

**REVIEW OF THE GRU
SMALL BUSINESS ENTERPRISE PROGRAM**

FEBRUARY 2007



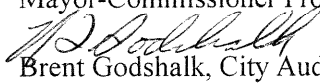
**CITY AUDITOR'S OFFICE
CITY OF GAINESVILLE, FLORIDA**

City of
Gainesville

Inter-Office Communication

February 13, 2007

TO: Audit, Finance and Legislative Committee
Mayor Pegeen Hanrahan, Chair
Mayor-Commissioner Pro Tem Craig Lowe, Member

FROM: 
Brent Godshalk, City Auditor

SUBJECT: Review of the GRU Small Business Enterprise Program

Recommendation

The Audit, Finance and Legislative Committee recommend that the City Commission:

- 1) Accept the City Auditor's report and the response from the Interim General Manager for Utilities;
and
- 2) Instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

Explanation

In accordance with our Annual Audit Plan, we have completed a Review of the GRU Small Business Enterprise Program. Our report and the response from the Interim General Manager for Utilities are attached for your review.

We request that the Committee recommend the City Commission accept our report and the Interim General Manager's response. Also, in accordance with City Commission Resolution 970187, Section 10, Responsibilities for Follow-up on Audits, we request that the Committee recommend the City Commission instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

City of
Gainesville

Inter-Office Communication

January 12, 2007

TO: Karen S. Johnson, Interim General Manager for Utilities
FROM: Brent Godshalk, City Auditor
SUBJECT: Review of the GRU Small Business Enterprise Program

In accordance with our Annual Audit Plan, we have completed a Review of the GRU Small Business Enterprise Program. During our review, we conducted interviews with key personnel, reviewed financial information and tested management controls. The attached draft report indicates areas where further efforts are needed to strengthen management controls.

In accordance with Commission Resolution 970187, Section 9, please submit your written response to the recommendations presented in the attached report within 30 days and indicate an actual or expected date of implementation. Our final report, which will include your written responses, will then be submitted to the City Commission's Audit, Finance and Legislative Committee for review and approval.

Our recommendations for improving procedures and controls have been reviewed with Administrative Services Director Ruth Davis, Purchasing Manager Joann Dorval and Financial and Compliance Manager Kevin Crawford. We thank them for their courteous and cooperative treatment.

Please let me know if you would like to meet to discuss further the details of this report or if you have any comments or questions that will facilitate your response.

cc: Ruth Davis, Administrative Services Director
Joann Dorval, Purchasing Manager
Kevin Crawford, Financial and Compliance Manager

OBJECTIVES, SCOPE AND METHODOLOGY

In accordance with our Annual Audit Plan, the City Auditor's Office completed a review of the GRU Small Business Enterprise (SBE) Program. The primary focus of this review was to evaluate and assess management controls over the GRU SBE program and determine the efficiency and effectiveness of program results. Management controls include the processes for planning, organizing, directing and controlling program operations, including systems for measuring, reporting and monitoring program performance. Management is responsible for establishing and maintaining effective controls that, in general, include the plan of organization, methods and procedures to ensure that goals are met. Specific audit objectives included evaluating the policies, procedures and internal controls over SBE spending and the SBE vendor database.

Our review was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and accordingly included such tests of records and other auditing procedures as we considered necessary under the circumstances. Our procedures included interviewing staff, reviewing management controls and testing selected samples of transactions and related supporting documentation to assess compliance with City policies and procedures. The scope of our review was generally for fiscal year 2005 GRU SBE expenditures.

Based on the results of our review, we prepared specific issues and recommendations for improvement that were discussed with management. These recommendations, as well as management's written response, can be found in the following sections of this report.

BACKGROUND INFORMATION

In July 1997, the City Commission adopted Resolution 970214 "to encourage the development of local minority businesses and local small businesses". The resolution identified City policies focused on:

- Ensuring nondiscrimination in all aspects of the City's contracting and procurement programs;
- Developing specific programs to create significant opportunities for eligible local minority businesses and local small businesses; and
- Assisting the development of firms that can compete successfully in the marketplace outside the Local Minority Business and Local Small Business Procurement Program.

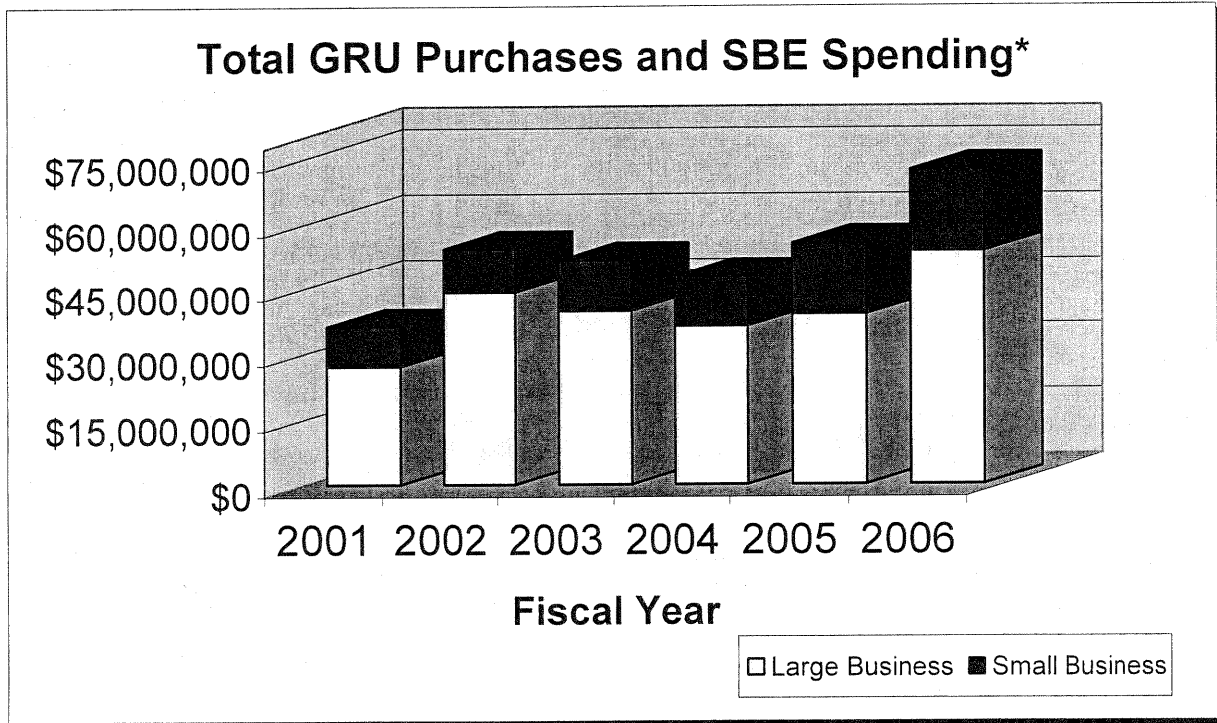
The City Commission also adopted the Local Minority Business and Local Small Business Procurement Program to achieve compliance with these policies. Specific objectives included identifying and assisting local minority and local small businesses so that they can successfully participate in City procurement opportunities thereby supporting the overall economic development of the City. This Program was revised in January 2005 and renamed the Local Small Business Procurement Program.

GRU SBE Program Administration

Administration of the GRU Small Business Enterprise Program is assigned to the Purchasing Division. The Purchasing Division supports and promotes participation by small and local business concerns by instructing businesses in GRU's procurement policies and procedures, preparing them to meet GRU's performance standards, identifying appropriate procurement opportunities and developing mutually beneficial business relationships. All GRU managers and professionals having purchasing authority in their functional areas provide resources and opportunities to support this program.

Small Business Spending Results

The following graph summarizes small business spending for GRU during fiscal years 2001 through 2006, increasing steadily from \$9.2 million in 2001 to \$18.6 million in 2006.



*Excludes Visa Transactions

Community Outreach Efforts

GRU utilizes outreach programs to identify small and local businesses in its procurement process. Outreach measures include participation in local and regional small business trade fairs, such as the University of Florida's Annual Small Business Conference and Trade Fair. Efforts also include cooperating with organizations supporting small business development, including the Chamber of Commerce, the City of Gainesville Economic Development Department and the Small Business Development Center.

ISSUE #1

Improved Controls Regarding SBE Vendor Database and Qualification Process

Discussion

Objectives of the GRU SBE program include identifying procurement opportunities and expanding the use of small and local businesses. The GRU Purchasing Division is responsible for developing and maintaining source directories of SBE vendors to facilitate the use of SBE vendors by those in the organization with direct purchasing responsibilities. In order to meet program objectives, the SBE directories need to be current and accurate.

Qualifying for SBE status in the GRU program requires vendors complete an application indicating business type and identifying commodity service codes. Vendor information is then recorded into a GRU Purchasing database (Ellipse). Purchasing also maintains SBE vendor resource lists that are accessible to all departments purchasing goods and services.

GRU has approximately 400 SBE vendors in its directory. We sampled vendors in the SBE directory to assess its accuracy and the adequacy of internal controls over database maintenance and noted the following:

Vendor Qualification

The SBE qualification process is one of self-identification as vendors are not required to submit documentation supporting the vendor's initial claim of SBE status. In order to ensure the validity of the SBE data, vendor applications should be modified and subjected to a confirmation process prior to entering it into the supplier database to provide reasonable assurance that businesses meet established conditions.

Vendor Qualification Renewal

Vendors are not required to periodically renew information provided during the initial vendor qualification process. In order to ensure the validity of the SBE data, vendors should be required to periodically reaffirm that ownership and management have not changed since initial SBE status was granted. The General Government Purchasing Division has established a three year re-qualification period.

SBE Database Maintenance

An SBE vendor directory is accessible to operating departments; however, the SBE directory is not current. We noted that the lists contain inactive businesses and do not include all approved SBE vendors. We were unable to trace 43% of our sample SBE purchases to the SBE vendor lists. The SBE vendor lists are not linked to GRU's Purchasing supplier database (Ellipse) and are not periodically updated to be consistent with the database.

Conclusion

In order to ensure the validity of the SBE vendor data, we believe internal controls related to vendor qualification and maintenance of the database should be strengthened.

Recommendation

We recommend management establish a more formalized process for initially qualifying businesses applying for SBE status; establish a periodic re-qualification process and improve the accuracy of the SBE directory.

Management's Response

Management agrees that SBE should be qualified for initial participation, periodically reviewed for continuing qualification, and tracked within the supplier database. These procedures provide assurance that only legitimate participants are permitted in the program, and also provide opportunities for monitoring their participation.

To comply with these recommendations, Management will require an attestation from the supplier upon application as to the supplier's qualifications as a SBE. Additionally, purchasing staff will utilize the City of Gainesville's SBE database, as well as other sources, to verify supplier information. Staff will also review suppliers designated as a SBE in the database on a basis of at least every three years in order to reaffirm the supplier's status as an SBE. Finally, staff is in the process of performing maintenance in its supplier database, part of which is a review of each supplier designated as a SBE. The review includes a qualification assessment and follow-up with the supplier(s), as necessary. A report which lists all small businesses contained in the active supplier database is now available to all staff from the GRU Purchasing Intranet page.

ISSUE #2

Inconsistencies Between Local Preference Ordinance and GRU Local Preference Procedures

Discussion

In March 2004, the City Commission adopted Ordinance 001261 to promote the utilization of local businesses, which became effective in October 2004. The ordinance applies to most City-funded purchases over \$50,000 and provides qualified local vendors a 5% advantage in either evaluation points or price differential up to \$25,000. To be eligible for the Local Preference, businesses are required to hold a valid City of Gainesville occupational license and to operate their business in an area within the City properly zoned for the conduct of such business.

We noted that GRU's Purchasing Procedures Manual broadens the definition for local businesses to include those with valid occupational licenses within Alachua County and provides for a local vendor preference to local businesses and GRU customers.

Conclusion

GRU purchasing procedures provide a purchasing preference to GRU customers and local businesses which is broader than that set forth in the City of Gainesville Local Preference Ordinance. Although the GRU service area extends into the unincorporated area, the ordinance did not recognize GRU customers within the scope of eligibility. Unless the City Commission reconsiders the definition, management should revise GRU's purchasing procedures to comply with the ordinance.

Recommendation

We recommend management revise GRU Purchasing Procedures to be consistent with the Local Preference Ordinance. Alternatively, management could request the City Commission revise the Local Preference Ordinance to allow for a broadened definition of local preference.

Management's Response

Management agrees that GRU Purchasing Procedures should be consistent with the City of Gainesville Local Preference Ordinance. The GRU Purchasing Procedures do comply with the City of Gainesville Local Preference Ordinance. The Local Vendor Preference definition published in the GRU Purchasing Procedures and referenced above was misstated and subsequently corrected in April 2006. It has since been made available on the GRU Purchasing Intranet page. While the GRU SBE program does contain a local business element, it is not a preference-based program. Accordingly, Management refrains from pursuing any amendment to the City of Gainesville Local Preference Ordinance at this time.

Improvements to GRU SBE Program Monitoring and Reporting

Discussion

Resolution 970214 established City policies designed to create significant opportunities for eligible local minority and local small businesses to participate, on a nondiscriminatory basis, in business transactions of the City. To achieve compliance with the policies established, the City Commission adopted the Local Minority Business and Local Small Business Procurement Program, which established management responsibilities for periodically evaluating program effectiveness and reporting program progress to the City Commission. While this program was not specific to GRU, we believe the principles of evaluating and reporting program progress are relevant to GRU's program.

Currently, the GRU Purchasing Division compiles SBE spending information, which includes MBE spending, and periodically submits reports to the Equal Opportunity Office and a federal agency (General Services Administration). While these reports reflect total spending in the current period, they do not include relevant information necessary for monitoring the program, such as comparative information over several years, the number of SBE vendors or a summary of efforts and activities. The reports also do not separately identify GRU spending with local SBE vendors from the total spending with local and non-local SBE vendors.

Conclusion

Improved periodic reports are needed to assess past performance, measure effectiveness and assist in making improvements to the SBE program.

Recommendation

We recommend management enhance the monitoring and reporting process for the SBE program, periodically preparing comparative trend analysis that will help to assess the effectiveness of program activities and comparing benchmarking data with other comparable utilities. Resulting reports should be provided periodically to the Equal Opportunity Office and ultimately to the City Commission. Reports to the City Commission should differentiate local versus non-local SBE and MBE activity.

Management's Response

Management recognizes the need to capture and report SBE statistics by geographic location. The current structure of the database will need to be modified to further define a SBE business by its location. Staff has begun the process of making these changes and anticipates having the project completed within six to nine months. The reports being submitted to the Equal Opportunity Office will be adjusted to reflect any benchmarking data and trends.

ISSUE #4

Identification of VISA Purchases in SBE Spending Reports

Discussion

The GRU Purchasing Division is responsible for compiling SBE spending information. Data for SBE goods or services purchased through a purchase order or contract are compiled using Ellipse, a resource application that provides specialized purchasing reports. However, SBE reports produced do not include VISA procurement card spending because of system constraints.

Nearly \$4 million in GRU purchases are completed annually using VISA procurement cards. These transactions include expenditures with SBE vendors; however, the SunTrust Bank system that processes these transactions does not currently have the capacity to distinguish SBE vendors and identify SBE spending.

Purchasing staff are exploring software options and working with SunTrust to identify SBE expenditures completed with VISA procurement cards.

Conclusion

Management reports do not accurately represent all spending with SBE vendors because SBE procurement card purchases are not included. This affects both the accuracy of SBE information reported and the ability to measure the success of the program.

Recommendation

We recommend management continue efforts to develop an accurate reporting system that identifies all SBE spending, including VISA procurement card transactions.

Management's Response

Management agrees that all spending with SBE vendors, including procurement card purchases, should be monitored. To this end, Staff has begun to extract SBE spend data based on Visa supplier and transaction data using an online software program through SunTrust. This data will be incorporated into future reporting.