directives.	24
20. Schedule an annual review of Finance Directives to ensure that directives are kept current and that new directives are issued as needed.	24
21. We recommend departments and agencies comply with the City's purchasing policies and ordinances, and discontinue the practice of splitting purchase orders. We also recommend a disciplinary plan for agencies and departments that continue this practice according to the severity of the offense. The plan may include retraining, discipline through personnel action, or referrals for prosecution in cases of suspected fraud.	25

## BACKGROUND

The Finance Department's Purchasing Division (Purchasing Division) is located in the Coleman A. Young Municipal Center, and is the City's centralized purchasing authority. The Purchasing Division is responsible for the vast majority of the City's acquisitions, purchase orders, and contracts. It is also responsible for obtaining the proper equipment, materials, and services needed for the City. The Purchasing Division serves, as a liaison between the City and business enterprises and by Charter, must follow all procedures established by ordinance to protect the interests of the City and assure fairness in procuring property and services. In addition, the Division is responsible for selling, leasing, or transferring in the ordinary course of City operations all personal property of the City that has become unsuitable for public use. The Purchasing Division is included in the General Fund.

The following table shows the budgeted expenditures, revenues, and number of staff for the Purchasing Division for fiscal years 2008-2009 and 2009-2010.

	Fiscal Year Ending June 30	
	2009	2010
Budgeted Appropriations	\$ 2,261,082	\$ 1,667,773
Budgeted Revenue	\$ -0-	\$ -0-
Staffing Levels	22	16

The Purchasing Division's goal is to improve customer satisfaction in meeting internal departmental requirements and external supplier relations by establishing performance expectations driven by metrics. The Division's plan is to reduce the cost of processing City goods and services with retaining/improving the value and timeliness, and reduce/eliminate the number of confirming, emergency, and sole source requisitions and contracts.

The Purchasing Division had four Directors during the audit period. On December 1, 2009, Andre DuPerry was appointed Chief Procurement Officer for the City of Detroit. Below is a schedule of Purchasing Division directors and terms of office during the audit period.

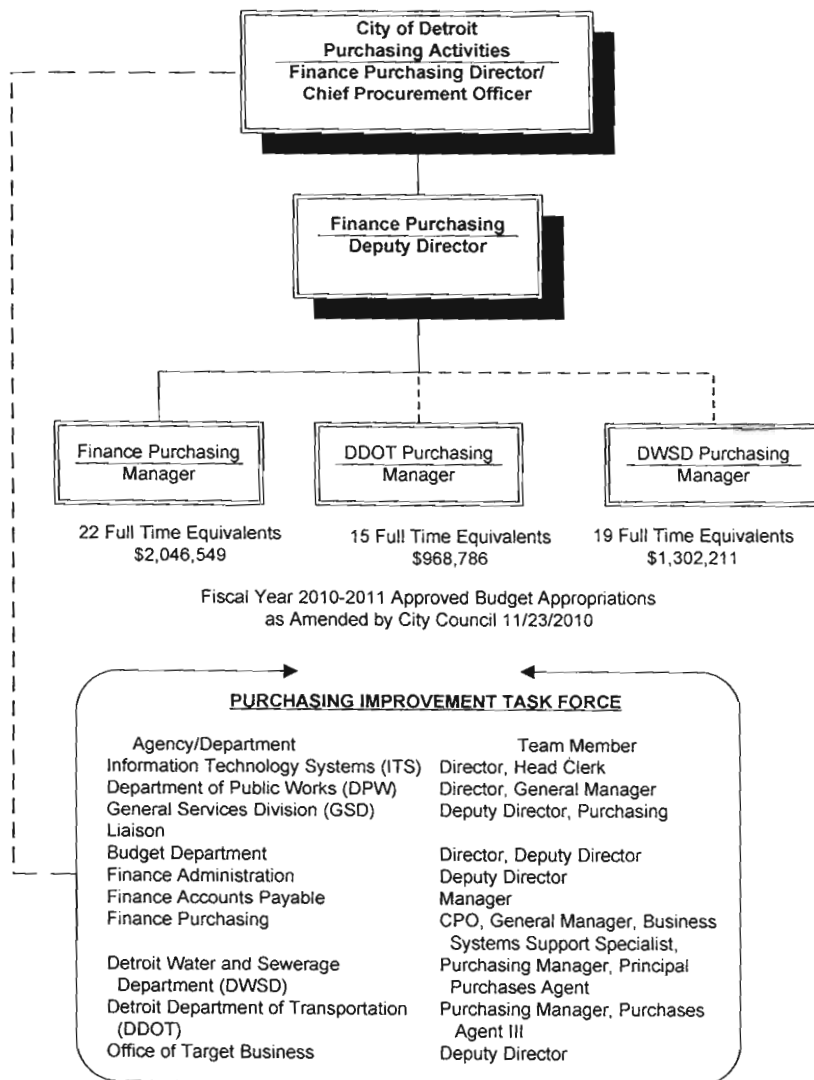
Director's Name	Term of Office
Audrey P. Jackson	1993/1994 – Dec. 2007
Medina Noor, Esq.	Jan. 2008 – April 2009
Christina Ladson	April 2009 – November 2009
Andre DuPerry	December 2009 – Present

## NOTEWORTHY ACCOMPLISHMENTS

### Organizational Restructure

In December 2009, an experienced procurement professional was hired as the Chief Procurement Officer for the City of Detroit. The Chief Procurement Officer was tasked with restructuring the Purchasing Division and centralizing the City's procurement activities to provide value-added services to its customers.

To this end, major purchasing activities in the Finance Department, Detroit Water and Sewerage Department (DWSD), and Detroit Department of Transportation (DDOT) have been centralized as depicted below:



Notes:

- In the fiscal year 2010-2011 Adopted Budget, appropriations for full time equivalents are budgeted in their respective agencies or divisions.
- In November 2010, the City Council voted and approved an amendment to the 2010-2011 Adopted Budget and added the position of Finance Department Purchasing Deputy Director.
- The above chart does not include DWSD's Contracts and Grants Management, which is discussed further in Audit Concerns and Issues (see page 26 of this report).

**Other Noteworthy Accomplishments**

1. Leading the Procurement Improvement Task Force which began with a value stream analysis of the current process, identification of short, mid-term, and long range deliverables, and obtaining procedural approvals from the Mayor's Office, Directors and Department heads, employees involved in the procurement process, and from City Council.
2. The Purchasing Division has implemented new procedures to handle emergency purchases aimed at insuring that these requests are true "public emergencies" and not departmental attempts to circumvent procedures or the competitive bidding process.
3. Existing technology is being used to shorten the procurement process by e-mailing request for proposals to vendors on file. The Purchasing Division estimates that this will save three weeks of process time and approximately \$46,000 annually.
4. Purchasing Division strengthened agreement controls in Oracle DRMS, and now requires entry of an effective date and expiration date for all contract and blanket purchase orders created after March 1, 2010.

## STATUS OF PRIOR AUDIT FINDINGS

The prior Internal Control Review of the Finance Department Purchasing Division 1993 and the Performance Audit of Finance Department Treasury Division 2009 by the Office of the Auditor General included the following audit findings related to the Purchasing Division:

1. Lack of Competition in Awarding Professional Service Contracts (June 1993)  
*This finding has not been resolved and is discussed in finding 1 on page 10 of this report.*
2. Procedures are not in place to Monitor Purchase Order Expenditures (June 1993)  
*This finding has been resolved.*
3. Supporting Documentation for Purchase Order Changes (June 1993)  
*This finding is no longer applicable.*
4. Need to Establish a Written Standard of Conduct/Code of Ethics Policy (June 1993)  
*This finding has not been resolved and is discussed in Audit Concerns and Issues: Code of Procurement Ethics/Code of Conduct on page 29 of this report.*
5. Need to Raise Minimum Dollar Level of Purchases Requiring City Council Approval (June 1993)  
*This finding has been resolved.*
6. Lack of Formal Procedures Manual (June 1993)  
*This finding is no longer applicable.*
7. Does Not Maintain Complete Records of Contracts and Related Documents (March 2009)  
*This finding has not been resolved and is discussed in findings 2 and 3 on pages 12 and 14 of this report.*

## AUDIT FINDINGS AND RECOMMENDATIONS

### **1. There Are Several Deficiencies in the Procurement Competitive Bidding Process**

Several weaknesses exist in the procurement competitive bidding process. We found that Purchasing Division employees and management cannot determine accurately if agencies and departments are complying with competitive practices as required by the City's laws, ordinances, and Finance Directives.

We selected a sample of fourteen purchase orders and contracts valued at \$339.6 million, which represented 10.7% of total purchases of goods and professional services for fiscal years 2007-2008 and 2008-2009. The Purchasing Division could not locate two of the fourteen files selected for review. This issue will be discussed further in finding 3 on page 14. Based on our review of the remaining twelve files, the following conditions were noted:

- Six of the twelve files reviewed did not contain evidence that competitive bidding was practiced, such as bid tabulation sheets.
- Four of the six professional services contract (PSC) files reviewed lacked evidence that the contracts were reviewed and ranked by a professional selection committee.
- The Purchasing Division did not ensure the Requests for Proposals (RFP), Requests for Qualification (RFQ), Request for Information (RFI), or Request for Quotations (RFQQ) were used in the procurement of professional services contracts.
- No documentation of competitive bidding was provided for contracts, packaged as professional services contracts, for vehicle replacement parts, guard services, and car rental service.

The Purchasing Division's charter mandate is to assure fairness in procuring property and services. A competitive bidding process, along with provisions for restrictions on processes that limit competition, bid evaluations and awards are essential elements of fair procurement practices. The City's Purchasing Ordinance requires competitive bidding for purchases and contracts that are major as defined by the ordinance (except in cases of emergencies). Finance Directive 104 requires competitive bidding for the purchase of all goods and non-professional services, and some personal services, regardless of dollar value.

According to the Purchasing Ordinance, professional services are selected by a professional selection committee who shall rank or score the responses submitted to a request for proposals, qualifications, information, or quotations according to the evaluation criteria stated in the request. The Purchasing Ordinance also requires requests for proposals, qualifications, information, or quotations shall be issued by the contracting department for all professional services contracts to be awarded.

Finance Directive 104 states competition is generally required for personal services in which established businesses are available to compete, such as janitorial services, guard



services, trucking, etc. Finance Directive 104 also states that attempts made by departments to circumvent competitive bidding by packaging contracts in a professional or personal services format shall be returned to the department with a request that competitive bidding procedures be implemented.

Weaknesses in the competitive bidding process increase the risk that procurement fraud may occur. In addition, the Purchasing Division may not be able to achieve its charter mandate of assuring fairness in procuring the City's goods and services; or the Division's priority goal of securing the goods and services in a manner that obtains the highest value for the lowest possible cost.

Causes for the weaknesses in the procurement competitive bidding process include:

- A lack of staff training (both internal and external to the Purchasing Division).
- The quantity and quality of resources.
- Turnover in the departments and administration changes.
- Purchasing was viewed as a transactional activity and not as a "value-added" activity.
- Poor procurement planning.
- A general lack of understanding of the correct competitive process to use for purchasing goods and services (i.e., RFP or RFQ, Period Agreement Request or Professional Service Contract).

### **Recommendations**

We recommend that the Purchasing Division:

- Train internal and external staff to ensure compliance with Finance Directives and City Ordinances.
- Inform all City agencies and departments that the Purchasing Director/Chief Procurement Officer and/or his designee has the authority to review, evaluate and deny any requested purchase should it not comply with the City's laws, ordinances, and any established City policy or procedure.
- Ensure that professional selection committees are operating according to policy and that a member of the Purchasing Division is included on the committees.

## 2. Purchasing Division Does Not Effectively Monitor Contracts or Contract Files

The Purchasing Division does not adequately monitor contracts or contract files. A review of selected files revealed:

- The "Contract Checklist" used by Purchasing Division staff to review professional services contracts is not adequate and does not check for key documentation that is required for a properly documented procurement file (i.e., source selection documentation, evidence of competitive bidding, list of sources solicited, and determination that price is fair and reasonable).
- Of the twelve files selected for review, eight files or 67% had copies of the required insurance; however, the insurance coverage expired during the first term of the contracts, and there was no evidence of current coverage.
- The City was not named as an additional endorsee on 25% of the twelve files that had copies of the insurance policies.
- Eight of the files reviewed or 67% did not have the Anti-Slavery or the Living Wage affidavits.
- A blanket purchase order was created for \$4.1 million more than the department's period agreement request and emergency needs.
- The only indication that the Budget Department had approved a period agreement request for \$6.3 million was an unsigned and undated handwritten note.
- A department incorrectly analyzed a bid from a vendor and improperly disqualified the bid as not meeting specifications; the Purchasing Division's review did not catch this error.

Properly documented procurement files provide an audit trail from the initiation of the need or requirement for goods or services to the completion of the contract work. All steps in the procurement cycle should be accurately recorded in writing.

The Purchasing Division's Contract Administration Manual requires:

- The contractor to submit to the Purchasing Division, evidence of insurance coverage...and at least fifteen (15) days prior to the expiration dates of expiring policies.
- The public liability insurance policy should include the City as an additional name insured.

The Anti-Slavery Ordinance, as described in Division 7 of the City's Purchasing Ordinance, requires each contractor who enters into a contract with the City to submit to the Purchasing Division an affidavit that discloses information about the company or its predecessors regarding their investments or profits from the slave industry. Failing to comply with this division of the ordinance shall render the contract void.

Effective May 2010, the City's Living Wage Ordinance, described in Division 6 of the City's Purchasing Ordinance, was declared illegal by the Michigan Court of Appeals and shall no longer be required or included in bid/contract documents.

Specifically, the procurement documentation file should contain source selection documentation if applicable, cost, or pricing data, and a determination that price is fair and reasonable, including an analysis of the cost and price data.

Lack of adequate contract administration and monitoring increases the risk that the Purchasing Division will not meet its charter mandate to assure fairness in procuring the City's property and services. Ineffective monitoring also increases the risk that procurement fraud will occur and go undetected. City exposure to legal liability is increased. For example, lack of required insurance coverage increases the City's overall business risk.

A Purchasing Division staff person stated that the lack of training (for a new employee) and the advice of Division management resulted in the creation of an emergency contract for \$4.1 million more than the period agreement request.

According to Purchasing Division management, all professional services contracts are submitted to staff for approval for placement on City Council's agenda. However, it is the department's responsibility to ensure that a complete set of documents including all approved clearances and insurance information is attached for submission to City Council.

Purchasing Division management stated that there is a lack of consistent contract management processes and practices in the City. The Division also stated that there is a lack of quality and quantity of staff and training in the vendor selection process.

### **Recommendations**

We recommend that the Purchasing Division:

- Develop monitoring procedures to ensure that procurement regulations, policies, and procedures are communicated, followed, and conveyed to all operating departments, including internal purchasing staff.
- Revise the contract checklist used to review Professional Services Contracts to include all items required for a properly documented procurement file (i.e., source selection documentation, evidence of competitive bidding, list of sources solicited, and determination that price is fair and reasonable).
- Determine the appropriateness and feasibility of the Purchasing Division's review of personal services contracts. If feasible, work with Finance Administration to develop and implement a process and procedures.
- Receive and review routine contract monitoring reports developed and approved by management of agencies and departments.

### **3. Purchasing Division Lacks Good Internal Controls**

The Purchasing Division does not have effective internal controls. Policies and procedures are not upheld. Published purchasing directives, policies, and procedures are not current and some directives conflict with City Ordinances. This issue is further discussed in finding 2 (Findings Related to Other Departments) on page 22 of this report.

We noted the following conditions:

- A. Contract files and sealed bids are not properly safeguarded.
- B. The Purchasing Division does not maintain complete files for the City's procurement activities and centralized record retention is non-existent.
  - a. The Purchasing Division did not have a file for four of the fourteen contracts or 28.6% of the sample.
  - b. Two of the four contracts were reviewed in the department; the remaining two purchase order/contracts were not found.
- C. The Purchasing Division did not update some of its operating policies and procedures manuals to reflect the City's current financial system - Oracle (Detroit Resource Management System) - that was implemented in 1999. Some of the manuals still referenced the prior system known as FICS.
- D. The Purchasing Division created purchase orders after the effective dates of the contract, and granted two departments purchase order approval rights in the City's financial system that were not in accordance with the City's ordinance.
- E. The role of the procurement review committee was established to allow Budget, Law, Finance, and Purchasing to evaluate department request for goods and services. The procurement review committee was re-established in the summer of 2009, but has not actively functioned in this capacity in about two years.
- F. The Purchasing Division does not have relevant performance measures. The performance measures reported in the Mayor's Executive Budget for fiscal year 2009-2010 are a carryover from Mayor Archer's Administration.

The following represents the criteria for the noted adverse conditions above:

- A. Adequate control over the contract bidding process includes management's reasonable assurance that bids are protected from unauthorized handling, manipulation, or other misuses.
- B. Standard business practice dictates that the Purchasing Division maintains a central file of all procurement documentation for the efficient operation of the City and to comply with record retention guidelines. Finance Directive 23 requires DWSD to furnish one complete set of documents to the Purchasing Director before bids are issued or advertisement published. Our benchmark study of various municipal governments revealed that purchasing organizations are normally accountable for the retention of all records relating to the procurement process including the request for proposal, all bids/responses received, and the awarded contract.

- C. Effective internal controls require that policies and procedures be periodically reviewed, improved as necessary, and revised when circumstances change. In addition, they must be approved, systematically communicated to all officials and appropriate employees of the organization, they must conform to applicable laws and regulations, and they should be consistent with objectives and general policies prescribed at higher levels.
- D. Finance Directive 104 states that engaging a contractor, ordering products or services, or receiving a product or service prior to the issuance of a purchase order is a violation of the City's purchasing policy.
- E. The procurement review committee is comprised of the Purchasing Director, Chief Financial Officer, and representatives from the Law and Budget Departments. Their approval is required prior to issuing RFPs, RFIs, and RFQs, and they are responsible for reviewing all requests for contracts and contract renewals for personal or professional services contracts.
- F. According to the United States General Accounting Office (GAO) Standard for Internal Control in the Federal Government, the establishment and review of performance measures and indicators is a required control activity necessary for informed managerial decision-making.

Failure to adequately secure contract bids creates the opportunity for persons to add, change, or replace bids in the lockbox. Uncontrolled access to the contract bids and a permissive climate creates an environment that may move people to commit fraudulent acts.

The lack of a central file of all purchasing related documents reduces control and accountability and results in important documents either not being retained or scattered throughout various departments and agencies. Contract compliance monitoring is not possible if copies of executed contracts are not available. Due to decentralized and fragmented purchasing policies and practices, the Purchasing Division has limited control in ensuring that the City is maximizing its purchasing power. In addition, failure to retain documentation can lead to fines and penalties for noncompliance with the Freedom of Information Act, which requires municipalities to produce documentation upon request.

Failure to periodically review and revise procedures to comply with higher-level policies significantly weakens internal controls and increases the possibility of errors.

City Codes, directives, and policies and procedures are controls designed to reduce the City's overall business risk. Failure to comply stated regulations increases the risk of fraud or misappropriation.

According to Purchasing Division management, there is a lack of training in internal controls, and updated processes and procedures in the Purchasing Division.

Purchasing Division management stated that, theoretically, centralized record retention for purchasing files is supposed to be in place today. However, the Purchasing Division is currently responsible for complete files only if they handle the RFQs and if they are involved in the bidding process. The Purchasing Division is not involved with RFPs, which are typically used for professional and personal services contracts by agencies and departments, and do not have complete files for these contracts.

### **Recommendations**

We recommend that the Finance Department Purchasing Division:

- Adequately safeguard keys and access to sealed bids and contract files.
- Retain copies of all documentation relating to the procurement process and be able to provide the documents as needed by auditors, departments, and others.
- Review the document retention policy and modify it to include all forms of electronically stored data and central electronic depositories.
- Update departmental policies and procedures manuals to reflect the current operating environment.
- Train staff on the importance of internal controls as it relates to procurement activities.



#### **4. Purchasing Division Reports Are Insufficient and Inaccurate**

The Purchasing Division's City Council letters/agendas, Period Agreement Request (PAR) reports, and bi-weekly buyer status reports are not free from errors, are not consistently accurate, are not consistently up to date, and some reports lack required pertinent information. We noted the following:

- Of the sixteen contracts listed on City Council's letter/agenda dated May 20, 2010, two, or 13% contained errors either in the contract or supporting data.
- Of the nineteen contracts listed on City Council letter/agenda dated May 26, 2010, five or 26% contained errors.
- PAR reports reviewed did not have a standard format. In addition:
  - None of the PAR reports indicated agency or department contact information.
  - Three of six or 50% of the reports did not indicate contract renewal option information.
  - One of six or 17% of the reports did not indicate the period agreement request's reference number.
  - One of six or 17% of the reports did not indicate the buyer's name.
- Bi-weekly buyer status reports prepared by the Division's six purchase agents did not have a standard format. In addition:
  - None of the reports indicate a desired delivery date.
  - Five of six or 83% of the reports did not indicate buyer requisition received date, dollar amounts, actions performed, and vendor/supplier for the requisitions.
  - Four of six or 67% of the reports did not indicate agency or department contact information.

Management functions and makes decisions on the basis of reports it receives. Therefore, reports should be timely, accurate, meaningful, and economical. PAR reports should be in a consistent format so that purchasing buyers can document and report accurate, required, and useful information to supervisors and management.

Inaccurate reports result in erroneous perceptions about process performance, resulting in inappropriate decisions. Without accurate information, employees and management will not be able to determine whether the process is operating as planned. Errors in City Council's letters/agenda impede the City Council's effective oversight of the contract process.

According to Purchasing Division staff, it is the buyer's responsibility to make sure that contracts and supporting documents are correct prior to submission to City Council.

Other causes cited by the Purchasing Division for errors on the City Council letters and agenda include:

- It is human nature; people make mistakes; every error cannot be caught.
- The contents are based solely on the Transmittal Sheets or Recommendation Sheets; the preparer of the letters/agendas assumes that the information on these sheets is correct.

The primary causes stated by the Purchasing Division for omissions in the PAR reports is because policies and procedures are outdated, and reporting of some information is no longer required.

### **Recommendations**

We recommend the Purchasing Division:

- Review contracts and supporting documents to ensure that they are consistently accurate, up-to-date, and free from errors before they are presented to the Research and Analysis Division for review.
- Poll internal and external report recipients to see if they still need the reports they receive, and if they could be improved:
  - Work with the Research and Analysis Division and the Office of the City Clerk to streamline and improve the process and accuracy of the City Council Agenda letters.
  - Determine if report data can be provided in a more effective format (e.g., table or columnar format).

**5. Purchasing Division Has Not Evaluated the Effectiveness and Efficiency of the City’s Equalization Ordinance**

The Purchasing Division has not evaluated, monitored, or benchmarked the effectiveness and efficiency of the City’s Equalization Ordinance. Furthermore, there is no assurance that agencies and departments outside the Purchasing Division apply the Equalization Ordinance with any uniformity. We selected a non-statistical sample of twenty-three contracts. Seven of the contracts had equalization applied. Based on our analysis, we determined that the effectiveness of the Equalization Ordinance is questionable and requires a serious review from the Purchasing Division. The following schedule shows the taxes and certification fees paid, and equalization premium costs for the selected contracts:

**Schedule of Taxes and Fees Paid to the City by Selected Detroit-Based Businesses and Equalization Premium Costs to the City**

	<u>Business A</u>	<u>Business B</u> <sup>(1)</sup>	<u>Business C</u> <sup>(1)</sup>	<u>Business D</u>
Contracts with equalization applied	\$ 25,328	\$ 95,264	\$ 1,522,471	\$ 29,862
City income taxes paid	\$ - <sup>(2)</sup>	\$ 346	\$ - <sup>(3)</sup>	\$ 447
Property taxes paid for the year	\$ 406	\$ - <sup>(4)</sup>	\$ 4,754	\$ - <sup>(4)</sup>
Withholding taxes paid for the year	\$ 373	\$ -	\$ -	\$ 9,881
Certification fees paid for the year	<u>\$ 600</u>	<u>\$ 600</u>	<u>\$ 600</u>	<u>\$ 600</u>
<b>Tax and Fees Paid to the City</b>	<u><b>\$ 1,379</b></u>	<u><b>\$ 946</b></u>	<u><b>\$ 5,354</b></u>	<u><b>\$ 10,928</b></u>
<b>Equalization Premium Costs<sup>(5)</sup></b>	<b>\$ 1,088</b>	<b>\$ 1,684</b>	<b>\$ 116,317</b>	<b>\$ 229</b>

<sup>(1)</sup> Businesses B and C are brokers.

<sup>(2)</sup> There is no record of Business A filing a 2008 income tax return.

<sup>(3)</sup> Business C had an operating loss. Income taxes are not paid when a company experiences a loss.

<sup>(4)</sup> Businesses B and D were not assessed property taxes because they are not owners of the property they were operating from.

<sup>(5)</sup> Premium cost is the increased price the City pays for goods and/or services as the result of applying equalization percentage allowances to a Detroit-based business’ bid instead of selecting the actual lowest qualifying bid.

Sound business practices dictates that program activities be measured and monitored to ensure expected compliance and outcomes.

If a program is adopted and not monitored, an organization will not know if desired economic outcomes are achieved.

According to the Purchasing Division, tracking contracts awarded with equalization applied began in January 2010, but the project was placed on hold due to personnel changes, and the administrative costs attached to performing functions related to the Equalization Ordinance. Purchasing also stated that at this time, monitoring compliance with the Equalization Ordinance would be a labor-intensive process.

**Recommendation**

We recommend that the Purchasing Division create a process to assess the effectiveness of the equalization ordinance to ensure the City of Detroit is economically benefiting from it.

## FINDINGS RELATED TO OTHER DEPARTMENTS

### **1. Human Rights Department (Human Rights) Does Not Properly Certify Detroit-based Businesses**

Human Rights does not properly certify Detroit-based businesses. Our review revealed that site visits conducted by Human Rights staff are not being performed and documented in a timely manner. We reviewed a sample of sixteen Detroit-based business files for fiscal year 2007-2008, and noted that twelve (or 75%) of files reviewed did not include documentation of site visits conducted by Human Rights. Of fifteen files we reviewed for fiscal year 2008-2009, eleven files (or 74%) did not indicate that Human Rights had conducted a site visit.

According to the Detroit Business Certification Program (DBCP), application for certification, and Detroit Business Certification Program (DBCP) application for re-certification, Human Rights' contract compliance officers will perform a site visit for Detroit Based Business (DBB), Detroit Headquartered Business (DHB), and Detroit Small Business (DSB). As of October 2007, staff is required to perform two site visits annually, one scheduled visit and one unscheduled visit. Newly-certified businesses should be visited immediately after certification.

Failure of Human Rights to perform site visits as scheduled increased the risk of certifying businesses that are not DBB, DHB or DSB. Also, if the City does business with non-registered businesses, it will not be adhering to its certification guidelines.

According to Human Rights personnel, staff has decreased over time and some information has not been filed, documentation was misfiled or write-ups for the site visits were not properly documented after the visit.

#### **Recommendation**

We recommend that site visits are performed in a timely manner on all new and renewal business certifications in accordance with the departmental guidelines.

**2. Finance Department Directives, Policies and Procedures Are Not Updated and Do Not Agree with City Ordinances**

The Finance Department did not update Finance Directive 104 Purchasing Procedures to agree with revisions to Article V of the City’s Ordinances relating to Purchasing and Supplies and changes in the City’s financial system. The following schedule shows the issue, Finance Directive as compared to the Purchasing Ordinance:

Issue	Finance Directives	Purchasing Ordinance
The value of contracts requiring City Council Approval	Contracts greater than \$5,000	Contracts greater than \$25,000
The threshold of contracts requiring formal advertising	Contracts greater than \$2,000	Contracts greater than \$10,000
City Council approval	Required prior to contract execution of all personal/professional services contracts and associated amendments regardless of dollar value	Contracts may not be entered into without City Council approval: <ul style="list-style-type: none"> <li>• For goods or services greater than \$25,000</li> <li>• All contracts for personal services, regardless of dollar value</li> <li>• All grant-funded contracts</li> <li>• All revenue contracts regardless of dollar value</li> <li>• All purchases and sales of and other transfers of interest in municipal land</li> </ul>



The following table shows the discrepancies between Finance Directive 104 and the Purchasing Ordinance as it relates to Equalization Allowances versus Equalization Percentages Applied to Detroit Based businesses.

	<b>FINANCE DIRECTIVE 104</b>	<b>PURCHASING ORDINANCE</b>		
<b>Contract Amount</b>	<b>Equalization Allowance</b>	<b>Equalization Percentage for Detroit Based Business (only)</b>	<b>Equalization Percentage for Detroit Headquartered Business (Additional 3%)</b>	<b>Equalization Percentage for Detroit Based and Detroit Resident Business (Double Base Rate)</b>
Up to \$10,000.00	10%	5%	8%	10%
\$10,000.01 to \$100,000.00	8%	4%	7%	8%
\$100,000.01 to \$500,000.00	6%	3%	6%	6%
\$500,000.01 and over	4%	2%	5%	4%

The City’s ordinances, directives, and policies are conflicting in the definition of purchases that require competitive bidding:

- The Imprest Cash Manual requires “a minimum number of bids” for purchases exceeding \$100 but not exceeding \$2,000.  
 Note: These purchases are considered imprest cash buys and they are processed in Oracle DRMS via standard purchase orders. The Purchasing Division is not involved with processing the purchase order because they are less than \$2,000. Instead, imprest cash buyers in the agencies and departments are authorized to make the purchase.
- Finance Directive 106 requires departments to submit documentation for purchases over \$1,000 and up to \$2,000 to the Purchasing Division. Documentation includes the Imprest Cash Purchase Authorization Form, which records the vendors contacted for bids.
- Per the City Charter “except in cases of emergencies competitive bidding is required for purchases and contracts which are major as defined by ordinance.” Per the Purchasing Ordinance, major means not less than the specified dollar valuation of contracts in specific categories ranging from \$25,000 to \$2,700,000.
- However, per the same ordinance competitive bidding is required on all bids (major and non-major) involving Detroit-based businesses. The Purchasing Ordinance

requires that Equalization Factors be used in the tabulation of bids from these suppliers.

- Finance Directive 104 states that competition is required for the purchase of all goods and non-professional services, and some personal services. The Directive states that any attempts to circumvent the bidding process violate the Directive's intent.

In addition, the Finance Department did not update Finance Directive 104 Purchasing Procedures to reflect the City's financial system Oracle DRMS, which was implemented in 1999 and replaced the prior system known as FICS.

Policies and procedures are operational means by which managers can control functions within an enterprise. Effective internal controls require that policies and procedures be periodically reviewed, improved as necessary, and revised when circumstances change. In addition, they must be approved, systematically communicated to all officials and appropriate employees of the organization, and must conform to applicable laws and regulations, and they should be consistent with objectives and general policies prescribed at higher levels.

Failure to periodically review and revise procedures to comply with higher-level policies significantly weakens internal controls and increases the possibility of errors. When directives have become obsolete, there is a lack of guidance, which results in a lack of uniformity of actions taken by departments and individual employees. Moreover, incorrect or unwise practices can develop. The failure to cancel directives that have been superseded by other directives or other policies creates confusion and a lack of uniform practices.

Finance management indicated that administrative changes accurately explain the reason for the conditions.

### **Recommendations**

We recommend that the Finance Department:

- Undertake a review of all Finance Directives to determine which directives should be cancelled, updated, or revised to agree with the City's Purchasing Ordinances or Oracle DRMS. Issue a list of all cancelled or superseded directives via the City's intranet website so that all agencies and departments have access to the most current directives.
- Schedule an annual review of Finance Directives to ensure that directives are kept current and that new directives are issued as needed.

### **3. City Agencies and Departments “Split” Contracts to Circumvent Approvals**

City agencies and department intentionally “split” contracts to circumvent appropriate approvals. Contracts are split into purchase orders less than \$2,000, which bypasses the Purchasing Division, and contracts are split into purchase orders less than \$25,000.01 to circumvent City Council approval.

The Office of the Auditor General identified egregious cases of contract splitting:

- Purchases totaling \$4,732 from one supplier for t-shirts for a public event was split into five purchase orders to keep all purchase orders under the \$2,000 threshold, which requires approval from the Purchasing Division.
- A contract for \$24,000 was split into fourteen purchase orders. Additionally, there was another purchase for \$1,975 to the same supplier two months later. Within a three-month period, the total paid to the supplier for services reached the threshold of \$25,000.01 requiring City Council approval.
- A department purchased four identical items from the same supplier, at the same time, on separate purchase orders at \$1,895 each, and then prepared a separate purchase order to pay for shipping charges of \$595.

City Ordinance Section 18-5-5 states that City Council is required to approve all contracts for goods and services over the value of \$25,000. City policy also requires that procurements equaling \$2,000 or more are the responsibility of the Purchasing Division.

Failure to ensure City Council’s review and approval of the contract over \$25,000 negates the City council’s oversight of the contract process. Moreover, by circumventing the Purchasing Division’s authority to review and process purchase orders and contracts, the City is unsure that it is obtaining the highest level of services at the lowest possible cost.

Purchasing Division staff stated that one of the most important challenges facing the division are departments who do not follow procedures with respect to splitting contracts.

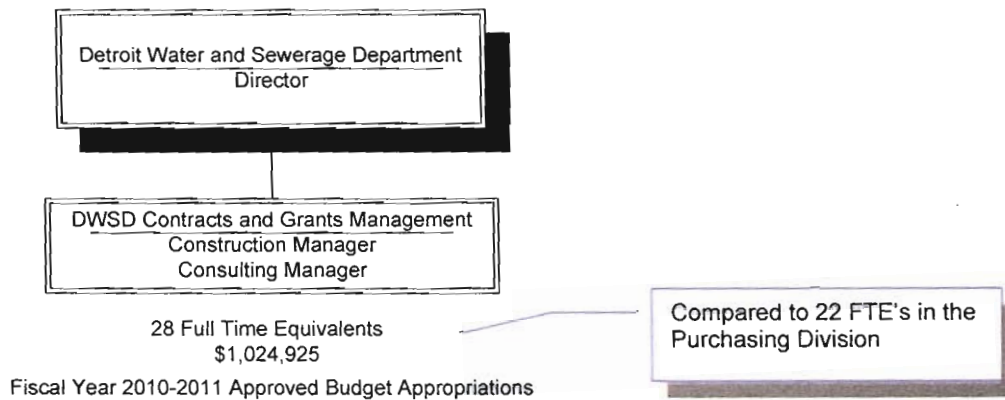
#### **Recommendations**

We recommend departments and agencies comply with the City’s purchasing policies and ordinances, and discontinue the practice of splitting purchase orders. We also recommend a disciplinary plan for agencies and departments that continue this practice according to the severity of the offense. The plan may include retraining, discipline through personnel action, or referrals for prosecution in cases of suspected fraud.

## AUDIT CONCERNS AND ISSUES

### Autonomous Contracting Agencies and Departments

The Purchasing Division is authorized under the City Charter Section 6-306 to procure all real and personal property (goods) and services. The Chief Procurement Officer has aligned two major purchasing activities that are outside the Finance Purchasing Division under his functional control – the Detroit Water and Sewerage Department (DWSD) and the Detroit Department of Transportation (DDOT) purchasing activities. During the audit period, DWSD was responsible for 64% of the City's purchases of goods and services. Purchasing Division management is aware that there is an entire activity in DWSD that is not a part of the formal purchasing activity that handle high dollar value contracts. Currently, the Chief Procurement Officer has not assumed functional control of DWSD's Contracts and Grants Management, an administrative section of this enterprise fund group:



In addition, the Chief Procurement Officer has not assumed functional responsibility for the Health Department's procurement activities, which has the second largest expenditures of the City's dollars on goods and services.

### Purchasing Full Time Equivalents

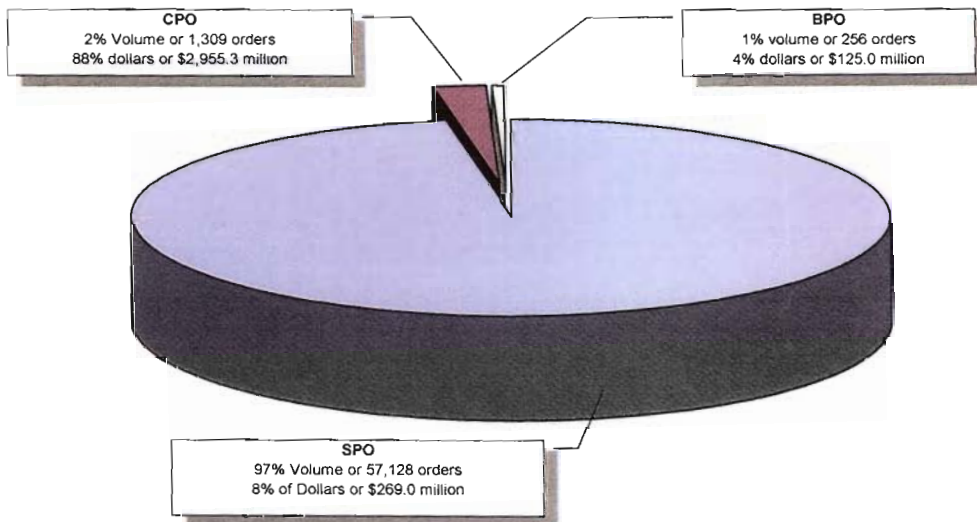
The functional centralization of procurement activities is further exacerbated by the difficulty of obtaining a complete headcount of City employees that are directly responsible for procuring goods and services. Resources are not correctly identified, labeled, or aligned. For example, and according to Purchasing Division management, "there are people in DDOT, who are labeled as purchasing staff, who are storekeepers, they don't actually go out and contract and buy, but they do order parts." Other employees that are identified as purchasing liaisons may devote all or only a small portion of their workday to procurement activities.

### High Volume of Low-dollar Value Purchase Orders

There is a high volume of low-dollar purchase orders, which are typical indicators of:

1. Inefficiencies in the procurement and/or payment processes.
2. Splitting of larger contracts into smaller dollar transactions designed to circumvent the approval and other processes.
3. Increased potential for duplicate payments.
4. High "per transaction" check processing costs.

The following graph depicts the percentage of Standard Purchase Orders (SPO), as compared to other more cost-efficient purchase order types such as Contract Purchase Orders (CPO) or Blanket Purchase Orders (BPO).



Purchasing Division staff cited the following reasons as to why BPOs are not widely used in the City:

- The City is slow in paying vendors.
- Oracle allows one department to use a release created by another department, which results in expenditures being charged to the wrong department.
- Oracle cannot accommodate multiple accounts and cost centers by agency/department.
- There is an overall lack of accountability when it comes to BPOs and other citywide contracts.



### **Authority to Purchase All Goods and Services**

The Purchasing Division is not currently involved with sales and purchases of real property, thereby allowing city officials to recommend real estate deals directly to City Council. Based on an analysis and interpretation of the Detroit City Charter, the Law Department concluded that with the exception of the Purchasing Division of the Finance Department no other City Department is authorized to sell the City's interest in real or personal property. The Law Department concluded that the Purchasing Director might exercise his implied powers and delegate additional purchasing authority to a City department. However, the amount granted in Oracle should match the delegated additional authority.

Strategies are not developed with clear plans to comply with the Law Department's interpretation of the City's laws and ordinances relating to authority and responsibilities. Work with Finance Department to review and revise applicable Finance Directives.

### **Contract Administration: Quality Assurance and Supplier Performance**

Contract administration is the final phase of the procurement cycle and begins at the point a contract or purchase order is executed. The objective of contract administration is to ensure that the supplier and the government comply with the contract. Only then can the City ensure the public that we got what we paid for. Quality assurance is an integral part of contract administration and requires monitoring of goods and services. The program agency or department using the goods or services is responsible for contract administration with the advice and assistance of the procurement authority. Specifically, the quality review should first occur in the agency or department and then in purchasing. Quality consists of meeting specifications and vendor performance. The Purchasing Division's Contract Administration manual and Finance Directive #104 provide instructions to agencies and departments on the process of documenting supplier performance.

Members of the Purchasing Improvement Task Force stated that quality and supplier performance are not adequately documented and there is no follow-up on supplier performance. The task force team identified the following issues relating to Contract Administration.

- Documentation and/or the lack thereof to support not awarding contracts to vendors who do not perform in accordance with contract requirements.
- Documentation and/or the lack thereof to support termination of contracts.
- Clear responsibility for contractor performance.
- Clear responsibility for documentation of vendor performance.

Purchasing Division staff stated that one of the most important challenges facing the division is a department not complying with contract administration requirements by not maintaining their files "especially if they have problems with the vendors."

The Purchasing Division may be called upon by the Law Department to produce documentation of a supplier's performance in cases of complaints or litigation. Adequate



documentation and follow-up on supplier performance are critical to the City's ability to stop doing business with a vendor. In July 2010, the Purchasing Division announced plans for a new process of pre-qualifying vendors, which will include the evaluation of capabilities of the suppliers and not just cost.

### **Broker Use a Concern**

Purchasing personnel indicated that the City primarily does business through brokers because of the City's slow payment of invoices. According to Purchasing Division staff, most vendors would rather have a broker bid on contracts and supply the broker with the contracted merchandise, who in turn supplies the goods to the City. This allows the vendor to get paid by the broker in a shorter time-period.

Purchasing Division staff estimates that the markup on goods and services purchased through brokers is approximately 5% to 10%. For fiscal years 2007-2008, 2008-2009, and the first half of 2010, goods and services purchased through brokers totaled \$26.8 million. Of which, approximately \$1.3 million to \$2.7 million was brokers fees.

### **State of Michigan Business Designation**

Human Rights does not include a review the State of Michigan Department of Energy, Labor & Economic Growth website to verify whether a business is registered to do business in the state as part of the formal certification process. During our audit, we noted a business that was not in good standing with the State of Michigan. The business also had a building code violation from the City's Building Division. The violation stated that the business should vacate the building and discontinue use of the premises as a business because no building permit had been issued for such use (Building Code MBC 2006.105.1). After the violation was issued, the business moved to a new location.

### **Code of Procurement Ethics/Code of Conduct**

Maintenance of public trust and confidence are essential to City government. City employees involved in procurement activities and vendors wishing to do business with the City must avoid all situations where propriety, financial interests, or the opportunity for financial gain could lead to favored treatment for an organization or individual. Staff and vendors alike must avoid circumstances, which may not constitute wrongdoing or conflict of interest, but appear questionable. We recommend procurement staff sign a code of conduct statement annually. We also recommend a vendors' code of ethics statement be distributed to all vendors doing business with the City.

### **Disaster Recovery Plan**

The Information Technology Systems Department (ITS) should revise its disaster recovery plan, which has not been updated since 2002 and is based on the department's Year 2000 (Y2K) plan. The revised plan should incorporate the disaster recovery needs of the Purchasing Division.

## COMPARATIVE DATA FROM OTHER CITIES AND WAYNE COUNTY

The schedule below compares selected Purchasing Division processes with other cities and Wayne County.

COMPARATIVE SURVEY DATA RESULTS FROM OTHER CITIES AND WAYNE COUNTY								
	CITY OF DETROIT, MI	OKLAHOMA CITY, OK	ST. CHARLES, MO	BROOKSVILLE, FL	OTTAWA, CA	BUFFALO, NY	BOSTON, MA	WAYNE COUNTY, MI
1. Where does Purchasing fit into the organizational chart of your municipality (Department, Division, etc)?	A division within Finance	Purchasing & Payment Processing report to Finance	A division within Finance	Purchasing and Contracts Dept. is under Board of County Commissioners' Admin. Servs. unit.	Purchasing Division, Supply Mgmt. Branch, are in Finance Dept.	Under the Dept. Admin., Finance, Policy and Urban Affairs	A department within Finance	Division of the Dept. of Mgmt & Budget
2. Fiscal year 2009 budget:	Central Pur: \$2,261,062 DDOT Pur: \$1,112,926 DWSD Pur: \$1,285,837	\$1,161,602	Budget not available; included in Finance Dept.	Budget not available	\$6,706,000	Budget not available	\$1,399,710	\$1,416,500
3. Fiscal year 2009 staff/FTEs:	Central Pur: 22 DDOT Pur: 16 DWSD Pur: 25	Total: 31.2 total Pur: 9.05	5	11	37	5	20	18
4. Fiscal year 2009 total purchases	\$999,146,965	\$20,037,725	\$181,698,220 (Est. for 2010)	Total dollar value of purchases not available	\$984 million (Contracts greater than or equal to \$10,000)	\$27,586,000	\$37,106,817	Total dollar value of purchases was not provided.
5. What is the overall time it takes to procure goods? Services?	Avg. number of days is 234.	Unknown	Has not been measured	Has not been measured	This information is not tracked.	Varies from 24 hrs to 30 days depending on commodity (formal > \$10,000 takes longest, informal shortest < \$10,000)	Goods under contract: 1 to 3 days. Goods exceeding \$10,000 where an invitation for bid needs to be completed: 3 to 6 weeks	Minor purchases \$50,000 or less: 3 to 10 business days. Major purchases above \$50,000: 70 to 90 business days.
6. Do you have a specific definition for what constitutes an emergency purchase?	A purchase requisition that requires immediate attention due to health, welfare, and safety of the General Public.	Immediately necessary in order to avoid loss of life, substantial damage to property, or damage to the public, peace, or safety	Conditions must exist and create an immediate and serious need for equipment, supplies or services, which cannot be satisfied through normal procurement	No, due to poorly written policies in this area	Special circumstance is defined as a) an event that is exceptional or could not be foreseen and is a threat to the health, safety or welfare of the public, or b) causes loss or c) disrupts services.	Public health and safety	Covered under MA General Law and Charter	Covered in purchasing policy
7. Do you have any special allowances or equalization factors for small businesses, community-based or local headquartered business, etc.?	Equalization factors are applied to bids.	Each dept. is encouraged to identify and utilize businesses owned by disadvantaged or minority persons.	Local businesses may be given preference if their product is equal or better and the difference in the delivered price is negligible.	Local businesses get preferential treatment.	No specific allowances or equalization factors are used to give preference to small and/or local businesses.	None	Additional consideration in the awarding of subcontracts to minority and women owned businesses	Certified County-based enterprise businesses receive bid credits for County funded contracts.
8. Do you have a certification process for a supplier, which includes verifying background information on the selected supplier to ensure that they are a legitimate business? If so, please describe the verification process.	Human Rights Dept. certifies businesses for the City.	Purchasing Dept. researches and sets up the vendors using their Vendor Information Form received (W-9).	Use the W-9 form. For vendor payments, a new procedure is to wait for a completed W-9 form before issuing any checks.	Yes, there is a certification process.	Certifications / background checks are conducted on a case-by-case basis through Dunn and Bradstreet.	Required bidder application on file in purchasing office	Certificates issued for minority and/or women enterprise businesses	Wayne County Human Relations Division, a division of Corporate Counsel, certifies businesses.

**ADDITIONAL HIGHLIGHTS OF THE SURVEYS:**

- Three respondents have an ethics policy.
- One respondent prefers buying from local businesses when their products are equal or greater and their price differences are negligible compared to non-local businesses. A respondent does grant preferential treatment to local businesses when buying products and services. Another has affirmative steps to include disadvantaged and minority persons and small businesses in the procurement process. One respondent does not use equalization factors or have special allowances for local businesses in their procurement process.
- One city has a rotation of commodities and the county respondent rotates commodities.

**Purchasing Statistics**

The purchasing process begins with the annual budget process, followed by an agency’s or department’s need to purchase goods or services against the approved annual budget. Procurement methods vary based on the type of goods or services to be procured:

- Standard Purchases Orders (SPO) are used for one-time purchases, for specific items, for a specific time, in a specific quantity, and for a specific cost.
- Blanket Purchase Orders (BPO) and Contract Purchase Orders (CPO) result from period agreement requests, and they facilitate purchases of goods or services that recur over a specified period, at specified costs.

The following tables detail the volume of purchases of personal property and professional services for fiscal years 2007-2008, 2008-2009, and the first half of fiscal year 2009-2010:

	Volume of Purchase Orders			
	SPO	CPO	BPO	Total Purchases
Number of POs	57,128	1,309	256	58,693
Percentage of Total	97.3%	2.2%	0.5%	100.0%

	Dollar Value of Purchase Orders (In Millions)			
	SPO	CPO	BPO	Total Purchases
Dollar Value	\$269.0	\$2,955.3	\$125.0	\$3,349.2
Percentage of Total	8.0%	88.3%	3.7%	100.0%

*Source: Data from Oracle DRMS financial system provided by Information Technology Services Department.*

- SPOs account for only 8.0% of the total value of purchases, but 97.3% of the number of purchase orders created.
- There were 1,309 CPOs created (or 2.2% of the number of purchase orders), valued at \$2.96 billion or 88.2% of the total value of purchases.

**Purchasing Statistics**

- Only 256 BPOs were created, accounting for only 3.7% of the total value of purchases. Due to limitations in Oracle, Citywide contracts are not widely used.

Any City agency or department can process one-time purchases, valued between \$100 and up to \$2,000 on standard purchase orders, also referred to as “imprest cash” purchases:

	<u>POs Less Than \$2,000</u>
Quantity	48,944
Dollar Value (In Millions)	\$33.6
Average Dollar Value per PO	\$686

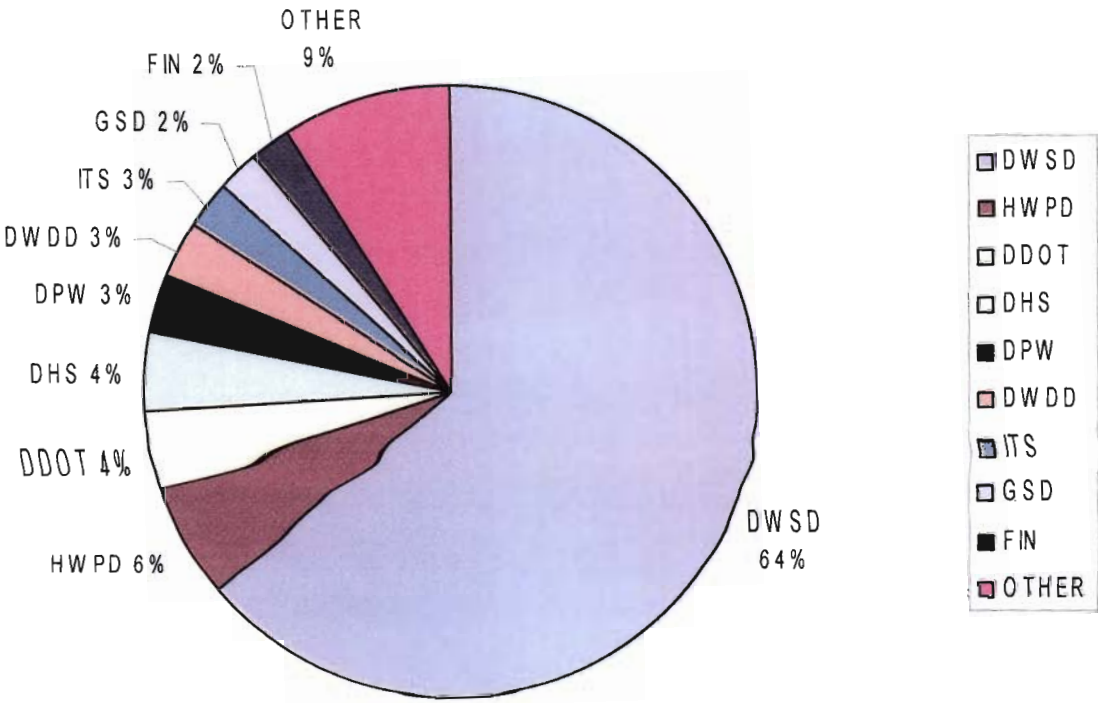
Note: A large number of low dollar value transactions indicate that the City’s procurement practices may be inefficient.

Procurements equaling \$2,000 and above are the responsibility of the Purchasing Division. However, the level of involvement varies depending on the procurement method (SPO, CPO, or BPO) and the amount of the purchase order. The following table breaks down the City’s purchases of goods and professional services valued at \$2,000 and above, during Fiscal Years 2007-2008, 2008-2009, and the first half of fiscal year 2009-2010:

	<u>POs Greater Than or Equal to \$2,000</u>
Quantity	9,749
Dollar Value (In Millions)	
POs \$2,000 up to \$5,000	\$ 13.2
POs \$5,000 up to \$25,000	38.8
POs \$25,000 and above	<u>3,263.7</u>
Total	<u>\$ 3,315.7</u>
Average Dollar Value per PO	\$ 340.1

Purchasing Statistics

Total Purchases by Agency/Department





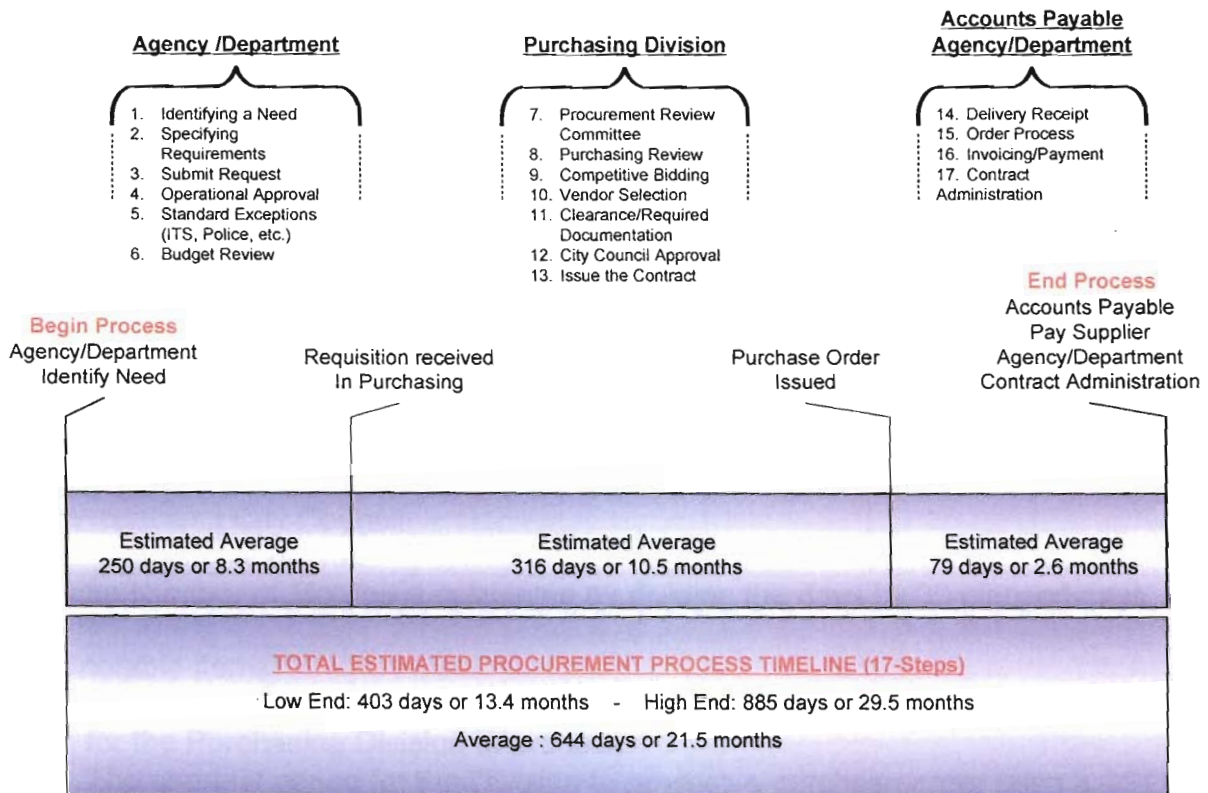
**Procurement Process Timeline**

In a presentation to City Council on February 19, 2010, the Chief Procurement Officer depicted the City’s procurement process as:

- Decentralized
- Reactive versus proactive
- Having limited advance planning
- Ineffective City-wide contracts
- Complex, convoluted, and elongated.

In February 2010, the Purchasing Improvement Task Force identified seventeen steps that are required to purchase goods valued at \$25,000 or more. The City’s procurement process begins with an agency or department identifying a need and ends with a payment to the supplier, followed by ongoing contract administration. The following summary is based on the estimated days for each step in the procurement process:

**STEPS IN THE CITY OF DETROIT PROCUREMENT PROCESS**



## ATTACHMENT A

COLEMAN A. YOUNG MUNICIPAL CENTER  
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FAX 313•224•4374  
WWW.DETROITMI.GOV

CITY OF DETROIT  
FINANCE DEPARTMENT  
PURCHASING DIVISION

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Date: January 25, 2011

To: Loren E. Monroe, CPA  
Auditor General

From: Andre K. DuPerry  
Chief Procurement Officer, Finance Department- Purchasing Division

Re: Response to the Audit of the Finance Department- Purchasing Division

Cc: Mayor Dave Bing  
Norman L. White, Chief Financial Officer  
Thomas Lijana, Group Executive-Finance  
Kimberly Hall-Wagner, Director, Human Rights Departments

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The following represents the Purchasing Division's response for the indicated findings and related recommendations in the March 2010 Performance Audit of the Finance Department-Purchasing Division. I am pleased to advise that many of the conditions noted in the report have been corrected or are in the process of being improved.

1. There Are Several Deficiencies In The Procurement Competitive Bidding Process

As the report states, the city's Purchasing Ordinance requires competitive bidding purchases and contracts. I concur with the recommendation that the Purchasing Director/Chief Procurement Officer has the Responsibility and the authority to review, evaluate and deny any request that does not comply with the City's law, ordinances, policies or procedures. There are internal to Purchasing and the city, as well as external factors (Vendor Community) that need to be addressed. Internally, I have already started the process of training the Purchasing Staff, the City's Departments and Agencies. The training will be complete by the end of this fiscal year.

There are several actions that have been taken to assure compliance with the expectation of a competitive process. I have assigned a member of the Purchasing Staff (Purchasing Leaders) to each of the departments and agencies to assist with this effort. We are developing an executive summary that will require sign off at various stages to ensure compliance. The summary will be in place before the end of the first quarter of 2011.

Next, we have increased the participation of the Purchasing Staff in the Request for Proposal (RFP) process, including the Evaluation Committee. The level of involvement in the RFP's is prioritized by dollar and strategic value. The requirements and bidding



process is being clarified to ensure a fair and compliant process. The documentation of the requirements will be completed before the end of Q1 2011.

In addressing Finance Directive 104 on ensuring bid competition for those frequently purchased commodities i.e. security, office supplies, janitorial etc., we have created a pre-qualified bidder's list with a minimum of 3 to 5 bidders. We are continuing to add commodities and vendors working with the various departments.

Also the city's departmental requirements are not consistently followed or clearly defined. The training mentioned will improve this. Additionally, potential bidders do not always know how to do business with the city and there is a perceived and/or real problem of slow payment along with other reasons. In these cases they have opted out of the competition or competitive bidding with the city. The Purchasing Division will make external outreach efforts to regain more participation. We will continue working with all departments to reduce the overall procurement cycle time. We will adequately advertise the City's requirements for goods and services which will also support this initiative.

Lastly, with regards to the inconsistencies between the Purchasing Ordinance, the Finance Directives and the previously published Purchasing Procedures, we are aggressively reviewing them and will revise them before the end of this fiscal year.

## 2. Purchasing Division does not effectively monitor contracts or contract files

The performance audit clearly reinforces the need for continuous training and monitoring. We have initiated mandatory weekly training and communication meetings for the Purchasing Staff. The contract review and submission check list process is being revised to ensure compliance with the required documentation. A special focus on reviewing Professional Service Contracts, Clearances, Vendor Insurance Coverage, Anti-Slavery Ordinances, etc. will be targeted. The procedure will be fully in place by the end of the fiscal year.

We have also initiated an aggressive review of Oracle's ability to automate various alerts and notices to assist with contract management. The findings on how to increase Oracle's functionality will be implemented by the end of this fiscal year.

All steps in the procurement cycle will be accurately recorded in writing. Contract file maintenance will be incorporated into daily tours and walks.

## 3. Purchasing Division lacks good internal controls

The report correctly identifies one of the most critical and significant responsibilities or roles of Purchasing, which is internal control. The entire record management and retention practice is in need of an overhaul. We will work with the Law Department and other city departments and agencies to define and administer an acceptable document management process. This will include updating the appropriate Purchasing policies

and procedures. Due to the scale and scope of this project, we will have to develop the plan and timing to prioritize how to approach this massive initiative. Centralized record retention is difficult in the current decentralized purchasing process. The initial plan and timing will be in place before the end of the fiscal year.

However, all of the Purchasing organization will be trained annually on the importance of internal controls. Relative to Purchasing not being involved with RFP's, we will be involved upfront in the process working with the departments. The level of involvement will be dollar and/or strategic value based. The report is in development and forthcoming.

4. Purchasing Division reports are insufficient and inaccurate

The Finance - Purchasing Division is responsible for submitting an accurate agenda of contracts for City Council review and approval. The City Council Agenda report has been reviewed over the last months for both content and accuracy. The Purchasing Principals have been re-instructed on content validity and proof reading. Ongoing discussions with the Research and Analysis Division have begun to highlight necessary improvements.

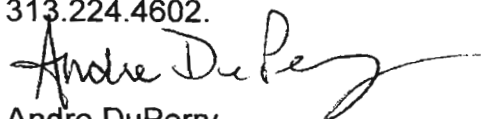
The Buyer Report will be standardized in January. In addition, all buyers will poll their reports for information that is no longer needed.

5. Purchasing Division has not evaluated the effectiveness and efficiency of the City's equalization ordinance

The Finance – Purchasing division is **NOT** responsible for the evaluation of the effectiveness and efficiency of the city's equalization contained within the Purchasing Ordinance. The equalization requirement was created and approved by City Council. The role of Purchasing is to adhere to the Ordinance. While I believe the development of the equalization formula had its origin in good intentions, the Audit findings suggest there should be a fact based examination of the benefit versus cost to the City of Detroit. This evaluation however is not the specific responsibility of Purchasing. We have and will continue to recommend revisions to City Council for improvement to the Purchasing Ordinance.

We hope that this addresses the Purchasing issues and concerns raised in the Audit Report. We have developed an Internal Control Audit Action Item List to track our progress. (Attachment 1)

Should you have any further questions about this response, please contact me at 313.224.4602.



Andre DuPerry  
Chief Procurement Officer

## Purchasing Internal Control Audit Action Items

<u>Action Items</u>	<u>Implementation By Date</u>
<b>Deficiencies In The Procurement Competitive Bidding Process</b>	
1. Purchasing & City Depts. Training on Bid Process	6/30/11
2. Purchasing Leader Assignments to City Depts.	Complete
3. Develop Executive Leader Summary on Compliance	3/31/11
4. Increased Participation & Documentation of RFP Process	3/31/11
5. Creation of Pre-Bidder's List by Commodity	Complete
6. Better Advertise City Requirements to Improve Competition	3/31/11
7. Fix Inconsistencies - Ordinance, Finance Directives & Purchasing Procedures	6/30/11
<b>Purchasing Division Does Not Effectively Monitor Contracts or Contract Files</b>	
1. Initiated Mandatory Weekly Purchasing Training and Communication	Complete
2. Revise Contract Review and Submission Checklist Process	3/31/11
3. Special Focus on All Clearances, Ordinances, Prof. Service Contracts, Insurances	6/30/11
4. Review of Oracle's Ability to Automate Alerts and Notices	6/30/11
5. Finalize Contract File Maintenance in All Areas	9/30/11
<b>Purchasing Division Lacks Good Internal Controls</b>	
1. Work with Law & other Depts. on Document Management	6/30/11
2. Update Purchasing Policies and Procedures	6/30/11
3. Annually Train Purchasing Dept. on Internal Controls	3/31/11
4. Early Involvement of Purchasing in RFP's with Depts.	3/31/11



CITY OF DETROIT  
HUMAN RIGHTS DEPARTMENT

## ATTACHMENT B

COLEMAN A. YOUNG MUNICIPAL CENTER  
2 WOODWARD AVENUE., SUITE 1026  
DETROIT, MICHIGAN 48226  
PHONE: 313-224-4950  
TTY: 313-224-4960  
FAX: 313-224-3434  
WWW.DETROITMI.GOV

January 10, 2011

Loren Monroe, Auditor General  
City of Detroit  
Office of Auditor General  
2 Woodward Ave., Suite 208  
Detroit, MI 48226

Dear Mr. Monroe:

The following represents the Human Rights Department's response to the indicated finding and related recommendation in the March 2010 Performance Audit of the Finance Department – Purchasing Division, as prepared by the Office of the Auditor General.

**Finding 1. Human Rights Department (HRS) Does Not Properly Certify Detroit-Based Businesses.**

The Human Rights Department is under new leadership as of August 2010. As the newly appointed Human Rights Director, I do not have any information to refute or explain the findings of the Auditor General's Office. Upon my arrival to this Department, I determined that several critical functions were either not being performed correctly or not being performed at all.

Prior to my arrival, the Human Rights Department did not use any tracking mechanism or database for any of their completed applications. The Department had a 90 to 120 day backlog of applications awaiting review. There was also significant role confusion; one employee thought another employee was responsible for a task, thus no one was held accountable when the task was not completed. Despite these challenges, significant changes have been made to the way we do business in the Human Rights Department.

I would like to take this opportunity to highlight some of the procedural and organizational<sup>1</sup> changes made since my arrival in August 2010. These changes were necessary to ensure compliance with operational mandates, Executive Orders, City Charter provisions, Federal, State and local regulations, despite our rapidly decreasing staff.

In September 2010, we implemented a new database that captures pertinent information regarding all applications for the Detroit Business Certification Program (DBCP). We also re-organized the Department in an effort to maximize productivity and efficiency of our small staff. There are currently two (2) staff members responsible for conducting site visits for businesses participating in the DBCP, tax abatements, construction projects, brownfield developments and the casino agreements.

<sup>1</sup> An updated organizational chart is attached for your review.



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We have established a site visit schedule and weekly calendar that is reviewed and approved by the Director; this was not done prior to August 2010. We now have a filing protocol in place to expedite the filing and retrieval of applications.

We are in the process of conducting site visits for all approved DBCP participants. All of the forms related to the application process and the site visit are kept in a file for easy access. We are doing our best to conduct a site visit at least twice per application year.

Again, thank you for the opportunity to share our recent achievements and for providing us with an opportunity to respond to your findings.

Sincerely,

Kimberly Hall-Wagner  
Director

**ATTACHMENT C**

January 24, 2011

Loren E. Monroe, Auditor General  
Office of the Auditor General  
2 Woodward Avenue, Room 208  
Detroit, Michigan 48226

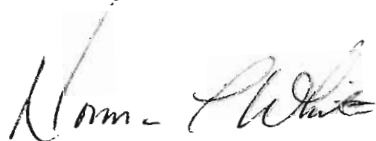
Dear Mr. Monroe:

The following presents the Finance Department's response for the indicated finding and related recommendations in the March 2010 Performance Audit of the Finance Department – Purchasing Division, as prepared by the Office of the Auditor General.

Finding 2. Finance Department Directives, Policies and Procedures Are Not Updated and Do Not Agree with City Ordinances

The Finance Department concurs with the finding, especially as it relates to Finance Directive #104 Purchasing Procedures. High employee turnover and refocus of resources has been noted as the core reason for the inconsistencies between policies, procedures and City Ordinances. We have already begun the process of reviewing these items with the goal of harmonizing them by the end of this fiscal year.

Sincerely,



Norman L. White  
Chief Financial Officer