



City of Phoenix

Mission Statement

To improve the quality of life in Phoenix through efficient delivery of outstanding public services.

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1240068

This report can be made available in alternate format upon request.

Police Department Procurement Process

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Report Highlights

Procurement Process

The Department complied with City procurement policy.

Contract Monitoring

The Department did not have a formalized process to identify when non-contracted vendors exceeded the \$32,000 small-dollar purchase limit.

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Executive Summary

Purpose

Our purpose was to determine if the Police Department (Police) had effective controls in place to ensure contracts for professional services, and goods and services were procured according to City policies and procedures.

Background

Police's Fiscal Management Bureau (Police Fiscal) is responsible for the initial phase in the solicitation process for procuring the Department's contracts for goods and professional services. The City's Finance Department, Central Procurement Division (Central Procurement) supports Police in all its procurements that are over \$32,000. The City records and tracks its contracts and spending through the Supplier Relationship Management (SRM) module of the City's financial management application, SAP.

Procurement standards are outlined in *Phoenix City Code Chapter 43 - Procurement and Administrative Regulation (AR) 3.10 - General Procurement Procedures*. The standards define procurement types, dollar thresholds, and staff responsibilities. We evaluated Police's procurements and contract monitoring to ensure compliance with City policies.

Results in Brief

Police procured contracts in accordance with City policy.

We reviewed a sample of 11 contracts that were awarded for Police. We examined the procurement type based on dollar value and confirmed the required documents and approvals were present for each of the contracts we reviewed.

Police did not have a formalized process to identify when non-contracted vendors exceeded the \$32,000 small-dollar purchase limit.

We reviewed 15 vendors that Police used to purchase non-contracted items or services that exceeded the \$32,000 small-dollar purchase threshold. When a vendor exceeds the \$32,000 threshold, staff should create a formal contract with the vendor. During our testing, we verified that 11 of the vendors had approved contracts or an approved Pay Ordinance with the City. The remaining four vendors did not have a contract or an approved Pay Ordinance. We provided the testing results to Police Fiscal, and they were not aware that the vendors had exceeded the threshold. Police Fiscal relies on staff to independently identify if a non-contracted vendor exceeds the purchase limit.

Department Responses to Recommendations

<p>Rec. #1.1: <u>Police Department</u> - Update the small-dollar threshold limit on all internal documents, including procedures, flow charts, and all training materials.</p>	
<p>Response: The below documents have been updated.</p> <p>All procedures After the fact DM Special Circumstance without competition DM Scope of Work form Threshold & determination definitions</p>	<p><u>Target Date:</u> Completed</p>
<p>Rec. #1.2: <u>Finance Department</u> - Update the small-dollar threshold limit on all internal documents, including procedures, flow charts, and all training materials.</p>	
<p>Response: Finance updated small-dollar threshold limit on all internal documents and training materials. In addition, Finance updated A.R. 3.10, and the revision request was submitted through the proper A.R revisions procedures.</p>	<p><u>Target Date:</u> Completed</p>
<p>Rec. #2.1: <u>Police Department</u> - Develop procedures to semi-annually review non-contract spending to detect any vendor that is close to exceeding the small-dollar threshold. Create formal contracts as needed.</p>	
<p>Response: Response: Police was unaware of a report to distinguish contracted spending vs non-contracted spending. We reached out to Finance Procurement to tell us if there is a report that can do this. They were able to provide a small training. We will create procedures and will start doing this twice a year.</p>	<p><u>Target Date:</u> 7/25/2024</p>
<p>Rec. #2.2: <u>Police Department</u> - Review the four vendors identified in testing that had exceeded the small-dollar threshold, determine if contracts should be obtained, and initiate the contract process as necessary.</p>	
<p>Response: Police ran a spending analysis report on Petsmart, BH Foto, Patriot Printing, and Talx. Purchases made by Police exceed the small dollar purchase. Staff will work on reaching out to the vendors and looking into the option of pursuing a contract. Police will follow up once we hear back from the vendors. Police will have to find out who will be the subject matter expert to process the paperwork for a contract and will have to reach out to the vendors to find out if they are interested in pursuing a contract.</p>	<p><u>Target Date:</u> 8/25/2024</p>

1 – Procurement Process

Background

At the start of each year, Police Fiscal collects procurement requests from the Department’s precincts and bureaus for the two upcoming fiscal years. These requests are recorded in their Master Tracker worksheet and prioritized based on the contract or one-time purchase deadline. Police receives full support from the Finance Department’s Central Procurement, which means Police Fiscal is authorized to perform small-dollar purchases and manage its contracts. For all other procurement activities, Central Procurement assumes responsibility to solicit and finalize contracts. Both Central Procurement and Police Fiscal estimate that it can take nine months to complete the procurement process.

Contract procurement includes, but is not limited to, selecting the correct procurement type, and ensuring that documentation and processes are in accordance with City policy. Police Fiscal collaborates closely with Central Procurement to ensure each request is seamlessly planned, procured, and awarded.

Upon receiving a procurement request from a precinct or bureau, Police Fiscal staff analyze the request to determine the funding source and provide the necessary procurement documents to the requestor. After verifying the documents are complete, Police Fiscal staff forwards the solicitation paperwork to Central Procurement for processing. Contract procurement threshold are defined in A.R 3.10:

A.R 3.10 Procurement Threshold Dollar Amounts

Procurement Type	Amount	Approval
Petty Cash	Up to \$100	Assigned Department Staff
Small-Dollar Purchase	\$101 - \$32,000	Assigned Department Staff
Informal Procurement	\$32,001 - \$100,000	Department Director
Formal Procurement	\$100,000 and above	City Council

All purchases \$100,000 and above must be done through a formal procurement.

In Fiscal Year (FY) 2024, Police had \$244M in active contracts that were established through a formal solicitation process. We reviewed solicitation requests and awarded contracts between July 2022 and January 2024 to verify Police followed City procurement policies and that the procurements were conducted in a timely manner.

Results

Police procured contracts in accordance with City policy; however, internal documents for small-dollar purchase limits were not correct.

We selected 11 awarded contracts for testing from Police's Procurement Plan to ensure contracts were properly awarded based on the dollar amount. One solicitation only received one bid and that vendor was awarded the contract. Five contracts were awarded a contract based on special circumstance with the appropriate determination memo and Scope of Work. Four contracts were awarded through a panel evaluation, and one was completed as a Request for Quote. All awarded contracts had a Certificate of Insurance in SRM along with a corresponding Pay Ordinance, and proper approval. We reviewed the documents and verified that solicitations were completed in accordance with Chapter 43 and AR 3.10.

In May 2017, City Council approved the small-dollar purchase threshold to be increased from \$8,600 to \$32,000. However, Central Procurement and Police Fiscal's Standard Operating Procedures and procurement flowcharts for small-dollar purchases did not reflect the increased limit. In addition, inaccurate information was also reflected on Finance's intranet site. This information could cause confusion for departments seeking guidance on the procurement process. Finance and Police Fiscal acknowledged that their internal documents and intranet site needed to be updated. While the dollar amounts had not been updated in documentation, in practice, Police Fiscal and Central Procurement followed the new threshold limits.

Police Fiscal and Central Procurement only met target deadlines on 19% of the tested solicitations; however, increase in staffing and the City's new procurement system should enhance the timeliness of procurements.

Police Fiscal and Central Procurement ask that procurements for new contracts are requested two years in advance of the contract target deadline. This allows adequate time to ensure that funding is available, and that all documents can be processed by the target due date. Police Fiscal and Central Procurement estimate that the procurement process averages nine months to complete.

To determine if there were delays in the procurement process and if reasonable measures were taken to address inefficiencies in the process, we reviewed 19 of the 199 solicitations from the 2022 - 2024 Procurement Plan. Of the 19 in our sample, 16 solicitations were completed and three were still in process. It took an average of 11 months to complete a solicitation. Out of the 16 completed solicitations only three (19%) were finalized by the requested due date. During our review of the Procurement Plan history, we documented delays in the process for the following reasons:

- Police delayed submitting updated documents to Central Procurement in 13 of the solicitations.
- Two vendors had current contracts that were extended during the new solicitation process.
- Vendors caused the delay in three solicitations.

- There were no delays noted in one (6 months from start to finish).

Central Procurement advised that in general delays could be attributed to the shortage of staffing and residual delays from the pandemic. The 2022 – 2024 Procurement Plan was developed from requests generated during 2020. In addition, Central Procurement staff stated that contract requests on the 2024 - 2026 Procurement Plan are averaging six months to completion. Central Procurement staff indicated that they have increased staff and that the new procurement site (OpenGov), which went live in August 2023, will mitigate delays in obtaining corrected or updated documents from the requestor, vendor, and Police Fiscal.

Internal controls were in place to ensure contracts are uploaded to SRM correctly.

The last step in the procurement process is the Award phase. The purchase amount determines what documents must be submitted and uploaded into SAP and SRM. These documents could include purchase orders for small-dollar purchases, contracts, ordinances, amendments (if applicable), City Council approval, and approved catalogs with prices. Once the documents are uploaded to SAP and SRM, Central Procurement will release the contract for use.

To verify the information entered in SRM and SAP was accurate, we judgmentally selected 15 out of 114 contracts from the Police Department's Contract Status and Utilization report for testing. We reviewed vendor information, contracts, amendments (if applicable), City Council meeting agendas, and ordinances. Testing verified that all 15 contracts matched the information in SAP/SRM and prices were accurately reflected in the catalogs.

Recommendations

- 1.1 Police Department - Update the small-dollar threshold limit on all internal documents, including procedures, flow charts, and all training materials.
- 1.2 Finance Department - Update the small-dollar threshold limit on all internal documents, including intranet site, procedures, flow charts, and all training materials.

2 – Contract Monitoring

Background

Phoenix City Code Chapter 43 – Procurement, and Administrative Regulation (AR) 3.10 – General Procurement Procedures, define how departments should procure goods and services. To ensure compliance with the City policies, Finance developed operating procedures for all procurement activities including post award transitions. These procedures ensure that departments procure the goods and/or services outlined in the contract.

Since a contract can take nine months to finalize, the City authorizes departments to make purchases off contract that do not exceed the small-dollar threshold of \$32,000. Prior to approving an item that meets the small-dollar criteria, departments must determine if a current vendor can supply the item. If it is determined that there is not a current vendor, the departments are required to obtain three price quotes, and author a justification memo for the purchase. Once these documents are submitted and approved, the department can move forward on the requested purchase.

The Police Department downloads contract and utilization information from SRM into a spreadsheet, which staff then uses to monitor the spending on each contract. In FY24, the Department had 114 active contracts on the report. We interviewed Police Fiscal staff on contract monitoring procedures to verify that purchases were procured and monitored according to City policy and that invoiced amounts were correct. We also evaluated off contract purchases to determine if there were any non-contract purchases that exceeded the small-dollar threshold.

Results

Police Fiscal did not have a formalized process to identify when non-contracted vendors exceeded the \$32,000 small-dollar purchase limit.

In FY23, Police spent \$2.5M on non-contracted goods and services. To ensure that Police Fiscal was adhering to AR 3.10 and obtaining contracts when required, we obtained the Contract versus Non-Contract report in SRM from July 1, 2022 through June 30, 2023. We tested all 15 vendors that Police used to purchase non-contracted items or services that exceeded the \$32,000 small-dollar threshold. During our testing, we verified that 11 of the vendors had approved contracts or there was an approved Pay Ordinance with the City. For the remaining four vendors, we reviewed the purchases to determine if the Department was splitting large purchases to avoid the solicitation process. Police Fiscal approved purchases of four non-contracted vendors surpassing the small-dollar threshold.

Small-Dollar Purchase Limit Exceptions

Dollar Amount Spent	Number of Purchases
\$33,520	5
\$35,888	13
\$36,241	22
\$44,110	21

Four vendors exceeded the \$32,000 small-dollar purchase limit, with an average overspend of \$37,440.

There were two vendors that had more than 20 separate purchases and one that exceeded the \$32,000 limit by \$12,000. Police Fiscal staff explained that as personnel review invoices for payment, they should be identifying if the vendor has had multiple purchases. Staff should then run a Spend Down report in SRM to determine if the vendor is close to exceeding the \$32,000 small-dollar limit. If the report identifies that the amount spent with a vendor is about to exceed the threshold, then Police Fiscal would recommend a formal contract process for that vendor. Police Fiscal relied on staff to independently identify variances and did not have a formalized process for staff to utilize SRM reports which would identify when non-contracted vendors exceeded the small-dollar limit. We provided Police Fiscal with testing results for further evaluation.

Tested invoices complied with contract requirements.

The SRM system enforces a three-part verification process known as logistical invoice verification. This process ensures that purchase orders, goods receipts, and invoices entered in SRM by Police Fiscal personnel accurately reflect the contract terms. If these three items do not match, the invoice will not be processed by Central Procurement until the error has been corrected.

We selected ten Police vendors from Police’s Contract Status and Utilization spreadsheet to determine if invoices were compliant with contract terms. For each of the sampled vendors, we reviewed the name, address, vendor number, and price. We verified that the information listed in the contract was accurately reflected in SRM and on the invoice. No exceptions were noted.

Recommendations

- 2.1 Police Department - Develop procedures to semi-annually review non-contract spending to detect any vendor that is close to exceeding the small-dollar threshold. Create formal contracts as needed.

- 2.2 Police Department - Review the four vendors identified in testing that had exceeded the small-dollar threshold, determine if contracts should be obtained, and initiate the contract process as necessary.

Scope, Methods, and Standards

Scope

Police Procurements that occurred July 2022 through June 2023. In addition, Central Procurement's 2022–2024 and 2024–2026 Procurement Plans.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Environment
 - Management should evaluate performance and hold individuals accountable for their internal control responsibilities.
- Control Activities
 - Management should design control activities to achieve objectives and respond to risks.
- Monitoring Activities
 - Management should remediate identified internal control deficiencies on a timely basis.

Methods

We used the following methods to complete this audit:

- We reviewed City and department procurement policies.
- We interviewed Police Fiscal and Finance staff.
- We reviewed SAP and SRM contract information, including MDM catalog pricing, invoices, and contract utilization.
- We evaluated purchase order transactions and invoices.
- We reviewed contract monitoring and compliance.
- We reviewed solicitation and bid documentation.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

The SAP and SRM data used in testing for this audit was previously determined to be reliable through an independent audit review. We assessed the reliability that the data retrieved from SAP and SRM reflected the information received from Finance by

performing testing to compare the information provided to the reports in SAP. We determined that this data was sufficiently reliable for the purpose of this audit.

Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.