

# Memorandum



CITY OF DALLAS

DATE: March 17, 2006

TO: Honorable Mayor and Members of the City Council

SUBJECT: *Follow-up Audit of the City's Price Agreements; Report dated September 3, 2004*

We conducted this follow-up audit under the authority of Chapter IX of the City Charter and according to applicable government auditing standards. We included tests of records and reviews of program guidelines and procedures that we considered necessary in the circumstances. Our objective was to determine whether management had implemented the audit's recommendations or taken other acceptable actions to remedy the control weaknesses identified in the original audit report.

The original audit contained two findings with eight recommendations. Business Development and Procurement Services (BDPS) partially implemented one recommendation, and had five acceptable alternatives recommendations. Dallas Water Utilities (DWU) had two recommendations which were implemented.

**1. A Price Agreement (PA) was improperly used to purchase equipment and to by-pass competitive bidding. We recommended the BDPS Director:**

- Develop a PA user's guide, independent of Administrative Directive (AD) 4-5, and conduct mandatory (initial and recurring) training. **(Partially Implemented)**

*Management is conducting periodic training and decided that instructions included in AD 4-5 were adequate to use as a PA user's guide.*

- Revise its PA report to include the object code. **(Implemented Acceptable Alternative)**

*BDPS revised its procurement system to eliminate problems where unauthorized purchases are made under general categories. The new system permits only authorized departments to make line by line purchases which have a specific object code, agreed upon price, and the exact item description. As an internal control, changes to the*

*master agreement can only be made by BDPS staff.*

- Develop procedures for review of PA purchases, at least on a sample basis, (invoices and supporting documentation) to ensure that only authorized items are purchased. **(Implemented Acceptable Alternative)**

*Purchases made under the new system are specific and controlled by limiting who is authorized to make the purchase, limiting the user's access to data and giving few options to complete their transactions.*

- Establish a city-wide PA for heavy equipment purchases, unless otherwise prohibited by management. **(Implemented Acceptable Alternative)**

*Currently, Equipment and Building Services (EBS) has the primary contract for purchasing heavy equipment. Other departments may rent equipment, but must go through EBS channels to make a purchase. The amount of the purchase determines whether City Council approval is needed to complete the transaction.*

**We recommended** the DWU Director ensure:

- Compliance with AD 6-1, AD 4-5, and the City Code. **(Implemented)**

*DWU complied with AD 6-1 and AD 4-5 by conducting training classes, reviewing policies, procedures, and standards with its employees. Management reinforced compliance through the use of periodic memorandums and staff meeting.*

- Equipment is reported into the City's fixed asset system and properly tagged as City property. **(Implemented)**

*DWU complied with our recommendations by implementing training in properly using the Advantage 3 procurement system and tagging City equipment.*

**2. BDPS has not published an updated AD 4-5, contracting for Goods and Services (Repeat Finding). We recommended** the BDPS Director:

Publish policy and procedures that clearly communicate management's objectives and requirements for the contracting of goods and services.

- Develop and issue user guide for each type of procurement activity while awaiting approval and publication of an updated AD 4-5. **(Implemented Acceptable Alternative)**

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- Develop separate AD's for each type of procurement activity.  
**(Implemented Acceptable Alternative)**

*BDPS and the City Attorney's Office worked on developing a user's guide and during the process determined that the draft document was cumbersome and huge in quantity. A joint decision was made to use a more streamlined version of the user's guide that was included in AD 4-5. AD 4-5 was approved and signed by Mary Suhm; City Manager, Thomas Perkins; City Attorney, David Cook; Chief Financial Officer, and Mark Duebner; Director of Business Development and Procurement Services on January 6, 2006.*

We appreciate management's cooperation in this follow-up. If you have any questions, please contact me at (214) 670-3223.

*Paul T. Garner*

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Assistant City Auditor

c: Mary K. Suhm, City Manager  
Ramon F. Miguez, Assistant City Manager  
Mark Duebner, Director of BDPS  
Jody M. Puckett, Director of Dallas Water Utilities