



# REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

## AUDIT OF THE DEPARTMENT OF FINANCE, PURCHASING DIVISION - REQUEST FOR PROPOSAL (RFP) PROCESS

### INTERNAL AUDIT REPORT (IAR) 050219-07

December 13, 2019

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<b>Report Highlights</b>	<b>Page(s)</b>
• Files reviewed were inconsistent for the RFP Process	7
• Ensure the award letter reflects the process	10
• Implement vendor performance evaluations	11



The Council  
City of Shreveport

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December 13, 2019

Councilman Jerry Bowman, Jr.  
Chairman, Shreveport City Council

Dear Councilman Bowman, Jr.:

Subject: IAR 050219-07 – Audit of the Department of Finance, Purchasing Division – Request for Proposal (RFP) Process

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Steward, CPA, CIA  
City Internal Auditor

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## EXECUTIVE SUMMARY

### AUDIT OF THE DEPARTMENT OF FINANCE, PURCHASING DIVISION – REQUEST FOR PROPOSAL (RFP) PROCESS INTERNAL AUDIT REPORT (IAR) 050219-07

#### Why We Did This Audit

We have completed an audit of the Purchasing Division. This audit was conducted as one of our regularly scheduled audits included in the Annual Audit Plan developed by the City Internal Auditor. Our objectives were to review the effectiveness and efficiency of the internal controls over Purchasing's RFP process and determine if the RFP process complies with policies and procedures, and state regulations.

#### What We Recommended

To improve efficiency and effectiveness, we recommend Purchasing:

- Automate files.
- Update office standard operations procedures and include uniform filing procedures for RFP files.
- Incorporate in the City of Shreveport Purchasing Regulations and Procedures Manual as to what and where documents should be uploaded in the city financial system.
- Update the award letter to reflect the process.
- Implement a Vendor Evaluation Form.

#### Performance Audit: Finance, Purchasing Division-Request for Proposal (RFP) Process

##### What We Found

The Purchasing Division of the Finance Department is the City's centralized procurement operation; and is responsible for providing competitive bidding, assisting city departments with solicitations and contracts, setting standards for procurement, and ensuring that all purchases comply with applicable laws, regulations and procedures and overall record keeping.

The Purchasing Division is also responsible for preparing the solicitation for the RFP process. Eighteen RFPs were awarded between 2017-2018.

We found the methods of the RFP process are adequate. However, the Purchasing Division could improve its processes and procedures. Throughout the audit, we have identified the following regarding the RFP process:

- **Standard operation procedures are outdated. There is an absence of filing procedures.**
- **RFP documentation is inconsistent.**
- **Hard-copy files and files uploaded by various departments to the city financial system are inconsistent.**
- **Some award letters sent to the various winning offerors did not reflect the process.**
- **Performance evaluations for vendors are not implemented after a contract is completed.**

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## Introduction

The Finance Department Purchasing Division is the centralized procurement operation for the City; and is responsible for maintaining vendor information, providing competitive bidding, assisting departments with solicitations and contracts, establishing procurement standards, and ensuring that all purchases comply with applicable laws, regulations and procedures and overall record keeping. The Purchasing Division operates under Chapter 26 of the Code of Ordinances.<sup>1</sup> Included in the chapter is the adoption of state procurement code R.S. 39:1551 through 39:2319. The City Purchasing Agent must also maintain the City Purchasing Manual.<sup>2</sup>

Depending on the cost of services or materials needed there are various solicitation methods that the City can use to procure; such as Invitation for Bid(IFB), Request for Quotation (RFQ), Request for Statement of Qualification (RFS), and Requisitions. For this audit, we focused on the Request for Proposal (RFP) solicitation method. An RFP is a solicitation method used to seek competitive sealed proposals for goods or services and cost is not the only evaluation factor. The contract is awarded to the most responsive and advantageous offeror. According to the City Purchasing Manual, the RFP method is used for practical services (e.g., consulting, social services, etc.) and when the dollar threshold is greater than \$25,000. See below a general overview of the process:

### Request for Proposal Process



Eighteen RFPs were awarded between 2017-2018 by the City. The total for awarded contracts through the RFP process based on the original amount in the city financial system was approximately \$7.5 million.

The objectives of this audit were:

- To review the effectiveness and efficiency of the internal controls over purchasing's RFP process
- To determine that the purchasing RFP process complies with policies and procedures, and state regulations

<sup>1</sup> < Auditor's note> City of Shreveport Code of Ordinances, Article VII Purchases, in Chapter 26 Finance, was repealed and replaced according to Ordinance No. 27 of 2019.

<sup>2</sup> < Auditor's note> At the time of this audit we found the purchasing manual needed to be updated/rewritten; however, during the audit Ordinance No. 27 of 2019 was issued stating that the City of Shreveport Purchasing Regulations and Procedures Manual needs to be updated, therefore, we did not include it as a finding.



**Recommendation Evaluation Risk Criteria**

This report contains three findings with six recommendations. The chart below summarizes our evaluation of risk for the recommendations outlined in the report. Each recommendation was assessed a high, medium, or low risk level based on a qualitative assessment of exposure and/or corrective action priority.

Risk Levels	Recommendations
<p style="text-align: center;"><b>High Risk</b></p> <p>Represents a <b>significant</b> level of risk exposure to city assets, public safety, or achievement of objectives or mission. Corrective action should have the highest priority.</p>	<p><b>None</b></p>
<p style="text-align: center;"><b>Medium Risk</b></p> <p>Represents a <b>moderate</b> level of risk exposure to the city from extensive operating inefficiencies or high-level non-compliance issues. Corrective action should occur expeditiously.</p>	<ul style="list-style-type: none"> <li>➤ Ensuring all contracts are entered in the city financial system by initiating departments. <b>(Finding: Improve Documentation and Processes)</b></li> <li>➤ Contacting the Information Technology Department to determine: If an alert can be setup in the city financial system or a report can be generated for expiring contracts. <b>(Finding: Improve Documentation and Processes)</b></li> </ul>
<p style="text-align: center;"><b>Low Risk</b></p> <p>Represents a <b>minimal</b> level of risk exposure to the city from inefficiencies or low-level non-compliance issues. Corrective action should occur as appropriate.</p>	<ul style="list-style-type: none"> <li>➤ Automating hard-copy files and ensuring files are complete and consistent. Moreover, creating standardized office and documented procedures. <b>(Finding: Improve Documentation and Processes)</b></li> <li>➤ Including in the City of Shreveport Purchasing Regulations and Procedures Manual written standardized procedures as to what and where items should be uploaded in the city financial system. <b>(Finding: Improve Documentation and Processes)</b></li> <li>➤ Updating the award letter to reflect the process. <b>(Finding: Ensure the Award Letter reflects the Process)</b></li> <li>➤ Creating an evaluation vendor performance template for the RFP process and include it in the City of Shreveport Purchasing Regulations and Procedures Manual. <b>(Finding: Evaluation of Vendor Performance)</b></li> </ul>



### **Scope and Methodology**

The scope of this audit was limited to the Purchasing Division's RFP Process. The period reviewed was January 2017 – December 2018. To answer our objectives, we reviewed relevant internal controls and developed audit procedures that included but were not limited to the following:

- Interviewing Purchasing Division staff to enhance understanding of processes
- Reviewing City Ordinances and State regulations
- Reviewing and performing test work on files and any other applicable documentation

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, conclusions, and recommendations based on our audit objectives.

***The Internal Audit Office expresses appreciation to the management and personnel of the Finance Department, Purchasing Division for their cooperation and assistance provided during the audit.***





# **FINDINGS AND RECOMMENDATIONS**



**Objective: To review the effectiveness and efficiency of the internal controls over Purchasing's RFP process.**

### Improve Documentation and Processes

"The director of Finance shall require the purchasing agent and such other personnel as necessary to keep records identifying the businesses with which the city contracts for purchases, services and construction."<sup>3</sup> In our review of the RFP process, we found that RFP files are not electronic and the hard-copy files were inconsistent; documentation, such as the conflict of interest form supporting the process, was included in one file but was not included in another file. In addition, standard office operating procedures are outdated.

We found that there is redundancy with approving the contract. The contract routing form and contract are routed manually for signatures and approvals; however, the contract is also approved electronically through the city financial system.

Policies and good record keeping are essential because they help enhance efficiency and productivity. Therefore, we recommend the following:

**Recommendation 1:** Management should automate the files, update their standard office operations, and include filing procedures, so that hard-copy documents are filed consistently. In addition, we recommend developing a process to eliminate the contract routing form so that all approvals and signatures are managed electronically.

#### Management Response

**Recommendation 1:** Agreed. Filing procedures are included in the planned Standard Operating Procedures updates following the GFOA Review, and will include a bid opening checklist. The City's IT Department is working to develop a digital signature process.

**Due Date:** In Progress

<sup>3</sup> Source: City Ordinance Sec. 26-218. - Contract record keeping



**Files uploaded to the City Financial System**

City departments are responsible for entering contracts, entering purchase orders (PO), uploading files to the city financial system and linking the contract to the PO. The departments are also responsible for notifying the Purchasing Division within 90 days before a contract expires. We found the following issues in reviewing the 2017-2018 files uploaded to the city financial system:

- Inconsistency of the files uploaded to the system by various departments (e.g., some uploads included the RFP, others did not)
- Four (4) out of the 18 contracts reviewed were not linked to the PO
- One contract expired (*RFP 17-816 - Sanitary Sewer Assessment*)
- One contract was not entered into the city financial system by the previous Executive Office (*RFP 17-805 - COS Recycling Service*)
- City Financial System does not have an area to select the solicitation method that was used to acquire the contract

We found there are no written standardized documentation procedures as to what documents should be uploaded and where in the city financial system. Also, there is nothing in the city financial system to alert the department head or the Purchasing Division that a contract is about to expire (*e.g., for review, to renew, or to issue a new RFP*). In addition, there is not a mandatory field to select what type of solicitation method is used for contracts, such as RFP or IFB or RFS. We found that some departments noted it in the title description (*e.g., Ground Maintenance for City Cemeteries RFP18-819*). However, as a result, it is difficult to search or generate a report for contracts only specific to a solicitation method. Therefore, we recommend the following:

**Recommendation 2:** Incorporating in the City of Shreveport Purchasing Regulations and Procedures Manual, written standardized uploading documentation procedures as to what and where specific files should be uploaded in the city financial system (*e.g., RFPs uploaded to the contract portion only*). We also recommend purchasing to review the files before approving the contract to ensure that the required documents uploaded by the department are correct. Purchasing should also verify that the PO is linked to the contract before approving.

**Recommendation 3:** Purchasing should ensure all contracts are entered in the city financial system, and it is recommended that the Executive Office enter all their departmental contracts into the system to help track expenses.

**Recommendation 4:** Contacting the Information Technology Department to determine:

- If an alert can be set in the city financial system or a report can be generated for expiring contracts to prompt a review, renew, or to issue a new RFP and,



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- If a field can be added or changed in the city financial system for a user to select the type of solicitation method that was used to obtain the contract (e.g., RFP/IFB/Requisition).

**Management Response**

**Recommendation 2:** Agreed. The recommended processes will be included in the Purchasing Manual and Standard Operating Procedures planned updates, following the GFOA Review.

**Due Date:**

**Recommendation 3:** The recommended processes will be included in the Purchasing Manual planned updates, following the GFOA Review. All contracts are being uploaded in the Executive Office. The Recycle Contract was uploaded when the current administration was made aware that it was not uploaded in 2017.

**Due Date:**

**Recommendation 4:** IT confirmed there is no field in the financial system to address this recommendation and that a script can be written to generate reports from the system. A service request has been submitted (at the time of this email, this is pending because of the staff member who handles this is on leave).

**Due Date:**





**Objective: Determine if the RFP process complies with Purchasing’s policies and procedures, and state regulations.**

**Ensure the Award Letter reflects the Process**

“Request for Proposals (RFP) awards shall be made to the responsible and responsive offeror whose proposal is determined, in writing, to be the **most advantageous** to the City.”<sup>4</sup> The buyers prepare the award letters that are issued to the winning offeror. We noticed that the award letter sent did not comply with the City Purchasing Manual, as a result:

- Five (5) out of the 18 RFPs reviewed contained the following language to the winning vendor “This is your official notification that your firm submitted the apparent **lowest responsive** proposal for RFP #18-xxx,”<sup>5</sup>
- Two (2) out of the 18 RFPs reviewed did not include an award letter in the hard-copy file.

According to the city purchasing manual (4.1 page five) for RFP solicitation, when practical, for a service exceeding \$25k, a PO in the city financial system and a written contract entered in Contracts are required. We found that the award letters sent stated, “A contract will not be awarded until a written purchase order is issued by the City of Shreveport.” Purchasing stated it is not always guaranteed a written contract will be issued and a purchase order (PO) may be issued as a contract based on the PO general terms and conditions and terms of the RFP.

**Recommendation 5:** Ensure that the letter complies with the City of Shreveport Purchasing Regulations and Procedures Manual before sending. In addition, for clarity, we recommend changing the language of the award letter and updating the city purchasing manual (4.1 page five) since a written contract is not always required.

**Management Response**

**Recommendation 5:** Agreed. The recommended processes will be included in the Purchasing Manual and Standard Operating Procedures planned updates, following the GFOA Review.

**Due Date:** In Progress

<sup>4</sup> Source: City of Shreveport Purchasing Regulations and Procedures Manual

<sup>5</sup> < Auditor’s note> The five RFPs reviewed were awarded based on the most advantageous and not the lowest, the template used was incorrect.



## Evaluation of Vendor Performance

The City adopted procurement code R.S. 39:1551 through 39:2319. According to Louisiana State Procurement, Code 39:1569.1 (B) *“After completion of performance under a professional, personal, consulting, or social service contract, the using agency shall prepare a final report on the contract which shall include an evaluation of contract performance and an assessment of the utility of the final product...”* Purchasing does not require departments to submit a formal vendor evaluation to the Purchasing Division. However, best practice recommends monitoring and tracking contract performance. A vendor evaluation is essential because it can help with monitoring and maintaining a record of a vendor’s performance and help reduce the risk of hiring a vendor with past performance failures. To increase management oversight, we recommend:

**Recommendation 6:** Purchasing create a vendor evaluation performance template for the RFP process and incorporate it in the City of Shreveport Purchasing Regulations and Procedures Manual; and require departments to submit the evaluation at the end of the contract to the Purchasing Division; and to communicate with the City Attorney’s Office for assistance regarding Louisiana Code 39:1569.1(contract administration) requirements.

### Management Response

**Recommendation 6:** The recommended processes will be implemented. These will also be included in the Purchasing Manual planned updates, following the GFOA Review.

**Due Date:** In Progress





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Prepared by:

A handwritten signature in black ink, appearing to read "Nadia Dunams".

Nadia Dunams, CIA  
Associate Auditor

Approved by:

A handwritten signature in blue ink, appearing to read "Leanis L. Steward".

Leanis L. Steward, CPA, CIA  
City Internal Auditor

nd:dw

- c: City Council
- Clerk of Council
- Mayor
- Chief Administrative Officer
- Carr Riggs and Ingram
- City Attorney
- Director of Finance