



# **CITY OF SAN ANTONIO**

P. O. BOX 839966  
SAN ANTONIO TEXAS 78283-3966

March 4, 2011

**Julián Castro**  
Mayor

**Mary Alice P. Cisneros**  
Councilwoman, District 1

**Ivy R. Taylor**  
Councilwoman, District 2

**Jennifer V. Ramos**  
Councilwoman, District 3

**Philip A. Cortez**  
Councilman, District 4

**David Medina, Jr.**  
Councilman, District 5

**Ray Lopez**  
Councilman, District 6

**Justin Rodriguez**  
Councilman, District 7

**W. Reed Williams**  
Councilman, District 8

**Elisa Chan**  
Councilwoman, District 9

**John G. Clamp**  
Councilman, District 10

Mayor and Council Members:

SUBJECT: Purchasing and General Services Department Audit Report

We are pleased to send you the audit report of the Purchasing and General Services Department. This audit began in May 2010 and concluded with an exit meeting with department management in January 2011. Management's verbatim response is included in Appendix B of the report. The Purchasing and General Services Department should be commended for its cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kevin W. Barthold".

Kevin W. Barthold, CPA, CIA, CISA  
Acting City Auditor  
City of San Antonio

Distribution:

Sheryl L. Sculley, City Manager  
Ben Gorzell Jr., Chief Financial Officer  
Janie B. Cantu, Director, Purchasing and General Services Department  
Michael D. Bernard, City Attorney  
Leticia M. Vacek, City Clerk  
Robbie Greenblum, Chief of Staff, Office of the Mayor  
Jaime Castillo, Communications Director, Office of the Mayor  
Frances A. Gonzalez, Assistant to the Mayor, Office of the Mayor  
Edward Benavides, Chief of Staff, Office of the City Manager  
Stanley Blend, Audit Committee Member  
Manuel Long, Audit Committee Member

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**CITY OF SAN ANTONIO**  
**OFFICE OF THE CITY AUDITOR**



Audit of Contract Procurement and Monitoring

HD Supply Facilities Management Contract

Project No. AU10-011

March 4, 2011

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## Executive Summary

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As part of our annual Audit Plan, we conducted an audit of the Purchasing Department, specifically the management of the HD Supply Facilities Maintenance (HD Supply) contract. U.S. Communities Government Purchasing Alliance (U.S. Communities) sponsors this contract through a nation-wide cooperative purchasing program. Our audit objective, conclusion, and recommendations follow:

### **Are controls in place to ensure HD Supply complies with contractual pricing provisions?**

Controls are not sufficient to ensure the City receives appropriate pricing and discounts from HD Supply. Purchasing and end user departments interviewed did not verify that the City receives appropriate prices and contractual discounts from HD Supply, although information is available to do so. However, we did not identify any material over-billings by HD Supply during fiscal year 2009

We recommend that the Purchasing Director clearly define and communicate monitoring responsibilities of the HD Supply contract to end users. The Director should also ensure adequate controls are included in the City's new automated procurement system to address contractual pricing provisions.

Management of the Purchasing and General Services Department's verbatim response will be in Appendix B on page 5.

*Note: We are currently reviewing a cooperative purchasing agreement with Office Depot. This agreement was also included in the scope of this audit. However, due to timing differences and document retrieval issues associated with completing our test work, we will address the Office Depot agreement in a separate audit report.*

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## Background

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The Purchasing and General Services Department (Purchasing) is responsible for the City of San Antonio's (City) bidding and contracting for all supplies and services in accordance with state and local statutes. Included in these responsibilities are City initiated contracts and cooperative purchasing agreements.

In June 2008, the City adopted an existing contract between Maricopa County, AZ and HD Supply Facilities Maintenance (HD Supply). U.S. Communities Government Purchasing Alliance (U.S. Communities) made this contract available through a cooperative purchasing agreement. Through this agreement, the City receives discount pricing on operational and other related maintenance repair supplies. City staff purchase needed supplies through the City's account on HD Supply's website. Upon completion of an order, HD Supply sends a confirmation email noting the final price, which should include contractual discounts. HD Supply's contract includes a schedule that lists the percent discount for various items. This schedule allows City staff to verify that the prices charged include appropriate discounts. As of September 2010, the City had expended approximately \$1,151,000 through the HD Supply contract.

The City is currently implementing its San Antonio e-Procurement System (SAePS). One of the purposes of SAePS is to improve the annual contract procurement process through more advanced technology. SAePS intends to utilize the City's current financial accounting system's (SAP) procurement related modules, which should provide additional controls.

## **Audit Scope and Methodology**

Our scope was fiscal year 2009 (October 2008 to September 2009); however, we ceased testing after reviewing six months of payments since we did not identify any material over-billings. The test work included 78 of 173 payments totaling \$154,347 of \$356,238, respectively, that the City made to HD Supply. We reviewed all 929 line items for these 78 payments. We tested each line item to ensure the City received the appropriate price listed in the contract's discount-pricing schedule. We identified 18 departments utilizing the HD Supply contract. Of these 18 departments, we judgmentally selected and interviewed the primary users in five departments with significant expenditures under the contract: Purchasing, Convention Facilities, Parks and Recreation, Downtown Operations and Community Initiatives.

We relied on computer-processed data in the City's accounting system to validate the transaction data. We based our reliance on direct tests of the data rather than evaluating the system's general and application controls. Our direct testing included comparing transaction data to the contract to ensure HD Supply billed the City appropriately. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this audit from May 2010 to November 2010 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 audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

## Audit Results and Recommendations

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### A. Contract Pricing Not Monitored

Controls are not sufficient to ensure the City receives appropriate pricing and discounts from HD Supply. The primary users in the five departments we interviewed stated that they did not compare the prices from the email confirmation to the discount-pricing schedule within the HD Supply contract. In 2008, Purchasing conducted formalized training classes for end users on how to procure items through the HD Supply website. However, Purchasing could not provide evidence of communication to end users on utilizing the HD Supply discount-pricing schedule to verify pricing. The primary users we interviewed also attended this training, but could not recall instruction in this area.

We did not identify any material over billings during our testing of FY 2009 purchases. However, users may be relying solely on the accuracy and integrity of HD Supply to ensure compliance with contractual pricing.

Administrative Directive 1.6 – Purchasing Procedures states, “Purchasing and General Services Department and the end user department are jointly responsible for handling contract performance issues for purchases.” The City is currently implementing its San Antonio e-Procurement System (SAePS). One of the purposes of SAePS is to improve the annual contract procurement process through more advanced technology. SAePS intends to utilize the City’s current financial accounting system’s (SAP) procurement related modules, which should provide added controls.

### Recommendations

The Purchasing Director should clearly define and communicate monitoring responsibilities of the HD Supply contract to end users. The Director should also ensure adequate controls are included in the City’s new automated procurement system to address contractual pricing provisions.

## **Appendix A – Staff Acknowledgement**

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Barry Lipton, CPA, DABFA, Deputy City Auditor  
Brian K. Williams, MBA, CFE, CIA, CGAP, Audit Manager  
Kimberly A. Weber, CFE, CIA, CGAP, Auditor in Charge  
Sylvia Esparza, MBA, CFE, Auditor

## Appendix B – Management Response



### CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

February 18, 2011

Kevin Barthold, CPA  
 Acting City Auditor  
 San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of Contract Procurement and Monitoring  
 HD Supply Facilities Management Contract

Purchasing and General Services Department has reviewed the audit report and has developed  
 the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A	<p><b>Contract Pricing not Monitored</b></p> <p>The Purchasing Director should clearly define and communicate monitoring responsibilities of the HD Supply contract to end users. The Director should also ensure adequate controls are included in the City's new automated procurement system to address contractual pricing provisions.</p>	3	Accepted	Janie Cantu/Director	March 2011 – July 2011
A	<p><b>Action plan:</b></p> <p>The Purchasing &amp; General Services Department, Procurement Division, will conduct additional end user training to clearly communicate the departmental responsibilities for monitoring of contractual discounts for HD Supply purchases.</p> <p>In addition to the training, the departmental contract monitoring responsibilities will be further clarified in the upcoming annual revision of the Purchasing Policy &amp; Procedure Manual scheduled for July of 2011.</p> <p>The new electronic procurement system, SAePS, to be implemented in March of 2011 will direct end users to a punch out HD Supply catalog with automated discount pricing based upon contractual pricing provisions. On a quarterly basis, HD Supply will provide electronic reports of catalog purchases and discounting to PGS for additional monitoring of the contractual pricing.</p>				

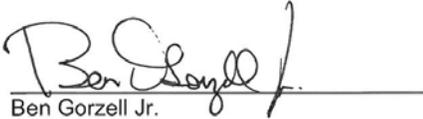
We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,



Jamie B. Cantu, C.P.M.  
Director  
Purchasing and General Services Department

2/18/11  
Date



Ben Gorzell Jr.  
Chief Financial Officer

2/18/2011  
Date

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**CITY OF SAN ANTONIO**  
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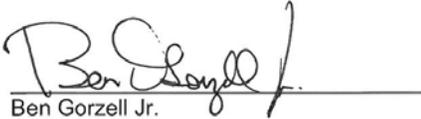
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Jamie B. Cantu, C.P.M.  
Director  
Purchasing and General Services Department

  
Date

Ben Gorzell Jr.  
Chief Financial Officer

  
Date