



**A Report to the
Audit Committee**

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Metropolitan
Nashville
Office of
Internal Audit

**Cooperative Purchases Best
Practices Audit**

December 2, 2019

EXECUTIVE SUMMARY

December 2, 2019



Why We Did This Audit

The audit was conducted in response to questions raised by the Metropolitan Audit Committee during the Metropolitan Nashville Public Schools investigation.

What We Recommend

- Maintain complete documentation to support the justification for the cooperative purchase.
- Revise the Finance Cooperative Purchasing Request Form to require a specific explanation.
- Revise policies to require consistent use of the Finance Cooperative Purchasing Request Form.

Cooperative Purchases Best Practices Audit

BACKGROUND

The Metropolitan Nashville Government defines cooperative purchase agreements as purchases made from a master agreement held by a third party, which includes purchases from State of Tennessee contracts. These agreements utilize the purchasing power of another entity to receive better pricing or benefits than a standalone contract. The Procurement Division within the Finance Department oversees all purchasing, including cooperative purchases, for the Metropolitan Nashville Government except for the Metropolitan Nashville Public Schools.

Cooperative vendor contracts are administered through third-party organizations that specialize in public purchasing, primarily for supplies. Metropolitan Nashville Government does not create separate contracts but instead issues purchase orders with the master contract numbers listed.

OBJECTIVES AND SCOPE

The objectives of this audit are to determine if:

- Current processes are in-line with established best practices to ensure the best interest of the Metropolitan Nashville Government.
- Controls are in place and operating effectively to ensure the cooperative purchases conform to policies and procedures.

The scope of this audit includes cooperative purchases from July 1, 2017, through June 30, 2019. This audit excluded purchases from State of Tennessee contracts because these purchases are lower risk and were previously reviewed during the *Audit of the Department of Finance Procurement Division*, issued on August 17, 2018.

WHAT WE FOUND

The Procurement Division rarely uses cooperative purchases. For the audit period reviewed, Metropolitan Nashville Government only entered into two cooperative purchases, excluding State of Tennessee contracts. Both cooperative contracts were administered through third-party organizations that specialize in public procurement.

In general, we found the Metropolitan Nashville Government had procedures in place to justify and approve cooperative purchases. However, more documentation on the justification and approval for the cooperative purchase needs to be maintained. Additionally, formal policies need to be updated and communicated. Under existing policy, it is possible for a department to use a cooperative purchase under the delegated purchase authority limit without the knowledge or approval of the purchasing agent.

GOVERNANCE

The Metropolitan Nashville Government defines cooperative purchase agreements as purchases made from a master agreement held by a third party, which includes purchases from State of Tennessee contracts. These agreements utilize the purchasing power of another entity to receive better pricing or benefits than a standalone contract. The Procurement Division within the Finance Department oversees all purchasing, including cooperative purchases, for the Metropolitan Nashville Government except for the Metropolitan Nashville Public Schools. The following regulations and legislation outline the parameters for cooperative purchases:

- *Tennessee Code Annotated Section 12-03-1205 “Cooperative Purchasing Agreements”* permits local governments to make purchases with one or more local governments.
- *Metropolitan Nashville Government Code of Ordinances 4.12.090.E* permits purchases from the State of Tennessee contracts and purchases with other governmental agencies outside of Tennessee.
- *Regulations to the 1992 Procurement Code adopted by the Procurement Standards Board Revised February 2014, Section R4.12.090 Purchases through State or Other Governments* regulate purchases from State of Tennessee contracts and allow purchases for or from other local governments.
- *Regulations to the 1992 Procurement Code adopted by the Procurement Standards Board Revised February 2014, Section R4.08.060 Formats for Delegation of Authority by the Purchasing Agent*
- *Regulations to the Procurement Code adopted by the Procurement Standards Board Revised May 2019, Section R4.12.090.05 Intergovernmental Cooperative Purchasing* limit the cooperative purchase agreements to supplies and products that do not include services unless the purchasing agent has consulted with the director of finance and the director of finance has determined the agreement is in the best interests of Metropolitan Nashville Government.

BACKGROUND INFORMATION

When a department wants to utilize a cooperative purchase agreement, the department notifies the purchasing agent of the need. The department usually researches different options before contacting the purchasing agent. Prior to 2019, the documentation of discussions and approval was in email. In 2019, the purchasing agent developed the Finance Cooperative Purchase Request Form. This form documents the basis for justification and approval. Cooperative purchases for supplies only need approval from the purchasing agent; however, cooperative agreements for services require director of finance approval as well.

As of September 2019, the Metropolitan Nashville Government used cooperative purchases with two vendors during the audit period, Advance Auto Parts and Toter, LLC. Metropolitan Nashville Government is also the lead agency on a contract with Otis Elevator that was placed with the National Intergovernmental Purchasing Alliance for other entities to use as a cooperative purchase. Since Metropolitan Nashville Government created the initial contract with Otis Elevator, the contract was procured through routine procedures. Amounts requested on cooperative purchases may be seen in Exhibit A.

Exhibit A: Cooperative Purchases During the Audit Period

Vendor	Third-Party Organization	Purchase Order Amounts
Advance Auto Parts	U.S. Communities	\$1,672,300
Toter, LLC.	National Intergovernmental Purchasing Alliance	197,099
	Total	\$1,869,399

Source: iProcurement

OBJECTIVES AND CONCLUSIONS

1. *Are current processes in-line with established best practices to ensure the best interest of the Metropolitan Nashville Government?*

Yes. Best practices recommend ensuring the contract was competitively solicited by a public or a non-profit agency and that the award is consistent with local and state laws. Award terms of price, quality, and delivery must be determined to be acceptable and provide the most value in the best interest of the requesting agency.

We reviewed policies and procedures over the cooperative purchases from the audit period. The purchasing agent had determined them to be in the best interest of the Metropolitan Nashville Government and approved the purchases through emails with the requesting agencies. The contracts were procured through third party organizations that specialize in public or non-profit buying. Items purchased were not prohibited by local or state laws. Metropolitan Nashville Government exceeds general best practices by requiring an additional approval by the finance director on cooperative purchases for services.

2. *Are controls in place and operating effectively to ensure the cooperative purchases conform to policies and procedures?*

Generally, yes. The Metropolitan Nashville Government used cooperative purchases according to existing policy. Controls significant to the audit objectives are the documentation of the justification for the purchase and the approval of the purchasing agent. The Finance Cooperative Purchase Request Form was developed to serve as documentation of justification for the purchase and the approval by the purchasing agent. The form is not required by policy and all departments may not be aware of it unless they contact the purchasing agent. It is possible for agencies to make cooperative purchases below the delegated purchase authority limit without contacting the purchasing agent for the form. (See Observation A.)

We reviewed the purchase orders and supporting documentation of the two cooperative purchase agreements for the audit period. Item categories on the purchase orders were not prohibited by local or state laws. The master contracts had been processed through third party organizations that specialize in public procurement. The purchasing agent had determined them to be in the best interest of the Metropolitan Nashville Government and approved the purchases through emails with the requesting agencies. However, more consistent documentation needs to be maintained. (See Observation A.)

Subsequent to the audit period, the purchasing agent began requiring documentation on the justification be attached to purchase orders when an individual agency requested approval. She also began the process of updating policies.

AUDIT OBSERVATION

Internal control helps entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (*COSO*), *Internal Control – Integrated Framework*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observation listed is offered to assist management in fulfilling their internal control responsibilities. See Appendix B for a description of the observation *Assessed Risk Rating*.

Observation A – Lack of Centralized Documentation and Updated Policies

The purchasing agent provided the names and documentation for the two cooperative purchases during the audit period, Advance Auto Parts and Toter, LLC (waste supplies). Metropolitan Nashville Government created 24 monthly blanket purchase orders for Advance Auto Parts and 1 purchase order for Toter, LLC.

None of the 25 total purchase orders had the justification, supporting documentation, or approval attached within iProcurement. For both Advance Auto Parts and Toter, LLC, the justification for the purchase and the purchasing agent’s approval was documented in emails.

One of 25 (4 percent) purchase orders did not list the master contract number. Eight of 25 (32 percent) purchase orders did not list the name of the third-party organization. The master contract for Advance Auto Parts was not maintained on site. A vendor web link to the Advance Auto Parts master contract was available, but if the vendor website changes, the contract would not be readily available.

The Finance Cooperative Purchase Request Form, used to document the justification for the purchase and the purchasing agent’s approval, was implemented in the latter part of our audit period. However, the form process does not include:

- A requirement to explain specifically why the cooperative purchase is in the best interest of the Metropolitan Nashville Government, such as other vendors considered or analysis performed. Currently, review and consideration of these items is included in discussions or emails not always attached to the form.
- A requirement to submit or reference the form with each purchase order.
- A documented policy requiring the form for each cooperative purchase, which means agencies may not be aware of the form.

Though against the Procurement Code, departments could make cooperative purchases below the delegated purchase authority limit without using the form or any approval by the purchasing agent. Since cooperative purchases are not specifically identified in the system, we were unable to completely search for other cooperative purchases that may have been below the delegated purchase authority limit. We performed a limited search and did not locate any additional cooperative purchases.

Cooperative purchases are becoming more widely used by governments. If the Metropolitan Nashville Government chooses to utilize this option more, the risk of unauthorized cooperative purchases increases. When unauthorized purchases are made, the Metropolitan Nashville Government may not be receiving the best value for its expenditures.

Criteria:

- *Committee of Sponsoring Organizations of the Treadway Commission – Principle 10 – The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.*
- *Regulations to the 1992 Procurement Code adopted by the Procurement Standards Board Revised February 2014, Section R4.08.060 “Formats for Delegation of Authority by the Purchasing Agent”*

Assessed Risk Rating:

Low

Recommendations for management of the Finance Department to:

1. Continue to implement procedures to maintain complete documentation in iProcurement to support the justification for the cooperative purchase, the approval, and the master contracts from which items were purchased. Reference the documentation on each purchase order.
2. Revise the Finance Cooperative Purchase Request Form to require a specific explanation for why the cooperative purchase was in the best interest of the Metropolitan Nashville Government, such as pricing, delivery times, opportunity cost of negotiating a contract, etc.
3. Continue to implement the process of revising and communicating policies to require consistent use of the Finance Cooperative Purchase Request Form.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit 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 observations and conclusions based on our audit objectives. We meet the generally accepted government auditing requirements for internal auditors.

METHODOLOGY

To accomplish our audit objectives, we performed the following steps:

- Interviewed key personnel within the Finance Department Procurement Division.
- Reviewed Metropolitan Nashville Code of Laws, and other applicable laws, regulations, and policies.
- Evaluated internal controls that were significant to our objectives.
- Reviewed purchase orders with related supporting documentation.
- Considered risk of fraud, waste, and abuse.

AUDIT TEAM

Mary Cole, CPA, CFE, CISA, CGFM, Audit In-Charge

Lauren Riley, CPA, CIA, ACDA, Principal Auditor

Gina Pruitt, CPA|CITP, CISA, CHFP, CQA, CEMB, CGMA, CRISC, CCSFP, CHCO, Interim Metropolitan Auditor



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November 27, 2019

Ms. Gina Pruitt
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404 James Robertson Parkway
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Re: Cooperative Purchases Best Practices Audit

Dear Ms. Pruitt:

This letter acknowledges the Finance Department's receipt of the report for the above referenced project. We have reviewed your observations and recommendations. Actions will be taken as indicated in the Management Response.

We appreciate the cooperative effort in developing the report and considering our input during the entire process.

Regards,

A handwritten signature in blue ink, appearing to read "Kevin Crumbo".

Kevin Crumbo

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing their response to our recommendations.

	Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<i>Recommendations for the management of the Finance Department to:</i>			
L	A.1. Continue to implement procedures to maintain complete documentation in iProcurement to support the justification for the cooperative purchase, the approval, and the master contracts from which items were purchased. Reference the documentation on each purchase order.	Concur. While documentation to support the justification is maintained in shared drive files and via email, we concur that it should be comprehensively maintained in the iProcurement System.	Ongoing
L	A.2. Revise the Finance Cooperative Purchase Request Form to require a specific explanation for why the cooperative purchase was in the best interest of the Metropolitan Nashville Government, such as pricing, delivery times, opportunity cost of negotiating a contract, etc.	Concur. This form has been revised to capture the details of the justification.	Completed
L	A.3. Continue to implement the process of revising and communicating policies to require consistent use of the Finance Cooperative Purchase Request Form.	Concur. While details regarding cooperative purchasing authority were included in the Procurement Manual, the details have been made clearer and more robust and will be further communicated in ongoing departmental trainings and communication.	Update to be issued 12/13/19

APPENDIX B – ASSESSED RISK RANKING

Observations identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Metropolitan Nashville Government. Items deemed “Low Risk” will be considered “Emerging Issues” in the final report and do not require a management response and corrective action plan.

Rating	Financial	Internal Controls	Compliance	Public
HIGH	Large financial impact >\$25,000 Remiss in responsibilities of being a custodian of the public trust	Missing, or inadequate key internal controls	Noncompliance with applicable Federal, state, and local laws, or Metropolitan Nashville Government policies	High probability for negative public trust perception
MEDIUM	Moderate financial impact \$25,000 to \$10,000	Partial controls Not adequate to identify noncompliance or misappropriation timely	Inconsistent compliance with Federal, state, and local laws, or Metropolitan Nashville Government policies	Potential for negative public trust perception
LOW/ Emerging Issues	Low financial impact <\$10,000	Internal controls in place but not consistently efficient or effective Implementing / enhancing controls could prevent future problems	Generally complies with Federal, state, and local laws, or Metropolitan Nashville Government policies, but some minor discrepancies exist	Low probability for negative public trust perception
Efficiency Opportunity	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient			