



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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18-11 Colorado Springs Utilities Procurement Audit

April 2018

Purpose

The purpose of this audit was to evaluate compliance with internal policies, as well as, to assess procurement practices for effectiveness and efficiency of operations.

Highlights

Overall, we conclude that goods and services were being acquired in accordance with Colorado Springs Utilities procurement policies and contracting requirements. However, procurement systems need update and improvement. The limitations related to technology significantly constrained efficiency and effectiveness of the procurement function.

We identified areas in which procurement practices needed improvement to increase the efficiency and effectiveness of the function. We identified two observations and five opportunities for improvement.

The Procurement and Contract Services Department, (PCS), reported to the Planning and Finance Division of Colorado Springs Utilities. PCS states that its key objective is to “assist in managing cost while maximizing service and quality. We do this in part by examining and implementing value-added procurement services.”

To accomplish our audit objectives, we obtained an understanding of the internal control structure related to procurement activities. We reviewed contract terms and conditions to confirm compliance with stated requirements.

Our audit included interviews with key personnel and review of 47 contracts for compliance with procurement policies. We reviewed available literature related to procurement processes to identify best practices.

Commendable Practice:

We note that PCS had aligned the department by major category to best support internal customers and to enhance procurement category expertise.

Management Response

Management agreed with our observations. See detailed responses from management on the following pages of this report.

Recommendations

1. Implement a contracts management system to serve as a document repository as well as a reporting tool.
2. Modify procurement policy related to the use of standard forms for non-disclosure agreements. Policy should require that all contracts and related documents be retained in an electronic document repository.

Opportunities for Improvement

1. Modify standard contract templates to include key clauses.
2. Implement a process for logging, tracking, and reporting vendor complaints including final resolution.
3. Inform vendors of the fraud hotline during the purchasing process. The hotline should be referenced in contract clauses and online resources.
4. Increase visibility of spend data by publishing reports to management on a consistent basis, perhaps quarterly.
5. Implement and manage an ongoing vendor performance evaluation program.

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Observation 1

- Utilities did not have a fully functional and integrated contracts database, contracts repository, or contracts writing tool.
- PCS did not have a process to ensure consistency of data between the contracts database, hard copy contracts, and the procurement system.
- A central repository for all contract templates was not available for access by Utilities employees.

Utilities was dependent on hard copies and an outdated contracts database to maintain contracts and related documents including contract exhibits, sourcing files, amendments, change orders, and task orders. A contract writing tool would increase contract consistency and completeness. An electronic document management system was not in place to retain all contract documents. There is risk associated with the inability to maintain contracts in an electronic format if hard copies are not adequately retained. Visibility to the status of contracts was limited by system constraints. As a result, PCS had initiated the use of a renewal tracking spreadsheet to identify active contracts and manage the renewal process.

Management Response

We agree that a more robust and efficient contracts management system is necessary for the organization. Procurement has been engaged with our Information Technology department during 2017 to identify needs and requirements for this new system. Among the identified requirements is that this system will be the electronic (paperless) system of record for all contract and solicitation related records. Additionally, it will store all standard contract clauses and terms and conditions in an electronic library.

Implementation of a new contracts management system is expected to commence in 2018 with the system ready to use by no later than the end of 2019.

Recommendation

Utilities should:

- Implement a contracts writing tool as well as a contracts management system to serve as a document repository and reporting tool.
- Until a contracts management module is implemented, PCS should prepare a periodic reconciliation of procurement data including, for example, contract amounts and effective dates, from all sources to ensure consistency until a systemic solution is implemented.
- Periodically review contract files to ensure compliance with records retention requirements.
- Implement a central repository for all contract templates.

Observation 2

Utilities Procurement Policy states that all contracts must use standard terms and forms unless the PCS Manager or designee determines that an alternative term or form should be used and such contract is “approved as to form” by the City Attorney’s Office. The policy related to non-disclosure agreements states that the use of standard forms is “strongly encouraged”. The retention of all active contracts and related documents in the contract database was not required per procurement policy.

Management Response

We agree that we can revise the policy to mandate the use of standard terms and conditions language in contracts as appropriate. We also agree the procurement policy should be modified to require that all contracts and the related exhibits, sourcing files, amendments, change orders, and task orders be retained in an electronic document repository. These policy changes will be made no later than 12/31/18.

Recommendation

Utilities should:

- Modify policy to note that the use of standard forms for non-disclosure agreements is mandatory, not strongly encouraged, and all modifications require prior approval by the PCS Management and the City Attorney.
- Modify policy to require that all contracts and the related exhibits, sourcing files, amendments, change orders, and task orders be retained in an electronic document repository.

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Opportunity for Improvement 1

Standard contract templates were reviewed for the inclusion of key clauses. We identified the following areas of concern.

- Contracts included a clause stipulating that contractors were to provide information to Utilities as required for a three-year period after payment of last invoice. A three-year right to audit clause may be insufficient.
- The limitation of liability clause included in current contract templates was not included in contracts that were reviewed.

Management Response

We agree that we should conduct a study to determine if the three-year right to audit is meeting industry standards. This study will be completed by no later than 12/31/2018. Currently Utilities includes a limitation of liability clause when appropriate and agreement can be met with vendor on this clause. We agree that we should continue to ensure this clause is used whenever possible to do so.

Recommendation

Utilities should consider:

- Confirming that a three-year right to audit clause is sufficient for access to supplier records.
- Ensuring that current limitation of liability clause is included in contracts that are renewed, if applicable.

Opportunity for Improvement 2

Utilities did not have a formal process to monitor and respond to vendor complaints.

Vendor complaints and inquiries were not documented to review for patterns, trends, and to ensure that they have been adequately addressed in a timely manner. This documentation would also facilitate periodic reviews by management.

Management Response

We agree with this opportunity for improvement. Procurement will develop a formal process plan to report and monitor vendor complaints to present to utilities management by no later than 12/31/19.

Recommendation

PCS should implement a process for logging, tracking, and reporting of vendor complaints including final resolution.

The process could be facilitated via the PCS portal on the Utilities website. Complaints received by phone should also be logged and tracked.

Opportunity for Improvement 3

PCS did not notify vendors of the Office of the City Auditor Fraud Hotline during the procurement process.

The fraud hotline was not mentioned in contract clauses nor was it referenced in vendor outreach activities, such as the annual Local Contractor Workshop.

According to the Journal of Accountancy, fraud hotlines are one of the most effective tools for detecting and preventing fraud. They help enforce codes of conduct that help ensure compliance with standards, laws, and regulations.

Management Response

We agree this is an opportunity for improvement. Procurement will evaluate and incorporate the fraud hotline into our solicitation processes.

Recommendation

Utilities should consider:

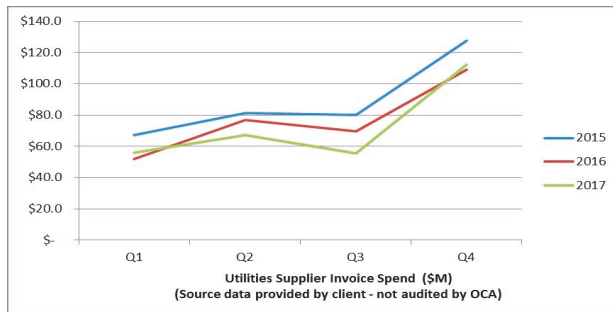
- Including communication related to the fraud hotline in the contract solicitation process and reference the fraud reporting process in contract templates.
- Including the fraud hotline number and a link to the online reporting form in applicable procurement documents, on the PCS portal, and note the reporting requirement during the annual Local Contractor Workshop.

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Opportunity for Improvement 4

PCS did not provide standard reporting of spend data to management. Trend data provided by Utilities indicated that for 2015-2017, approximately one-third of annual spending took place in the fourth quarter.

The Chartered Institute of Purchasing & Supply and the National Institute of Governmental Purchasing published an article stating that "procurement organizations should use spend analysis to leverage buying power, reduce costs, provide better management and oversight of suppliers, and to develop an informed procurement strategy."



Recommendation

Utilities should consider increasing the visibility of spend data by publishing reports to management on a consistent basis, perhaps quarterly.

PCS should consider monitoring supplier spend data on a regular basis. If this historical trend continues, consider performing root cause analysis.

Management Response

We agree with this as an opportunity for improvement. Utilities will develop and increase the visibility of its spend reporting. Procurement will report on the changes identified and implemented to the City Auditors office by no later than 12/31/19.

Opportunity for Improvement 5

Utilities did not have a formal vendor performance management or vendor evaluation process. Vendor performance was not tracked consistently.

Procurement policy required monitoring of performance and providing corrective action on a continual basis. We did not identify vendor performance data in procurement related files in our review.

Management Response

We agree with this opportunity for improvement. Procurement will develop a proposal for tracking and evaluating vendor performance to present to both Planning and Finance management and the City Auditor's office by 12/31/19.

Recommendation

A method for tracking and evaluating vendor performance should be developed.