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Inspector General

OFFICE OF INSPECTOR GENERAL
PALM BEACH COUNTY



Inspector General
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“Enhancing Public Trust in Government”

Redacted

Audit Report

2016-A-0002

**City of Delray Beach
Purchasing**

March 2, 2016



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OFFICE OF INSPECTOR GENERAL PALM BEACH COUNTY

AUDIT REPORT: 2016-A-0002
CITY OF DELRAY BEACH PURCHASING
DATE ISSUED: MARCH 2, 2016



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SUMMARY RESULTS AT A GLANCE

What We Did

We conducted an audit of selected purchasing activities at the City of Delray Beach (City). The audit was performed as part of the Office of Inspector General's (OIG) Annual Audit Plan. This audit was initiated to take a broad look at purchasing controls across the City. We reviewed selected purchasing activities from October 1, 2011 through May 18, 2015.

What We Found

Early in our audit we noted that a City employee (1) was an initial officer and director of a vendor for the City, (2) was the registered agent of the vendor, (3) shared the same address as the vendor, and (4) did not appear to properly disclose his interest in the company to the City. Consequently, we disengaged further review of questionable transactions between the vendor and the City and referred them to our OIG Investigations Division. After conducting an investigation, the Investigations Division referred the matter to the State Attorney's Office.

Between February 17 and 19, 2016, three former City employees were arrested. All three former employees were charged with Organized Scheme to Defraud and Grand Theft over \$100,000 in relation to the City's transactions with the vendor.

The OIG Investigations Division had identified **\$129,485** in questionable transactions and the State Attorney's Office had identified an additional **\$28,654**, for a total of **\$158,139**.

Not including the above mentioned questionable transactions, our audit identified **\$120,630** in questioned costs.¹ Policies, procedures, and controls were generally adequate. However, we identified several areas where controls can be strengthened to improve purchasing activities. Specifically, more attention is necessary to ensure (1) required quotes for purchases are obtained, (2) adequate documentation for Sole Source and City Standard purchases is obtained, (3) purchasing card transactions are monitored for split payments, (4) [REDACTED] is retained, (5) appropriate segregation of duties exist in the City's warehouses, and (6) written policies and procedures exist for store cards and food related purchases.

¹ Questioned costs are costs that are questioned by the OIG because of an alleged violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds, and/or a finding that such costs are not supported by adequate documentation, and/or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable in amount. As such, not all questioned costs are indicative of potential fraud or waste.

Obtaining Required Quotes

The City was not able to provide documentation demonstrating multiple quotes were obtained for 17 (or 27%) of 64 purchases reviewed. Purchases reviewed ranged from \$1,036 to \$13,100 and required three quotes based on the City Ordinance. As a result of not adhering to the Ordinance, we questioned costs of **\$79,064**.

Documentation for Sole Source/City Standard Purchases

Sole Source and City Standard are two non-competitive acquisition methods allowed by City Ordinance. For six purchases totaling **\$16,498**, documentation was either missing or did not provide adequate information justifying why the purchase met the definition of Sole Source or City Standard.

“Split” Purchasing Card Transactions

The City’s Administrative Policies and Procedures Manual for Purchasing Cards prohibits split purchases which occur when a large purchase is broken down into two or more smaller amounts in order to avoid obtaining a purchase order or to circumvent the \$1,000 single purchase limit. We found that 39 individual purchase transactions totaling **\$25,068** appeared to be split purchases.

Surveillance Video

Surveillance [REDACTED] are placed [REDACTED] and the [REDACTED]

This practice is not compliant with Florida’s General Records Schedule GS1-SL, which requires recordings be retained for 30 days.

Segregation of Duties

The Inventory Control Clerk is responsible for the shipment receiving process for the

Central and Utilities Warehouses. His duties include ordering, receiving, and maintaining inventory for both warehouses; thus, key duties were not adequately segregated.

Policies for Store Credit Cards and Food Related Purchases

The City did not have written policies and procedures that address the proper use and control of store credit cards. Also, there was no written guidance on allowable and unallowable purchases of food related items.

Actions Taken

During the course of our audit, and based on its own internal assessment, the City took several actions to improve purchasing activities. For example, the City established a Director of Purchasing position to provide more oversight of the purchasing process. Also, in response to Investigative Report 2014-0005, issued by our office on May 5, 2014, the City performed a review of large dollar purchases and identified 21 purchases that exceeded the threshold requiring City Commission approval. Those procurements were brought to the City Council for retroactive approval. Finally, the City has since centralized the purchasing department and increased staff levels.

What We Recommend

Our report contains 6 findings and 11 recommendations to assist the City in improving controls and ensuring operational compliance with policies and procedures. In its response, the City concurred with all 6 findings and all 11 recommendations. We have included the City’s response in its entirety as Attachment 1.

BACKGROUND

The City of Delray Beach operates under the Commission-Manager form of local government, which combines leadership of elected officials, in the form of a Commission, along with a City Manager. The Mayor, elected every three years, presides over a board of four Commission members who are elected to three-year alternating terms by the community at large. The Commission sets policy, approves legislation, and adopts the annual budget. The City Commission appoints the City Manager and the City Attorney. The City Manager is charged with overseeing the daily business activities of the City and is responsible for the supervision of the City departments and the employees.



The City provides a full range of community services including Public Safety, Parks and Recreation and Public Works, as well as other recreational amenities such as the golf courses, tennis courts, and a tennis stadium.

The City's expenditures were \$135.2 million, \$145.5 million, and \$141.2 million for fiscal years 2012, 2013, and 2014, respectively.



OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether controls over selected purchasing activities were adequate and working effectively to safeguard the City's assets.

The scope of the audit included a review of selected activities from October 1, 2011 to May 18, 2015. Our audit procedures included, but were not limited to:

- Determining if purchasing activity is controlled by adequate and documented policies and procedures;
- Assessing the validity, justification, and authorization of selected purchasing activities including purchase cards, purchase orders, and contracts;
- Reviewing inventory procedures that control the storage and issuance of purchased items;
- Interviewing City personnel in order to gain an understanding of the controls and ascertain operational compliance; and,
- Evaluating compliance with applicable policies and procedures.

This audit was conducted 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.

FINDINGS AND RECOMMENDATIONS

Finding (1): THE CITY DID NOT ALWAYS OBTAIN THREE QUOTES AS REQUIRED BY CITY ORDINANCE

City Ordinance No. 29-13 (Purchasing Ordinance), adopted November 19, 2013, establishes methods and guidelines for the acquisition of goods and services. Section 36.02(B) of the Purchasing Ordinance addresses the Written Quotations Method and states that acquisitions of non-real property, goods or services estimated to be \$10,000 or greater, but less than \$25,000, may be made or entered into by the City Manager without City Commission approval and without a Sealed Competitive Method, provided that three written quotations are obtained from individual sources, except where impracticable. It further states that “written quotations received by the City shall be retained with a copy of the purchase order and pursuant to public records laws.”

Section 36.02(C)(2) of the Purchasing Ordinance addresses the Direct Acquisition Method for purchases over \$2,500 but less than \$10,000. This section states that acquisitions of non-real property, goods or services where the total expenditure by the City “is estimated to be greater than \$2,500 but less than \$10,000 may be made by the Department Head without utilizing a Sealed Competitive Method or the Written Quotations Method, and without City Commission approval, provided that three (3) written quotations shall be obtained and documented by City staff, except when impracticable.”

In addition, Section 36.02(B) of the previous Ordinance, (Ordinance No. 17-00, adopted September 19, 2000), stated that acquisitions from \$1,000 to \$6,000 require solicited bids/quotes, verbally, electronically, or in writing, from at least three different sources unless a piggyback contract is utilized. Section 36.02(C) of the same ordinance required that three (3) written bids/quotes be solicited for purchases between \$6,000 and \$15,000, unless a piggyback contract is utilized.

The City was unable to provide us evidence of 3 quotations for 17 (or 27%) of the 64 transactions selected for review. The 17 purchases, ranging from \$1,036 to \$13,100 and totaling \$79,064, each required at least three bids/quotes based upon the City Ordinances in effect at the time of purchase.

The Purchasing Department did not adequately review purchases to ensure they were in compliance with City Ordinance. By not obtaining three bids/quotes, the City may not have received the most competitive prices. Obtaining three bids/quotes as required would have helped ensure the City received the best value for each dollar spent. As a result of not adhering to the Ordinances, we questioned costs of **\$79,064**.

Recommendations:

We recommend that:

- (1) The Purchasing Department routinely review purchases to ensure three written quotations are obtained as required by Sections 36.02(B) and 36.02(C)(2) of the City's Purchasing Ordinance.
- (2) The City Manager ensures Department Heads adhere to the requirements of Purchasing Ordinance.

Management Response:

City Ordinance 36.02, adopted in November 2013, requires three written quotes for all acquisitions of greater than \$2,500, except for certain narrowly defined exceptions such as *professional services* or *specialty goods and services*. To insure compliance, all procurements that meet this threshold are routed through one of the Buyers in the Purchasing Department before going forward for approval by the appropriate divisional, departmental, City Management or City Commission level of authorization.

Finding (2): PURCHASES IDENTIFIED AS SOLE SOURCE AND CITY STANDARD LACKED PROPER JUSTIFICATION

Section 36.02 of the City's Purchasing Ordinance defines several non-competitive acquisition methods which allow the City to forgo the competitive procurement process under certain circumstances. Sole Source, City Standard, and Emergency Acquisitions are three of those non-competitive methods. Sole Source acquisitions involve non-real property, goods, or services that are available to the City from only one source. City Standard acquisitions are those wherein the City has determined that a particular style, brand, make, or model is the only type that meets the City's requirements for performance, consistency, compatibility, or other salient characteristics; and such determination has resulted in there being one source available to the City. Also, non-competitive Emergency Acquisitions for non-real property, goods, or services may be made in contemplation of, in preparation for, or during an emergency.

The City provided us an electronic report of purchase orders processed during the audit period. We identified 415 purchase orders from this report that were designated as Sole Source purchases and one purchase order that was designated as a City Standard purchase. We selected a sample of 10 purchase orders totaling \$116,290 which included nine Sole Source purchases and one City Standard purchase. Our review of the 10 purchase orders identified six deficiencies as follows:

- Four purchase orders totaling **\$9,098** lacked documentation as to why the goods and services were only available from one source. We researched the items

purchased and concluded that the goods and services were available from more than one source.

- One purchase order for **\$2,220** designated the vendor as a Sole Source; however, a letter from the vendor indicated they were an “authorized dealer.” This purchase does not meet the definition of Sole Source, and as a result, staff should have acquired three competitive quotes.
- One purchase order totaling **\$5,180** was designated as a City Standard purchase. The comment on the purchase requisition revealed the existence of another vendor that supplied the part. Insufficient documentation existed to justify or support this non-competitive procurement method, and staff should have acquired three competitive quotes.

The six purchasing deficiencies totaled **\$16,498**, and are included as questioned costs in this report. The Purchasing Department did not adequately review the above transactions for appropriate supporting documentation justifying the reason for Sole Source and City Standard designations. As a result of not utilizing a competitive procurement method for these purchases, the Purchasing Ordinance was not followed.

Recommendations:

We recommend that:

- (3) All future Sole Source and City Standard purchases be approved by a Department Head with written justification as to why the purchase meets the criteria for Sole Source or City Standard, and be reviewed by the City Manager.**
- (4) Purchasing Staff review all existing Sole Source and City Standard purchases to ensure that they have proper justification and meet the definition prescribed in the Purchasing Ordinance.**
- (5) Guidance and/or training be provided to staff on the definitions of Sole Source and City Standard purchases to help ensure that purchases in these categories are properly justified.**
- (6) Consideration be given to utilizing a standard template to document when non-competitive acquisition methods are used. The form could include a detailed description of the item and the unique features or circumstances that allow for a non-competitive acquisition method.**

Management Response:

City Ordinance section 36.02C(6), adopted in November 2013, defines criteria for *sole source* and *city standard* acquisitions. Recommendations

3 and 4 have been implemented within the framework that requires all acquisitions with value greater than \$2,500 to be routed through one of the Buyers in the Purchasing Department before going forward for approval by the appropriate divisional, departmental, City Management or City Commission level of authorization. If these criteria have not been met, the buyer shifts the procurement path to one of the other methods provided in 36.02. This is supplemented by staff training consistent with recommendation 5.

We have adopted the checklist approach in Recommendation 6 for acquisitions under section 36.02(C)(7) *utilization of other governmental entities' contracts*, with good results. As recommended, we will expand the use of this approach to *sole source* and *city standard* procurements. It is our objective to have this approach fully implemented before July 1, 2016.

Finding (3): SEVERAL PURCHASING CARD (P-CARD) TRANSACTIONS WERE SPLIT INTO MULTIPLE TRANSACTIONS CIRCUMVENTING THE CARDHOLDERS MAXIMUM TRANSACTION LIMIT

The City has a Purchasing Card Program through Bank of America. An authorized cardholder has the ability to either place an order with a vendor or make a point of sale purchase. When a purchase is made at a point of sale, the Bank of America Visa P-Card system validates the transaction against certain pre-set limits. For the audit period, purchases totaled \$2,209,963, representing 14,724 total transactions.

The City's Administrative Policies and Procedures Manual for Purchasing Cards, Section PUR-1.5 "Prohibited Uses of Purchasing Cards", dated November 1, 2008, defines a split purchase as, "when a large purchase is broken down into two or more smaller amounts in order to avoid getting a purchase order or to circumvent the \$1,000 single purchase limit." The manual states that "split purchases are prohibited for goods or services... This will be considered abuse of the purchasing card program and can result in suspension or cancellation of card and/or disciplinary action."

We judgmentally selected and reviewed 34 vendor purchases representing 77 individual P-Card transactions made by 23 employees. We reviewed the supporting documentation for those individual transactions and identified 39 transactions, totaling \$25,068, which appeared to be split purchases. For example, two transactions to the same vendor totaling \$1,065.90 were made on November 25, 2013. One transaction in the amount of \$995.90 was made at 1:34 P.M., and another transaction in the amount of \$70 was made at 1:39 P.M.

The split purchases occurred because the employee cardholders did not adhere to procedures. Additionally, they were not detected because the approving manager did not adequately review and/or question the purchases for compliance with existing purchasing card policies and procedures.

By splitting transactions, the purchasing card users were able to bypass the single transaction limit amount of \$1,000, established by the City's Purchasing Policies. We questioned costs of **\$25,068**.

Recommendation:

- (7) We recommend Management reiterate its purchasing card policies regarding purchase limits to cardholders and approving personnel. The review and approval process, if followed, should identify any exceptions to the policy.

Management Response:

The City will re-train its cardholders and approvers on the Purchasing policy. In addition, beginning in the second quarter of 2015, the Finance team implemented a *new Purchasing Card Inquiry* form to document our review of suspect activity and identify any transactions in violation of the Purchasing policy. Department heads are required to sign the form to indicate their awareness of the suspected violation in their department. The first offense carries a written warning, the second offense is suspension of the credit card for 30 days, and the third offense is permanent revocation of City credit card privileges.

Finding (4): [REDACTED] SURVEILLANCE [REDACTED] [REDACTED] FOR 30 DAYS AS REQUIRED

The City houses both its [REDACTED] inventory and [REDACTED] inventory in the same building, which is located in the [REDACTED]. The [REDACTED] inventory contains items such as work gloves, hard hats, and paper towels; while the [REDACTED] inventory consists of items such as meter boxes, bushings, and hydrant valves. Combined, the two inventories are valued at over \$192,089. [REDACTED]

The Water/Sewer Networks Manager stated that surveillance footage captured on the [REDACTED] is maintained [REDACTED]. We were also informed that the City plans to give all monitoring responsibilities for the surveillance [REDACTED] to the Police Department in the future.

The State of Florida's General Records Schedule GS1-SL for State and Local Government Agencies, Item #302, titled "Surveillance Recordings", requires that surveillance recordings created to monitor activities occurring inside/outside public buildings and/or property are to be retained for 30 days. The Water/ Sewer Networks

Manager indicated he was not aware of the requirement to retain surveillance footage for a 30 day period.

Recommendation:

- (8) We recommend Management review the State of Florida's General Records Schedule with appropriate staff and ensure that surveillance footage is retained for the required period of time.**

Management Response:

The City [REDACTED] retention for the required minimum 30 days. In addition, responsibility for the [REDACTED] operation has recently been moved to the Purchasing Department. The Chief Purchasing Officer is currently reviewing and making recommendations for standard policies and procedures. The retention of these records is a part of that review which will take into consideration the State of Florida's General Records Schedule.

Finding (5): DUTIES WERE NOT ADEQUATELY SEGREGATED IN CITY WAREHOUSES

There was only one employee responsible for the Central and Utilities Warehouses. The Inventory Control Clerk is responsible for the day-to-day activities of both warehouses, including maintaining the inventory. He initiates purchases and obtains quotes, receives goods, enters items into inventory, stocks shelves, and performs inventory counts at each warehouse. As a result, his duties are not adequately segregated.

Segregation of duties is a key concept of internal controls. Critical functions such as initiating and authorizing purchases, receiving and maintaining custody of goods, recordkeeping, and performing reconciliations should be segregated. Segregation of duties is critical to effective internal control as it reduces the risk of both erroneous and inappropriate actions. For example, segregating key functions could reduce the risk of incorrect quantities entered into inventory, and received items not physically placed into inventory or lost.

Recommendation:

- (9) We recommend duties of the Inventory Control Clerk be segregated. If this is not practical due to staffing limitations, then compensating controls should be implemented. For example, a second individual should participate in key functions such as receiving goods and performing**

inventory counts, or periodic supervisory reviews should be performed and documented.

Management Response:

Responsibility for the warehouse operation has recently been moved to the Purchasing Department. The Chief Purchasing Officer is currently reviewing and making recommendations for standard policies and procedures. The CPO is aware of the need for strong internal controls with respect to receiving and inventory and will develop a documented program. We anticipate the new procedures to be developed and implemented by June 2016.

Finding (6): THE CITY DID NOT HAVE WRITTEN POLICIES AND PROCEDURES FOR STORE CREDIT CARDS AND FOOD RELATED PURCHASES

In addition to P-Cards, the City uses Home Depot, Lowe's, and Publix store credit cards along with Costco membership cards for certain purchases. During the audit period, the City spent approximately \$196,770 using these four store credit cards.

During our review of P-Card and store card purchases, we identified three P-Card transactions totaling \$254 which consisted of food purchases for an employee award ceremony and training workshops held by the City. Additionally, we identified four store credit card transactions, totaling \$238, which consisted of coffee and supplies, food for a hurricane exercise, and food for a luncheon during communications week. While these amounts are not significant, we noted there is no written policy that provides guidance on allowable and unallowable expenditures regarding food and refreshments purchased for City employees.

The City's Administrative Policies and Procedures Manual for Purchasing Cards, Section PUR-1.5 Prohibited Uses of Purchasing Cards, prohibit "any purchase that does not serve a public purpose." However, there is no further guidance or specific examples related to the types of purchases that are, or are not, allowable. The lack of guidance increases the risk of inappropriate expenditures that do not serve a public purpose or benefit.

Additionally, the Chief Accounting Officer stated there were no written policies or procedures addressing the use of store credit cards. The issuance and use of store credit cards and membership cards should be a formalized process with written procedures that outline guidance for these types of transactions.

Recommendations:

We recommend that:

- (10) Written policies and procedures be developed for issuance and use of store credit and membership cards. The procedures should include documented approval, review, and monitoring processes to ensure the safeguarding of City assets.**
- (11) Written policies and procedures be developed to provide guidance regarding allowable and unallowable purchases of food and refreshments for City employees. This will help ensure that expenditures are appropriate and for a clear public purpose or benefit.**

Management Response:

The City is eliminating the use of store credit and membership cards. This is an alternative to recommendation 10.

Staff is drafting for City Manager approval a policy to be titled *Eating & Drinking at Public Expense* to provide guidance for the purchase of food and refreshments. Among other controls, this will establish when food or refreshments are for a permissible public purpose.

**SUMMARY OF OTHER POTENTIAL FINANCIAL AND OTHER BENEFITS
IDENTIFIED IN THE AUDIT**

Questioned Costs

Finding	Description	Questioned Costs
1	City Did Not Always Obtain Required Quotes	\$79,064
2	Purchases Identified As Sole Source And City Standard Lacked Proper Justification	\$16,498
3	Purchasing Card Transactions Were Split Into Multiple Transactions	<u>\$25,068</u>
	Total	<u>\$120,630</u>

ATTACHMENT

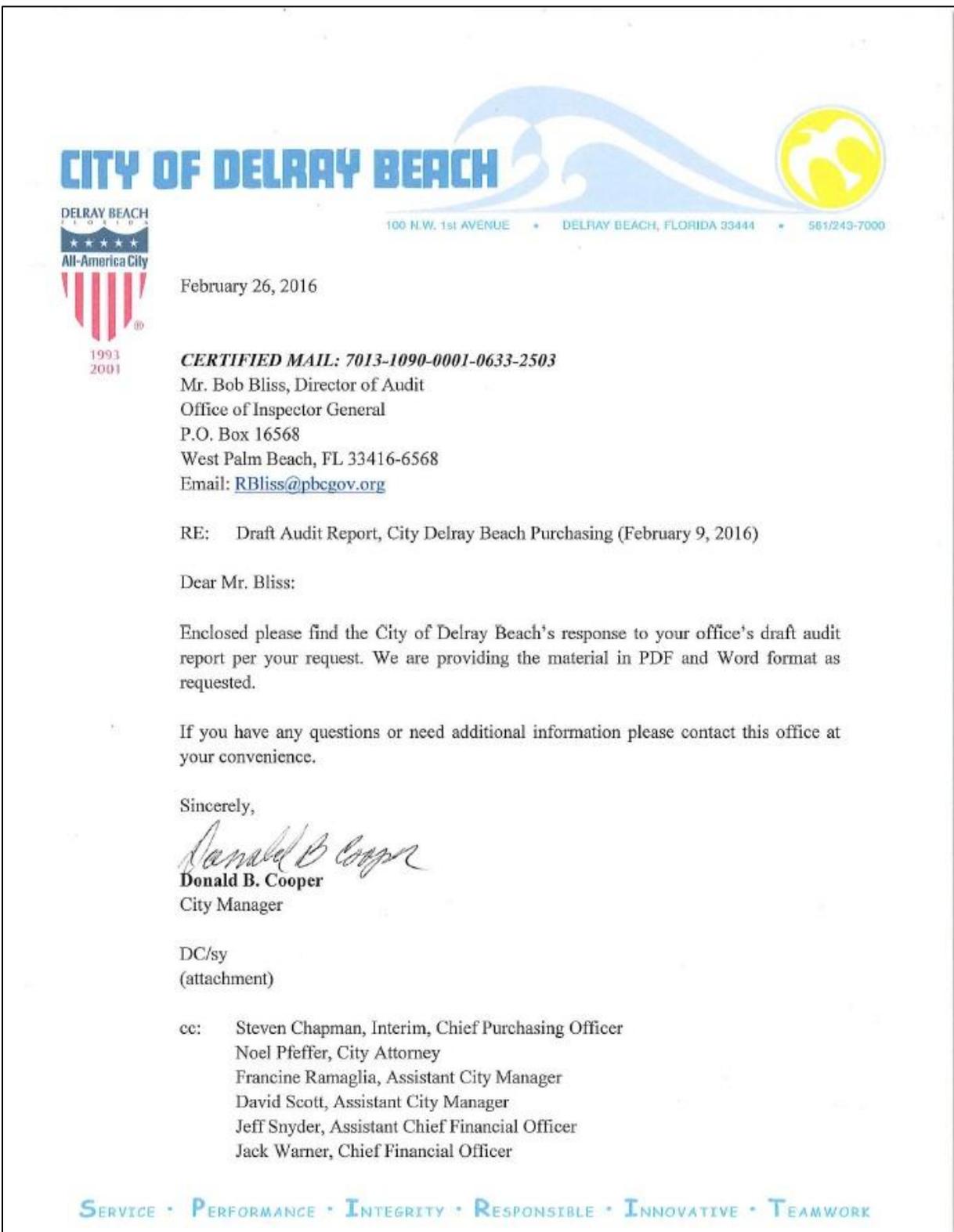
Attachment 1 – Complete Management Response

ACKNOWLEDGEMENT

The Inspector General's audit staff would like to extend our appreciation to the City employees for their assistance in the completion of this audit.

This report is available on the OIG website at: <http://www.pbcgov.com/OIG>. Please address inquiries regarding this report by email at inspector@pbcgov.org or by telephone at (561) 233-2350.

ATTACHMENT 1 – Management Response



ATTACHMENT 1 – Management Response Continued

Response to Office of Inspector General Audit Report 2016-A-xxxx
City of Delray Beach Purchasing

Summary

The City concurs with all six findings and all 11 recommendations. Details of proposed corrective actions and estimated completion dates for each are shown in the *Response to Recommendations* section, below.

Background

Before 2014, the City's purchasing activity was decentralized, with staff responsibility dispersed among the departments. In 2011, the beginning of the period covered by this audit, the Purchasing Division in the Finance Department was staffed by one mid-level manager, whose primary role was production rather than compliance.

In March 2014 the City began to address these deficiencies. A Chief Purchasing Officer position has been created, at the department head level and reporting directly to the City Manager, to provide the proper organizational visibility and stature. Purchasing responsibility and authority (including the warehouse) has been recentralized in the newly constituted Purchasing Department. The department has seven full time employees, who understand that their primary responsibility is to insure compliance with the City's and state's purchasing laws and regulations. In cooperation with the Finance Department, the new CFO has instituted best – practices based processes and procedures to improve financial controls and to minimize the opportunities for purchasing code violations. Business process changes and supporting systems are being installed to support these new processes.

At the beginning of this reform program, we had hoped that an intensive field training program would minimize and eventually eliminate non-compliance caused by human error. Despite good intentions by all, progress was slower than desired. To insure compliance, all purchases greater than \$ 2,500 are now routed through one of the Buyers in the Purchasing Department before going forward for approval by the appropriate divisional, departmental, City Management or City Commission level of authorization.

ATTACHMENT 1 – Management Response Continued

Response to Office of Inspector General Audit Report 2016-A-xxxx
City of Delray Beach Purchasing

Responses to Recommendations

Finding (1): THE CITY DID NOT ALWAYS OBTAIN THREE QUOTES AS REQUIRED BY CITY ORDINANCE

Recommendations:

We recommend:

1. The Purchasing Department routinely review purchases to ensure three written quotations are obtained as required by Sections 36.02(B) and 36.02(C)(2) of the City's Purchasing Ordinance.
2. The City Manager ensures Department Heads adhere to the requirements of Purchasing Ordinance.

Management Response:

City Ordinance 36.02, adopted in November 2013, requires three written quotes for all acquisitions of greater than \$ 2,500, except for certain narrowly defined exceptions such as *professional services* or *specialty goods and services*. To insure compliance, all procurements that meet this threshold are routed through one of the Buyers in the Purchasing Department before going forward for approval by the appropriate divisional, departmental, City Management or City Commission level of authorization.

Finding (2): PURCHASES IDENTIFIED AS SOLE SOURCE AND CITY STANDARD LACKED PROPER JUSTIFICATION

Recommendations:

We recommend:

3. All future Sole Source and City Standard purchases be approved by a Department Head with written justification as to why the purchase meets the criteria for Sole Source or City Standard, and be reviewed by the City Manager.
4. Purchasing Staff review all existing Sole Source and City Standard purchases to ensure that they have proper justification and meet the definition prescribed in the Purchasing Ordinance.
5. Guidance and/or training be provided to staff on the definitions of Sole Source and City Standard purchases to help ensure that purchases in these categories are properly justified.
6. Consideration be given to utilizing a standard template to document when non-competitive acquisition methods are used. The form could include a detailed description of the item and the unique features of circumstances that allow for a non-competitive acquisition method.

ATTACHMENT 1 – Management Response Continued

Response to Office of Inspector General Audit Report 2016-A-xxxx
City of Delray Beach Purchasing

Management Response:

City Ordinance section 36.02C(6), adopted in November 2013, defines criteria for *sole source* and *city standard* acquisitions. Recommendations 3 and 4 have been implemented within the framework that requires all acquisitions with value greater than \$ 2,500 to be routed through one of the Buyers in the Purchasing Department before going forward for approval by the appropriate divisional, departmental, City Management or City Commission level of authorization. If these criteria have not been met, the buyer shifts the procurement path to one of the other methods provided in 36.02. This is supplemented by staff training consistent with recommendation 5.

We have adopted the checklist approach in Recommendation 6 for acquisitions under section 36.02© (7) *utilization of other governmental entities' contracts*, with good results. As recommended, we will expand the use of this approach to *sole source* and *city standard* procurements. It is our objective to have this approach fully implemented before July 1, 2016.

Finding (3): SEVERAL PURCHASING CARD (P-CARD) TRANSACTIONS WERE SPLIT INTO MULTIPLE TRANSACTIONS CIRCUMVENTING THE CARDHOLDERS MAXIMUM TRANSACTION LIMIT

Recommendation:

7. We recommend Management reiterate its purchasing card policies regarding purchase limits to cardholders and approving personnel. The review and approval process, if followed, should identify any exceptions to the policy.

Management Response:

The City will re-train its cardholders and approvers on the Purchasing policy.

In addition, beginning in the second quarter of 2015, the Finance team implemented a *new Purchasing Card Inquiry* form to document our review of suspect activity and identify any transactions in violation of the Purchasing policy. Department heads are required to sign the form to indicate their awareness of the suspected violation in their department. The first offense carries a written warning, the second offense is suspension of the credit card for 30 days, and the third offense is permanent revocation of City credit card privileges.

ATTACHMENT 1 – Management Response Continued

Response to Office of Inspector General Audit Report 2016-A-xxxx
City of Delray Beach Purchasing

Finding (4): [REDACTED] SURVEILLANCE VIDEO RECORDING WERE NOT BEING RETAINED FOR 30 DAYS AS REQUIRED

Recommendation:

8. We recommend Management review the State of Florida's General Records Schedule with appropriate staff and ensure that surveillance footage is retained for the required period of time.

Management Response:

The City [REDACTED] surveillance footage retention for the required minimum 30 days. In addition, responsibility for the [REDACTED] operation has recently been moved to the Purchasing Department. The Chief Purchasing Officer is currently reviewing and making recommendations for standard policies and procedures. The retention of these records is a part of that review which will take into consideration the State of Florida's General Records Schedule.

Finding (5): DUTIES WERE NOT ADEQUATELY SEGREGATED IN THE CITY WAREHOUSES

Recommendation:

9. We recommend duties of the Inventory Control Clerk be segregated. If this is not practical due to staffing limitations, then compensating controls should be implemented. For example, a second individual should participate in key functions such as receiving goods and performing inventory counts, or periodic supervisory reviews should be performed and documented.

Management Response:

10. Responsibility for the warehouse operation has recently been moved to the Purchasing Department. The Chief Purchasing Officer is currently reviewing and making recommendations for standard policies and procedures. The CPO is aware of the need for strong internal controls with respect to receiving and inventory and will develop a documented program. We anticipate the new procedures to be developed and implemented by June 2016.

ATTACHMENT 1 – Management Response Continued

Response to Office of Inspector General Audit Report 2016-A-xxxx
City of Delray Beach Purchasing

Finding (6) THE CITY DID NOT HAVE WRITTEN POLICIES AND PROCEDURES FOR STORE CREDIT CARDS AND FOOD RELATED PURCHASES**Recommendation:**

We recommend:

11. Written policies and procedures be developed for issuance and use of store credit and membership cards. The procedures should include documented approval, review and monitoring processes to ensure safeguarding of City assets.
12. Written policies and procedures be developed to provide guidance regarding allowable and unallowable purchases of food and refreshments for City Employees. This will help ensure expenditures are appropriate and for a clear public purpose or benefit.

Management Response:

The City is eliminating the use of store credit and membership cards. This is an alternative to recommendation 10.

Staff is drafting for City Manager approval a policy to be titled *Eating & Drinking at Public Expense* to provide guidance for the purchase of food and refreshments. Among other controls, this will establish when food or refreshments are for a permissible public purpose.