



# Internal Audit Report

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Limited Operational Audit

Compliance Cost of CPO Policies and Procedures

2008 – 2012

Issue Date: December 4, 2012  
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## Table of Contents

|   |   |
|---|---|
| <b>Transmittal Letter</b> .....   | 3 |
| <b>Executive Summary</b> .....  | 4 |
| <b>Background</b> .....   | 5 |
| <b>Conclusion</b> .....   | 7 |
| <b>Schedule of Findings and Recommendations</b> .....   | 8 |
| 1. <b>The Central Procurement Office’s Controls Could Be Improved To Provide An Objective Measure Of The Efficiency Of The Service Agreement Procurement Process.</b> ..... | 8 |

### **Transmittal Letter**

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of the Compliance Cost of CPO Policies and Procedures. We reviewed information relating to CPO policies and procedures from 2008 through 2012.

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 findings and conclusions based on our audit objectives.

We extend our appreciation to the management and staff of the Central Procurement Office (CPO) for their assistance and cooperation during the audit.



Joyce Kirangi, CPA  
Internal Audit, Director

## Executive Summary

**Audit Scope and Objective** The purpose of the audit was to determine whether the Central Procurement Office (CPO) has sufficient controls to reasonably ensure:

1. CPO processes related to service agreement procurement are efficient, specifically:
  - Whether CPO-1 policy has significantly more requirements than state law.
  - Whether the CPO's controls provide an objective measure of the efficiency of the service agreement procurement process.
2. The Port is in compliance with requirements that prohibit splitting contracts and purchases to avoid requirements related to:
  - Service Agreements
  - Purchases of Goods and Services

We reviewed information for the period 2008 through 2012.

**Background** The Central Procurement Office was created in 2008 in response to the State Auditor's 2007 performance audit. The CPO provides oversight and guidance on the Port's procurement activities. The CPO is organized into the three major categories of procurements: Service Agreements, Purchasing, and Construction.

The CPO oversees procurement policies and procedures, but procurement activities require a partnership between CPO and the department requesting the procurement. Generally, the CPO's role is to facilitate the process and ensure compliance with state law and Port policy, while the department is responsible for the business decisions associated with the procurement.

**Audit Result Summary** Based on our audit, CPO-1 policy, which addresses service agreements, does not impose significantly more burdensome requirements than state law, but the Central Procurement Office's controls could be improved to provide an objective measure of the efficiency of the service agreement procurement process. Additionally, the CPO's controls are sufficient to ensure compliance with requirements that prohibit the splitting of contracts and purchases.



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## Background

The Central Procurement Office was created in 2008 in response to the State Auditor's 2007 performance audit. The CPO provides oversight and guidance on the Port's procurement activities. The CPO is organized into the three major categories of procurements: Service Agreements, Purchasing, and Construction.

The CPO oversees the following types of procurements:

- Service Agreements – contracts for personal and professional consulting services
- Major Public Works – contracts that are initially estimated to be in excess of \$300,000
- Small Works – contracts that are initially estimated to be less than or equal to \$300,000
- Fixed Price Goods and Service Contracts – contracts for recurring purchases of goods and services with pre-established terms and conditions
- Blanket Vendor Contracts – contracts for recurring purchases from a vendor in varying frequency and quantity
- One-Time Purchases – non-recurring purchases of goods and services

The table below summarizes the procurements executed since 2008:

| Procurement Type            | 2008          |       | 2009         |       | 2010          |       | 2011         |       | 2012         |       |
|-----------------------------|---------------|-------|--------------|-------|---------------|-------|--------------|-------|--------------|-------|
|                             | Amount        | Count | Amount       | Count | Amount        | Count | Amount       | Count | Amount       | Count |
| Blanket Vendor Contract     | \$2,668,415   | 190   | \$2,570,800  | 123   | \$8,993,452   | 90    | \$15,802,624 | 68    | \$2,440,399  | 60    |
| Fixed Price Contract        | \$2,893,452   | 5     | \$38,307,107 | 11    | \$17,681,863  | 50    | \$4,348,359  | 35    | \$21,551,021 | 30    |
| Interlocal Agreement        | \$47,272      | 1     | \$5,163,134  | 6     | \$7,746,977   | 20    | \$1,285,972  | 12    | \$258,671    | 5     |
| Major Construction Contract | \$283,086,057 | 19    | \$98,042,594 | 11    | \$112,718,190 | 20    | \$41,959,605 | 23    | \$15,113,760 | 9     |
| Service Agreement           | \$53,693,853  | 521   | \$61,369,165 | 201   | \$77,857,889  | 237   | \$48,472,491 | 165   | \$71,208,494 | 92    |
| Small Works Contract        | \$5,938,322   | 59    | \$7,728,673  | 50    | \$4,201,428   | 24    | \$4,939,547  | 24    | \$4,845,718  | 17    |
| A-Type Purchase             | \$31,992,122  | 3821  | \$21,611,093 | 4673  | \$35,384,038  | 4389  | \$32,775,960 | 2737  | \$28,057,411 | 1349  |

Source: PeopleSoft as of October 25, 2012, amount is current maximum contract amount

The CPO oversees procurement policies and procedures, but procurement activities require a partnership between CPO and the department requesting the procurement. Generally, the CPO's role is to facilitate the process and ensure compliance with state law and Port policy, while the department is responsible for the business decisions associated with the procurement.

## Highlights and Accomplishments

During the course of the audit, we observed the following improvements in management processes related to procurement.

- Developed the Procurement and Roster Management System (PRMS) to maintain consultant rosters and advertise Port contracting opportunities.

- Engaged with the Continuous Process Improvement (CPI) initiative to develop a consensus evaluation process to shorten the evaluation timeline for service agreements.
- Formed advisory committees of stakeholders to share information regarding procurement policies and procedures
- Established an acquisition planning process to develop procurement strategy early in the process.

### **Audit Scope and Methodology**

We reviewed information for the period 2010 through 2012. We utilized a risk-based audit approach from planning through testing. We gathered information through interviews, observations, and analytical reviews, in order to obtain a complete understanding of the CPO's policies and procedures. We conducted an assessment of significant risks and identified controls established to mitigate those risks. We evaluated whether the established controls were functioning effectively, as intended.

We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

1. To determine whether the current CPO processes related to service agreement procurement are efficient:
  - There are currently eight policies in the CPO series of policies and procedures, only some of which are related to service agreements. CPO-1 is the policy containing the requirements for service agreement procurement.
  - We cross-walked the CPO-1 policy to state law governing personal and professional service agreements to determine whether the current CPO policies and procedures impose requirements that are significantly more than the state law. If so, determine the extent of the impact to the overall procurement efficiency.
  - We examined the existing controls that CPO has in place to track and assess the service agreement procurement process and determined whether they provide a consistent, objective measure of process efficiency.
    - We analyzed the service agreement transparent pipeline, the customer satisfaction survey conducted by the CPO, and reviewed information related to the service agreement advisory committee.
    - We analyzed the procurement files for the five service agreements executed in 2011 and 2012 that were completed in more than double the expected amount of time.

2. To determine compliance with Port requirements that prohibit splitting contracts and purchases to avoid requirements in services and goods agreements
  - We analyzed contract data for the period January 1, 2010, through July 9, 2012 and purchase order data for the period January 1, 2010, through September 9, 2012, to identify procurements that may have been split. We reviewed 6 contracts and 17 one-time purchases that may have been split. This sample included all of the contracts that were potentially split and all of the purchases that were potentially split to avoid the formal competitive process.

### **Conclusion**

Based on our audit, CPO-1 policy, which addresses service agreements, does not impose significantly more burdensome requirements than state law, but the Central Procurement Office's controls could be improved to provide an objective measure of the efficiency of the service agreement procurement process. Additionally, the CPO's controls are sufficient to ensure compliance with requirements that prohibit the splitting of contracts and purchases.

## Schedule of Findings and Recommendations

### 1. The Central Procurement Office's Controls Could Be Improved To Provide An Objective Measure Of The Efficiency Of The Service Agreement Procurement Process.

The CPO implemented a transparent pipeline in 2010 to track the progress of service agreements procured through a formal competitive process. This pipeline records the dates of key events during the procurement process, along with the expected dates for each event, which are agreed upon between the requesting department and the CPO at the beginning of the procurement process.

We analyzed the transparent pipeline data from its beginning in 2010, through September 12, 2012. We determined that 91 of the 113 completed procurements during the period were executed later than the planned execution date as follows:

| Longer Than Initially Planned | 2010 | 2011 | 2012 |
|-------------------------------|------|------|------|
| 1 to 30 Days                  | 5    | 6    | 8    |
| 31 to 60 Days                 | 3    | 7    | 3    |
| 61 to 90 Days                 | 4    | 6    | 2    |
| 91 to 120 Days                | 15   | 5    | 6    |
| More Than 120 Days            | 12   | 6    | 3    |

We observed that the metrics calculated by CPO identify this variance between actual and expected timeline, but do not detail the cause of the variance. For example, we did not find a consistent reconciliation of the actual to the expected timeline, or any tracking of the contributing factors to the variance that could identify opportunities for policy and procedure refinement.

Additionally, we reviewed the procurement files for the five agreements executed in 2011 and 2012 that were completed in more than double the expected amount of time. The review was to determine whether the file contained any analysis of process efficiency. The files did not contain an objective analysis of the causes for the timeline of the procurement being more than double the expected schedule.

An objective measure is prerequisite to the identification and effective mitigation of potential inefficiency. The analysis of such measures would facilitate efficiency discussions and promote "a strong working relationship between the CPO and the requesting departments," as highlighted in CPO-1 policy, to continuously improve its processes.



## Recommendations:

We recommend management:

- Develop and implement metrics that objectively measure and evaluate the efficiency of the service agreement procurement process.
- Continue to improve teamwork (i.e., “strong working relationship”) with training and engagement with department management.

## Management Response

*CPO appreciates the time and effort taken by the Internal Auditor in auditing the Port of Seattle (Port) procurement policies and procedures. CPO is committed to providing strong customer service and process improvements, including being a leader in implementing Continuous Process Improvement (CPI), commonly referred to as LEAN. CPO has established a number of tools to meet our commitments.*

*CPO created a website that contains numerous documents (guidelines, checklists, and forms) to assist non-procurement personnel in understanding the procurement process and identifying their roles and responsibility for obtaining a contract. We developed numerous training seminars and provide those seminars on an on-going basis. We established a Service Agreement Advisory Committee (consisting of representatives from Corporate, Real Estate, Seaport, Aviation, and Capital Development) that provides us with input and feedback and serves as an outreach and communication tool.*

*CPO developed a tracking system, commonly referred to as the “transparent pipeline” at the request of our customers so that management would have visibility to procurement status and the procurement team would have a better understanding and commitment to the schedule. The pipeline has undergone a few revisions to meet additional needs and data requests and is a metrics tool. Establishing a realistic procurement schedule is a challenge at the Port as the schedule is impacted by workload and availability of team-members outside of the control of CPO.*

*The procurement team is comprised of the Port’s internal customer (represented by the Requesting Departments Representative, RDR), an evaluation committee (generally three to five individuals), the CPO Contract Administrator, and the selected consultant. CPO facilitates the process and provides oversight and guidance to ensure compliance with legal and policy requirements. The customer and evaluation committee is responsible for drafting a clear scope of work, identifying appropriate and effective evaluation criteria, evaluating proposal, making the selection decision, and negotiating the final scope and contract cost elements. Team-members are very busy with their “regular” workload and often procurement activities are not a priority. Accordingly, the procurement schedule is often impacted by ability of team-members to perform their tasks in a timely manner due to “regular” work being prioritized over procurement activities. CPO appreciates Management support in recognizing this body of work and making resources available to perform the various activities.*

*CPO is working diligently to simplify processes and create useful tools so that less time is required to perform the various procurement tasks. For example, in October 2011, CPO sponsored and facilitated a CPI event focused on the evaluation and selection phase of procurement. A small group of customers from Aviation, Seaport, and Capital Development, participated in a three day accelerated improvement workshop. Based on the recommendations developed in the workshop, CPO implemented a new method to evaluate proposals and document the selection decision. This method is called "consensus evaluation", where evaluators review the proposals independently and come together as a group to evaluate, score, and select the winning proposal. The average time for evaluation of proposals prior to consensus evaluation was 76 days. The workshop goal was to reduce the number of days by 25% (to 57 days). The workshop recommendations resulted in a standardized process, eliminating the waste of waiting and rework. To date, consensus evaluation is very successful. We have completed consensus evaluation on nine procurements with an average evaluation time of 37 days.*

*Our work is not done. CPO will continue to evaluate our processes and requirements to eliminate waste and improve efficiency of our procurements. We are currently working on a process to assist project managers in negotiating costs.*

*In addition to focusing on process improvements, we request input on the quality and effectiveness of our team-members contributions. A customer satisfaction survey is sent to every customer following execution of a contract. We have received 139 responses and our response rate is over 80%. On a scale of 1 to 5, 5 representing strong agreement, we have an average score of 4.5 and higher with respect to CPO providing thoughtful advice, understanding customer needs, providing timely input, and satisfaction with overall contributions of CPO team-member.*

*CPO will take the audit recommendation under consideration and continue to work collaboratively with Port management, via the Service Agreement Advisory Committee. We appreciate the opportunity to provide this response.*