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# OFFICE OF THE CITY AUDITOR

## AUDIT OF PRICE AGREEMENTS

**Thomas M. Taylor, CPA  
City Auditor**

**Prepared by:**

Joe R. Saucedo, Jr. CPA, CFE  
Audit Manager

Jing Xiao, CPA  
Auditor

**Report No. 376  
December 20, 2002**

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## Memorandum



CITY OF DALLAS

December 20, 2002

Honorable Mayor and Members of the City Council  
City of Dallas

We have conducted an audit of Price Agreements (PAs) for the eight-month period ending May 31, 2002. This audit was conducted under the authority of Chapter 1X, Section 2 of the Dallas Charter and in accordance with the Annual Audit Plan approved by the City Council.

The authorization, management, and process for PAs are under adequate control and generally met the requirements set by applicable guidelines and policies. There are some areas that, in our opinion, can be enhanced. We discuss these areas in the Opportunities for Improvement section of this report. An issue was reported to the Director of Business Development and Procurement Services in a separate letter dated November 26, 2002.

We appreciate the cooperation of City staff during our examination.

Thomas M. Taylor, CPA  
City Auditor

c: Teodoro J. Benavides, City Manager

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## AUDIT OF PRICE AGREEMENTS

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### CONTENTS

	PAGE
INTRODUCTION	1
Authorization	1
Scope and Methodology	1
Overall Conclusion	2
Background	2
OPPORTUNITIES FOR IMPROVEMENT	4

# INTRODUCTION

## Authorization

We have conducted an audit of Price Agreements (PAs) for the eight-month period ending May 31, 2002. This audit was conducted under the authority of Chapter IX, Section 2 of the Dallas Charter and in accordance with the Annual Audit Plan approved by the City Council.

## Scope and Methodology

Our audit was conducted in accordance with generally accepted government auditing standards and, accordingly, included inquiries, tests of the accounting and related records, and other procedures that we considered necessary in the circumstances.

Our audit objectives were to determine whether:

- Bills and charges for items on PAs were at the appropriate rate.
- Only items covered by the PAs were purchased.

Our audit period covered October 1, 2001, through May 31, 2002. However, we reviewed and tested certain transactions occurring before that period to the extent that those matters pertained to the audit objectives.

We obtained a copy of the Open Price Agreement Report, completed on June 10, 2002, from the Intranet. There were 766 open PAs on this report. 102 of these PAs were authorized for \$1,000,000 or more.

For our test, we judgmentally selected ten PAs representing a variety of commodity codes and each authorizing an amount of \$1,000,000 or more.

Sampled PAs					
	PA Code	Description/ Commodity	PA Term	Authorized Limit	Remaining Balance (06/28/02)
1.	BBH	Concrete	05/21/01 to 05/20/03	\$8,890,095	\$6,042,165
2.	DAV	Copier Rental & Maint.	11/11/98 to 11/10/03	6,365,357	1,539,279
3.	SAC	Dynamic Message Sign	10/01/01 to 09/30/04	5,468,079	4,511,244
4.	KAJ	Fuels – Diesel & Gas	05/12/00 to 05/11/03	16,546,871	2,681,281
5.	BNC	Furniture	01/03/02 to 01/03/07	8,000,000	6,876,683
6.	ZHOU99	Home Repair Program	12/08/98 to 12/08/02	17,032,100	2,978,831
7.	JRN	Library Books	06/06/01 to 06/05/04	6,801,195	5,875,125
8.	ZDSV51	Maintenance & Support	01/08/97 to 01/07/05	6,188,192	4,994,336
9.	DDN	Security Services	04/20/01 to 04/19/04	5,528,372	2,651,281
10.	PDN	Two Way Radios	04/01/99 to 03/31/03	6,632,695	1,039,004

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## INTRODUCTION

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We reviewed the ten PA contracts, which included the associated Council Resolutions, contract specifications, vendor bid packages, vendor product catalogs and price index, and other related documents. We also selected five payments from each selected PA. Each payment could have had multiple invoices. The total number of invoices reviewed was 303.

We reviewed related policies and procedural statements, including Administrative Directives (ADs) and the RESOURCE Information Guide; interviewed Procurement Services management and staff; and examined records, supporting documents, and related transactions.

### **Overall Conclusion**

The authorization, management, and process for PAs are under adequate control and generally met the requirements set by applicable guidelines and policies. In our opinion, there are some areas that can be enhanced. We discussed these areas in the *Opportunities for Improvement* section of this report. An issue was reported to the Director of Business Development and Procurement Services in a separate letter dated November 26, 2002.

### **Background**

AD 4-5 defines a PA as a contract to purchase goods as needed by the City over a defined period of time at a fixed unit price, regardless of the quantity ordered. PAs are only used for the purchase of goods.

PAs are for commonly or frequently used commodities. Each PA has an authorized total dollar limit, which is not to be exceeded. Agreements are awarded to vendors who submit the lowest responsive bids. A PA may be awarded to multiple vendors, and a vendor may be awarded all items in the PA or only certain line items. These agreements enable a department to order items directly from a vendor, thereby avoiding the requisition and purchase order process.

About two years ago, many purchasing functions were decentralized to the operating departments. At that time, some PAs were negotiated by user departments. The current procurement process started in February 2001. The Business Development and Procurement Services Department,

## INTRODUCTION

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mainly the Procurement Services Division (PSD), is currently the authorized agent for managing and controlling all procurement operations. The PSD's responsibilities include:

- Coordinating the preparation and development of the specifications with all user departments.
- Ensuring that the appropriate department reviews specifications.
- Processing PA bids and negotiations.
- Reviewing all bids received in conjunction with other user departments.
- Identifying low bidder(s) and completing contracts.
- Inputting and maintaining all relevant information in the RESOURCE system.

There are sixteen buyers in the PSD, each buyer is assigned certain commodities. The buyers are responsible for overseeing market trend and the City's usage volume. However, the PSD does not review each individual PA purchase.

Each user department is responsible for: (1) using RESOURCE to verify the availability of the needed product and the PA balance before placing an order and entering the transaction into RESOURCE, (2) reviewing each invoice to ensure that the invoice price matches the price on the PA.

## OPPORTUNITIES FOR IMPROVEMENT

We identified certain policies, procedures, and practices that could be improved. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the opportunities for improvement presented in this report may not include all areas where improvements may be needed.

### 1. Vendor invoice charges did not comply with the PA.

A. We audited seventeen invoices (totaling \$96,256.55) from two authorized vendors. One vendor, CCI/Nova, overcharged for after-hour delivery and submitted charges and fees for items not specified in the concrete PA. These questionable charges and fees were for a pump charge, show-up fee, and call-out fee. BBH is the PA code for concrete purchases. The questionable charges are summarized below:

Concrete Purchases (BBH) Sample Test – CCI (Vendor) Summary						
Vendor	No. of Reviewed Invoices	Value of The Invoices	Price Over-charge	Ineligible Charges & Fees	Total Questionable Charges	Ratio of Questionable Charges
CCI/Nova	10	\$70,855.05	\$434.20	\$3,936.00	\$4,370.20	6.17%

Possible causes for these questionable charges are that:

- CCI/Nova had turnover in city contact management and personnel.
  - The person who signed the bid for CCI/Nova had resigned.
  - The City’s current contact at CCI/Nova was not aware of the current agreement.
- User department personnel did not compare invoices to the approved contract to ensure that the vendor’s charges complied with the PA.
- A call-out fee was allowable in the previous PA.

The City overpaid the vendor, due to charges not authorized in the approved PA.

AD 4-5, Section 5.1.12 states that the department directors are responsible for monitoring contracts to ensure contractors comply with contract specifications (proposals, terms and conditions).

The RESOURCE Information Guide, Section 3.7 states that the user department should “always verify the amounts on the invoice to ensure they match the amounts on the bid.”

B. DDN is the PA code for security services. The PA is with a single vendor and has separate prices for six departments covering twenty-four locations/facilities. We audited thirty-five invoices totaling \$144,463.22. The charges for Fair Park were not in accordance with the PA. The charges are summarized below.

## OPPORTUNITIES FOR IMPROVEMENT

Service Location	No. of Invoices	Hourly Rate Charged	Hourly Rate per PA	Hours Billed	Amount Overbilled
Fair Park	6	\$14.74	\$12.79	3,145	\$6,132.75

The vendor initiated the billing variance because user requirements had changed, and the vendor needed the higher hourly rate to recover his investment in equipment costs.

The PA covering the Fair Park location requested two service categories: Armed Long Term (ALT), which was estimated at 45,360 hours, and Unarmed Short Term (UAST), which was estimated at 30,000 hours. The vendor bid the two categories for \$16.37/hr and \$12.79/hr respectively.

In October 2001 (six months after the PA's effective date), the vendor complained that Fair Park had not used as much ALT as it estimated in the PA and that it would not be able to recover the equipment costs it invested for ALT. Fair Park had requested much more UAST, and UAST had become a long term service. Therefore, without approval, the vendor started billing Fair Park at a higher rate (\$14.74) for unarmed security services.

In November 2001, the PSD informed the vendor to use \$16.37/hr regardless of the service type until a new bid and contract could be worked out. In February 2002, the City Council approved a new PA for Fair Park's security services. This PA was awarded to a different vendor for April 3, 2002, to April 2, 2004.

PA DDN was awarded in April 2001 for a three year period. Even though PAs are established based on department estimates, six months appear premature for a vendor to claim it will not be able to recover its investment costs. We find no authority that allows the PSD to materially alter a contract by allowing a vendor to charge a higher rate than that agreed upon in the PA.

Furthermore, AD 4-5 states that PAs are only used for the purchase of goods; thus, security services should not have been procured via a PA.

AD 4-5, Section 5.3.2 states that the "Purchasing Agent" (PDS) is responsible for maintaining adequate records of all City procurement transactions made by requisition or PA and keeping information on the non-performance of vendors or contractors who provided goods or services to the City through the requisition or PA process.

AD 4-5, Paragraph 9.2 states that non-performance is failure on the part of a vendor or consultant to fully perform the terms of its contract with the City. Examples

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## OPPORTUNITIES FOR IMPROVEMENT

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include, but are not limited to: failure to deliver services according to specifications and failure to meet work or delivery schedules.

**We recommend** that the Director of Business Development and Procurement Services ensures:

A. Department directors:

- Enforce procedures to ensure that vendors' charges comply with the PA.
- Pursue a refund of the questionable charges.
- Review all payments to CCI/Nova and pursue a refund of all charges not specified in the PA.
- Ensure personnel responsible for PAs are knowledgeable of requirements and allowable charges.

B. Business Development and Procurement Services:

- Vendors are held accountable and enforce all PA provisions.
- Revises AD 4-5 if PAs are to be used for service contracts.

**Management's Response:**

The Department concurs with the City Auditor's recommendations that Department Directors should ensure that vendor's charges comply with all price agreements and service contract. BDPS includes in the PATX table of the City's Financial system all products and services and the agreed upon contract price. Each department as well as the Office of Financial Services/Accounts Payable should reference these contract prices before processing any invoice to ensure proper payment.

The Office of Business Development and Procurement Services will also begin more active training and regular reminders to the department personnel regarding the proper Price agreement procedures. In addition, this contract for security services was awarded as a service contract. BDPS regularly awards service contracts, fixed price-fixed term, and creates the accounting mechanism in the City's financial and accounting system (RESOURCE). The best way to allow Departments to access and BDPS to properly manage these service contracts is to set them up as "price agreements" in RESOURCE, this allows departments to encumber only the portion needed when ordering as well as allows BDPS to restrict access, monitor expenditures, and plan for renewals. Due to the current limitation of RESOURCE, service contracts will need to continue to be set up in the system in the PATX tables, until such time as the new upgraded version of RESOURCE is made available. AD 4-5 will be revised to reflect the difference between price agreements and service contracts.

The Office of Business Development and Procurement Services does not concur that a refund from Whelan Security Company, Inc. is appropriate. During the development of

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## OPPORTUNITIES FOR IMPROVEMENT

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this service contract, the necessary services did not have the appropriate bid price for this service. Until a change order could be completed, the City used the existing service contract. Because service contract DDN did not include the services needed for Fair Park, Fair Park utilized this service contract until a new service contract JRD could be put into place. Purchasing realized that service contract DDN did not provide the coverage of armed, unarmed, short-term, long-term, motorized, non-motorized and all possible combinations. Service contract JRD is now fulfilling the needs of Fair Park at a lower cost.

### **Auditor's Response:**

Concur with the Office of Business Development and Procurement Services proposed corrective actions and commend their proactive efforts.

The tragedy of September 11, 2001 and the sudden increased consciousness for security required immediate action. This immediacy equated to an emergency. BDPS did what was necessary to respond based on the current conditions and took the necessary action to comply with procurement directives by pursuing a service contract to meet the customer's requirements. We concur with BDPS's actions regarding security services due to the urgency created by the tragedy of September 11, 2001.

Management's response did not address payments to CCI/Nova. We reiterate that Department Directors (i.e. those whose departments made concrete purchases) review all payments to CCI/Nova and pursue a refund of all charges not specified in the price agreement.

### **2. Written policy and procedures for modifying PAs need to be developed.**

Goods and services were added to existing PAs without documentation as to need or justification. The PA was not modified to incorporate the changes or agreed upon prices for the new goods/services.

A. PDN is the PA code for the purchase of two-way radios. We reviewed eight vendor invoices (totaling \$173,275) and found two invoices that contained items (\$55,152) that were not covered by the PA. These items were added to the PA per the user department.

The RESOURCE table PATX (PA Text) is the information source for user departments. This table was not updated to reflect the additions to the PDN PA.

According to PSD personnel, all changes made to PAs are entered under vendor code "99999." Therefore, if there is any change to a PA or vendor information, the change will not be shown under the applicable vendor code. The user must check

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## OPPORTUNITIES FOR IMPROVEMENT

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the change by typing in vendor code "99999." The RESOURCE Guide, the instruction guide for users, does not state how to check or ensure changes to PAs.

- B. DAV is the PA code for copier rental and maintenance. We reviewed 22 invoices and 119 sub-invoices totaling \$84,497.78. DAV is a sixty-month agreement with five copier companies through the Texas General Services Commission. The City has participated in this agreement since November 1998. Copiers rented/covered by the rental and maintenance agreement were identified by serial number on an inventory listing. The PA listed an inventory of 384 copiers.

The serial numbers of several copiers on the vendors' invoices did not match those on the PA inventory listing. The PSD indicated that there had been numerous changes to the copier inventory. However, there was no record that the PA inventory listing had been updated during the audit period.

City PAs are usually issued for multiple years. The average term of the ten audited PAs is four and a half years. Since the PA is originally based on estimates, the departments' needs are subject to change. However, there are no written policies or procedures that document how to modify or update PAs.

Without properly documented PA updates and vendor information:

- The City could be at risk for higher prices and lower quality goods and services.
- The City may not be able to enforce vendor non-performance.
- Departments may be unaware of PA updates.

**We recommend** that the Director of Business Development and Procurement Services:

- Provide periodic training to user departments and vendors.
- Augment the RESOURCE Information Guide to include steps for determining whether there are any changes to PAs and vendor information.

### **Management's Response:**

The Office of Business Development and Procurement Services concurs with the recommendation to provide regular, periodic training and updates to all department personnel regarding price agreements and service contracts. The office of Business Development and Procurement Services coordinated with Human Resources last fiscal year and scheduled training in the Quarterly Development. The class was not held due to lack of participation. The Office of Business Development and Procurement Services will contact the Department of Human Resources to arrange further training classes available through Human Resources on a quarterly basis. BDPS will augment procedures as an attachment to the RESOURCE Information Guide to include steps for determining whether there are any changes to Price Agreements or Service Contracts.

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## OPPORTUNITIES FOR IMPROVEMENT

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BDPS will also maintain a regular e-mail communication with all department personnel and accounts payable to update them on any changes to Price Agreements or Service Contracts.

### 3. Centralized management over PAs is needed.

There was no centralized management over PAs. As noted in the previous findings:

- changes to PAs were not incorporated into the PAs.
- changes to PAs were not updated into the RESOURCE vendor tables.
- user departments were not aware of changes.

The above can be attributed to:

- Need for monitoring on a consistent and timely basis.
- Need for written procedures.

The above deficiencies weaken controls over the procurement process and could expose the City to increased financial and legal risk.

**We recommend** that the Director of Business Development and Procurement Services:

- Develop written procedures to effectively and fully manage PAs from inception through expiration. These written procedures should include, but are not limited to:
  - Explaining methodology and steps to modifying a PA.
  - Promptly closing out PAs upon expiration.
  - Updating the vendor information in the RESOURCE system.
- Implement procedures to periodically test PA transactions to ensure compliance.
- Ensure timely monitoring of PAs, which would remove this responsibility from the user departments.

### Management's Response:

The Office of Business Development and Procurement Services concurs with the recommendation to develop written procedures manual to effectively manage Price Agreements and Service Contracts. With the implementation of electronic procurement the need for a comprehensive procedures manual for BDPS has been a top priority. This procedures manual, as well as Administrative Directive 4-5 have been delayed by ongoing changes in state law and the pending changes to City Ordinance. A final draft

## **OPPORTUNITIES FOR IMPROVEMENT**

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of the procedures manual, along with the final draft of AD 4-5, will be available by December 31, 2002, and will reflect the anticipated changes to City Ordinance.

The Office of Business Development and Procurement Services procedures will include spot checks of invoices submitted by vendors in conjunction with accounts payable. Also, BDPS has assumed full responsibility for all Price Agreements and Service Contracts, and this centralization will also aid in the prompt updating if change orders occur, as well as the constant monitoring up to and including the termination of each contract.