

# **ATTACHMENT A**

## **PROCUREMENT OPERATIONAL REVIEW FINAL SUMMARY REPORT**



The Honorable Chair and  
Members of the Finance Committee  
City of Newport Beach  
Newport Beach, California

Macias Gini & O'Connell LLP (MGO) was engaged by the City of Newport Beach (City) to provide a procurement operational review and internal control testing services of the City's procurement and contracting functions for the fiscal years ended June 30, 2020 and 2021.

The objectives of the engagement were to:

- Evaluate the City's procurement and contracting functions, including purchasing thresholds, internal controls, and policies and procedures.
- Compare the current procurement and contracting functions to best practices.
- Identify training and tools that could be developed to aid departments in taking on more of the purchasing responsibilities and workload.
- Review existing, and/or recommend appropriate, performance metrics to evaluate operational effectiveness and efficiency on an ongoing basis.
- Provide recommendations for improvement opportunities and/or increased efficiencies.

The scope of the engagement included purchase requisitions/purchase orders issued and contracts executed during fiscal years 2020 and 2021. MGO performed the following procedures for the engagement:

- Interviewed staff in 12 departments, including the Finance Department, City Attorney's Office, City Clerk's Office, Information Technology, and the City's Risk Manager.
- Reviewed procurement and contracting documentation, such as related reports, policies and procedures, contract worksheets, and contract templates.
- Performed data analysis on purchase requisitions/purchase orders and contracts.
- Reviewed workflows in the Finance System for purchase requisitions/purchase orders, vendors' invoices, and contracts.
- Reviewed the City's vendor contract for insurance certification.
- Reviewed procurement thresholds and insurance requirements for the following peer cities: Beverly Hills, Costa Mesa, Huntington Beach, Irvine, and Orange.
- Reviewed the Finance Department's performance metrics report, *Purchasing and Contracting Metrics: January – June 2020*.

The City's procurement and contracting processes require the collaboration of multiple City departments as well as external third parties. Therefore, engaging in regular communication and providing current documentation are vital for ensuring all parties involved know and understand the processes, including roles and responsibilities related to procurement and contracting. In addition, streamlining procurement and contracting processes and analyzing the performance of those processes are key to optimizing the use of City resources.

MGO identified the following opportunities for operational improvements and increased efficiencies in the City's procurement and contracting functions related to communication, documentation, streamlining of processes, and performance metrics.

<b>Observations</b>	
<b>Communication</b>	
1.	Changes in procurement and contracting processes are not consistently and regularly communicated to departments.
2.	Roles, responsibilities, and expectations for participants in the procurement and contracting process are not documented or communicated effectively.
<b>Documentation</b>	
1.	City Council Policy F-14 contains purchasing thresholds for service purchase requisitions/purchase orders, but does not address thresholds for the other purchasing methods.
2.	There are conflicts between the Administrative Policies and City Council Policy F-14, as well as conflicts among the Administrative Policies.
3.	Administrative Policies are out of date and do not reflect all current practices. Furthermore, Administrative lack procedural documentation to assist staff in consistently executing the processes.
4.	The purchasing thresholds in the Administrative Policies are too low based on the City's current purchasing and contracting needs.
5.	Forms, templates and other tools available to assist departments are not current and do not fully meet the needs of the departments.
<b>Streamlining of Procurement and Contracting Processes</b>	
1.	Some processes related to issuing requests for proposals, bids, or quotes are inefficient and can result in unnecessary delays.
2.	Some processes related to vendor/contractor insurance certification are inefficient and can result in unnecessary delays.
3.	Processes related to approving purchase requisitions/purchase orders are time consuming and create inefficiencies in the timely initiation of procurements.
<b>Performance Metrics</b>	
1.	Munis purchase requisitions/purchase orders data is appropriate for analyzing the performance of purchasing functions, but analysis is not frequently initiated. This data should be used to monitor performance in a process of continuous improvement.
2.	The Finance Department should continue collecting data on the solicitation process and use it to create additional performance metrics.

The City should consider the following recommendations:

- Enhance communication protocols related to procurement and contracting citywide through the use of email, the intranet, workgroups, and training.
- More thoroughly document the roles, responsibilities, and expectations for procurement and contracting functions and disseminate to all parties involved in those functions.
- Update procurement and contracting policies, procedures, and documentation to be consistent with current practices and provide clarity to departments.
- Increase the purchasing thresholds.
- Implement changes to procurement and contracting processes to streamline functions and increase efficiencies.
- Analyze and report on the performance of the procurement and contracting functions.

Detailed observations and recommendations were provided to the Finance Department in a separate internal management report.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Irvine, California  
December 17, 2021