



City of Palo Alto Office of the City Auditor (OCA)

Policy & Services Committee Meeting

Procurement Process Audit, June 6, 2024

Presenter: Mike Chimera, Manager

September 23, 2024

Objectives



1. Determine whether needs assessment, budgeting, solicitation, and vendor selection processes are efficient, effective, and transparent to ensure value for money and fair competition.
2. Determine whether the procurement process is valid through proper approvals, adequate segregation of duties, and compliance with applicable laws, regulations, and the City's policies.
3. Determine whether technology is used appropriately and effectively to enhance integrity, efficiency, transparency of the procurement process and ensure consistency and validity of the relevant information and data.
4. Identify the opportunities to improve the efficiency and effectiveness in the procurement process.



Fifty Contracts Sampled from FY22 and FY23

Criteria

- Contract terms & conditions align with relevant solicitation type in the Purchasing Manual
- Documentation is appropriately maintained
- Appropriate Contract Solicitation and Award limits are followed
- Appropriate segregation of duties
- Competitive bidding process followed as outlined in City's Municipal Code
- Vendor selection, evaluation, and approval are reasonable based on analysis of supporting documentation

Finding 1: Supporting Documentation for Contract Award

Finding	Recommendation
<p>Six of the 50 contracts sampled had compliance deficiencies per the City's Purchasing Manual and Chapter 2.30 of the Palo Alto Municipal Code:</p> <ul style="list-style-type: none">• 4 contracts lacked the Solicitation Plan Checklist or Appendix G.• 2 contracts lacked the Exemption From Competitive Solicitation Request Form or Appendix E.	<p>We recommended that the City establishes and incorporates a formal checklist that identifies necessary documents for retention for contract awards.</p>

Finding 1: Supporting Documentation for Contract Award

Additional Support re: Competitive Bidding Process

Upon request from the Policy & Services Committee, the City Auditor assessed 11 of the 50 sampled contracts specifically for competitive bidding procedures

- 3 of 11 contracts - exempt from competitive bid process → sole vendor
- 6 of the 11 contracts received multiple bids
 - 3 selected the lowest bidder
 - 3 selected the Best Value
- 2 contracts failed testing (as noted in Finding 1)

Finding 2: Purchasing Manual

Finding	Recommendation
<p>The Purchasing Manual has several inconsistencies:</p> <ul style="list-style-type: none">• No table of contents• Outdated chapters• Inconsistently labeled chapters• Chapter revisions from different years• Missing appendices	<p>We recommend that the City considers adding the following to the Purchasing Manual:</p> <ul style="list-style-type: none">• Table of contents• Documented review of chapters• Accurate and appropriate chapter titles• Inclusion of all relevant appendices

Finding 3: Needs Assessment and Market Analysis

Finding	Recommendation
<p>The City lacks a formalized needs assessment process in its Purchasing Manual</p> <ul style="list-style-type: none">• While City departments conduct their own needs assessments and market analyses before submitting budget requests, the Purchasing Division does not collect or review these assessments and analyses	<p>We recommend incorporating a formal needs assessments and market analyses processes in the City's Purchasing Manual. Procedures to include a process for the collection and review of assessments and analyses by Purchasing Division.</p>

Finding 4: Vendor Record Creation

Finding	Recommendation
<p>There were 28 duplicate vendors in the City's approved vendor listing.</p> <p>Compensating control: City personnel check for vendor titles prior to creation of vendor.</p>	<p>We recommend the City:</p> <ul style="list-style-type: none">• Implements application controls that help the City avoid creating duplicate vendor records unintentionally• Frequently validates and monitors vendor lists• Removes duplicate vendors that are in SAP currently, as well as old vendors that are no longer in-use

ASD Management Response

Contract solicitations between July 2023 and July 2024

- 105 formal solicitations
- 3 solicitations (3%) receive no bid
- 27 solicitations (26%) received only 1 bid

Vendor feedback on solicitations receiving 1 or no bids

- Vendors were not available to take on the City project
- Vendors did not have the requested products and/or expertise

Questions?

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, operate under an alternative practice structure and are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms. The name Baker Tilly and its associated logo is used under license from Baker Tilly International limited. The information provided here is of a general nature and is not intended to address the specific circumstances of any individual or entity. In specific circumstances, the services of a professional should be sought. © 2024 Baker Tilly Advisory Group, LP

Appendix A: Audit Methodology

- Assessed the pertinent laws, policies, and guidelines related to Procurement including the City's Purchasing Manual and City of Palo Alto Municipal Code
- Interviewed the City Employees to understand the roles and responsibilities, processes, and controls related to Procurement activities.
- Selected a sample of contracts during the audit period, FY21 to FY23. Then stratified the population into smaller groupings by contract type. The percentages of counts for each contract type were multiplied by the sample size of 50 to select a representative number of contracts for each contract type for testing. The sample selected ultimately accounted for \$244,409,100.22, or 61% of total contract value.
- Assessed supporting documents for controls performed and approvals for the selected contracts and solicitations.
- Used State and Local Government Procurement” A Practical Guide by National Association of State Procurement Officials (NASPO), California Public Contract Code (PCC), and Auditing Procurement in the Public Sector by the Institute of Internal Auditors (IIA) as best practices.