



REPORT TO COUNCIL City of Sacramento

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STAFF REPORT
November 14, 2006

Honorable Mayor and
Members of the City Council

**Title: Report Back: Internal Audit Report, Bidding and Contract Process
Examination: Department of General Services**

Location/Council District: Citywide

Recommendation: Receive and file information regarding the progress made by the Department of General Services in completing recommendations contained in the City Auditor's internal audit report on the bidding and contract process examination of the Department of General Services dated April 25, 2006.

Contact: Reina J. Schwartz, Director, Department of General Services, 808-7195

Presenter: Reina J. Schwartz, Director, Department of General Services

Department: General Services

Division: Business Operations

Organization No: 3112

Description/Analysis:

Issue: On April 25, 2006 the City Auditor presented to City Council a report on the bidding and contract process examination of the Department of General Services. Immediately following that presentation, the Director of General Services presented a report back to City Council regarding actions already undertaken at that time to improve operational controls in response to the City Auditor's report. This report provides information on additional progress made since April 25, 2006 on the City Auditor's recommendations. All progress comments are in bold typeface in Attachment 1.

Policy Considerations: The Department of General Services is committed to implementing procurement and project management process improvements that will ensure compliance with City Administrative Policy Instructions, and City

Code, as well as support the City's core values of accountability, fairness, and transparency in procurement practices. The department is pursuing on-going discussion to resolve the following citywide issues that arose during the audit process:

- Clarifying whether the need for City Council approval of purchases of \$100,000 or more is determined by vendor, by project, by service received, etc.
- Identifying a single point of contact within the City to provide final interpretation of contracting and procurement guidelines
- Reviewing the requirement for reporting emergency contracts under \$100,000 to City Council
- Establishing allowable overage amounts on purchase orders to eliminate project delays

Committee/Commission Action: Not applicable

Environmental Considerations: The Environmental Services Manager has determined that the report back regarding progress made by the Department of General Services in completing recommendations contained in the City Auditor's internal audit report on the bidding and contract process examination of the Department of General Services dated April 25, 2006 is exempt from the requirements of the California Environmental Quality Act (CEQA), pursuant to Section 15061(b)(3) of the CEQA Guidelines. Exemption 15061(b)(3) consists of an activity covered by the general rule that CEQA applies only to projects, which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA.

Rationale for Recommendation: During the April 25, 2006 Department of General Services report back on the internal audit report, the Director of General Services committed to a follow up report in the fall of 2006 on additional progress made.

Financial Considerations: There are no financial considerations directly associated with this report.

Emerging Small Business Development (ESBD): There are no ESBD considerations associated with this report. Through the third quarter of Fiscal Year 2005/06 the Department of General Services had an ESBD participation of 28% across all projects.

Respectfully Submitted by: Reina J. Schwartz
Reina J. Schwartz
Director, Department of General Services

Recommendation Approved:

Ray Kerridge
for Ray Kerridge
City Manager

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BACKGROUND INFORMATION:

On April 25, 2006 the City Auditor presented to City Council a report on the bidding and contract process examination of the Department of General Services. Immediately following that presentation, the Director of General Services presented a report back to City Council regarding actions already undertaken at that time to improve operational controls in response to the City Auditor's report, and committed to a follow up report back in the fall of 2006.

Attachment 1

Recommendations

Bidding and Contract Processes Examination: The General Services Department and the Office of the City Clerk Report Number 2006-01

The purpose of the FY 2005/06 audit was to evaluate municipal bidding and contract processes. The City's Internal Audit Manager made the following general recommendations related to the Department of General Services:

- 1.0 The Director of the General Services Department or her representatives take action to significantly increase departmental oversight of public projects; and
- 2.0 The Director of the General Services Department or her representatives take action to revise departmental purchasing practices to comply with municipal requirements.

In addition, the Internal Audit Manager made the specific recommendations listed below for the Department of General Services. Status and progress updates, as of October 2006, are shown in bold typeface in the second and third columns.

City Auditor's Recommendations	Action Taken by Management	Estimated Completion Date
1.0 The Director of General Services take the following actions to increase managerial oversight:	The General Services Director actions taken are listed below by recommendation.	Listed below by recommendation.
1.1 Establish written departmental policies and procedures for public projects;	<p>The General Services Director noted that her department is in the process of establishing a comprehensive policy and procedural document.</p> <p>A web based procurement workflow document has been developed to assist staff with procuring supplies and services per City guidelines. Additional work on the policy and procedural document is on-going.</p>	<p>June 2007</p> <p>On track</p>

<p>1.2 Notify the Mayor and City Council of all aggregate purchases of \$100K or greater not approved by the governing body, as required by City Code;</p>	<p>The General Services Director indicated that her department would comply. However, she stated her belief of the need for further clarification on how the aggregate \$100K was calculated, by project, vendor, or by the type of work performed.</p>	<p>September 2006</p> <p>Discussion on-going to clarify. Department will report consistent with agreed upon requirements.</p>
<p>1.3 Request suspension of competitive bidding for the "L" Street Barge, negotiate a contract, and obtain a formal written contract;</p>	<p>The General Services Director noted that her department, with assistance from the City Attorney's Office, was currently negotiating this contract. She further noted that the contract would then be recommended to City Council for approval.</p>	<p>May 2006</p> <p>Completed June 2006</p>
<p>1.4 Obtain all contracts as required for purchases in excess of \$25K, as required by APIs;</p>	<p>The General Services Director concurred.</p>	<p>Completed</p>
<p>1.5 Develop a plan to bring debit card usage in compliance with municipal ordinances;</p>	<p>The General Services Director indicated that her department was in the processes of developing a departmental reference guide for purchase cards.</p> <p>Training, and printed reference material was provided to Facilities and Fleet staff in July 2006. Final reference guide to be completed by December 2006 in conjunction with item 1.1. Individual debit card usage is reviewed monthly by card holders and supervisors during the debit card reconciliation process to ensure debit card usage remains in compliance.</p>	<p>December 2006</p> <p>On track</p>

<p>1.6 Change the organizational structure of project delivery divisions to provide greater managerial oversight;</p>	<p>The General Services Director noted her department was performing a re-engineering process that evaluates internal department checks and balances, examines separation of duties, examines transparency in contracting, and determines the correct mix of job classifications needed for public project delivery.</p> <p>Independent organization assessment of the Facilities division completed in August 2006.</p>	<p>July 2006 July 2007</p> <p>Implementation of classification and organization changes will be considered and brought forward to City Council during the FY07/08 budget process.</p>
<p>1.7 Document critical oversight procedures;</p>	<p>The General Services Director noted that her department would address this process in conjunction with establishing written policies and procedures.</p>	<p>December 2006</p> <p>On track</p>
<p>1.8 Establish a system to organize project records and files;</p>	<p>The General Services Director concurred and noted that her department had centralized all contracting and accounting.</p>	<p>December 2006</p> <p>On track</p>
<p>1.9 Establish procedures to ensure compliance with the City's record retention requirements;</p>	<p>The General Services Director concurred and noted that her department would detail all newly established policies and procedures within a comprehensive manual.</p>	<p>December 2006</p> <p>On track</p>
<p>1.10 Remove project evaluation criteria related to sex, color, ethnicity or national origin for nonfederal projects;</p>	<p>The Director of General Services noted that her department was working with the Finance Department and the City Attorney's Office to review boilerplate contract language.</p> <p>She added that a quick reference guide would be developed for staff.</p>	<p>September 2006 December 2006</p> <p>Changes to boilerplate contract language are under review. Any necessary staff reference materials will be developed in conjunction with item 1.1.</p>

<p>1.11 Discontinue usage of local hiring preferences for project evaluation;</p>	<p>The General Services Director concurred.</p>	<p>Completed</p>
<p>1.12 Establish pre-approved "boilerplate" language for contracts under \$25K;</p>	<p>The Director of General Services indicated that she supported the use of pre-approved boilerplate language that would speed up the contracting process, while still providing adequate oversight.</p> <p>The Director of General Services added that her department would work with the City Attorney Office and Office of the City Clerk on this project.</p> <p>She also expressed interest regarding an on-going review of insurance requirements to assist in improving efficiency and customer service.</p>	<p>October 2006 December 2006</p> <p>Discussion on-going</p>
<p>1.13 Provide employee training on conflict of interest, APIs, City Codes, and applicable requirements; and</p>	<p>The Director of General Services indicated that her department would ensure on-going training in these areas.</p>	<p>Initial Training To be Completed By July 2006</p> <p>Initial training was provided to the Facilities and Fleet Divisions in July 2006. Additional training is on-going.</p>
<p>1.14 Notify the Mayor and City Council of any emergency contracts, as required by City Code (also, refer to recommendation no. 6.0).</p>	<p>The Director of General Services stated interest in:</p> <p>1) Reviewing this requirement given that department directors already have delegated signature authority for contracts under \$100,000, or 2) Making this a standing item at all City Council sessions which present would present all emergency actions in a Citywide staff report.</p>	<p>October 2006</p> <p>Began reporting emergency contracts in July 2006, as recommended. Will continue to report on a quarterly basis.</p>

<p>2.0 The Director of General Services take the following actions to:</p>	<p>The General Services Director actions taken are listed below by recommendation.</p>	<p>Listed below by recommendation.</p>
<p>2.1 Apply procurement requirements for the annual purchases of goods and services based upon APIs and City Code requirements;</p>	<p>The General Services Director concurred.</p>	<p>Completed</p>
<p>2.2 Develop master services lists for commonly used items and services;</p>	<p>The General Services Director noted that her department implemented this process. She added that this process had yielded limited success on large on-call contracts, and more success on smaller contracts.</p>	<p>Completed</p>
<p>2.3 Increase usage of pre-established pricing agreements, and blanket purchase orders, and quantity purchases that take advantage of pricing discounts;</p>	<p>The General Services Director concurred.</p>	<p>Completed</p>
<p>2.4 Monitor vendor payments to ensure compliance with the APIs;</p>	<p>The General Services Director concurred. She added that this process had been implemented and would be expanded to all levels of management on a regular basis.</p>	<p>Completed</p>
<p>2.5 Monitor debit card usage to ensure compliance; and</p>	<p>The Director of General Services concurred.</p>	<p>Completed</p>
<p>2.6 Re-evaluate monthly debit card limits for employees.</p>	<p>The Director of General Services concurred.</p>	<p>Completed</p>