

Metro
**Metropolitan Exposition -
Recreation Commission**
***Oregon Convention Center
Purchasing Practices***

March 1997
A Report by the Office of the Auditor



METRO

1997-10202-AUD

Alexis Dow, CPA
Metro Auditor



METRO

OFFICE OF THE AUDITOR

March 19, 1997

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Re: Audit of Oregon Convention Center purchasing practices

The accompanying report covers our audit of Oregon Convention Center purchasing practices. Our review was undertaken as part of Metro's overall annual auditing program. Its purpose was: to determine if policies and procedures ensure supplies and services are obtained at competitive prices, to identify opportunities to streamline Convention Center purchasing processes, and to evaluate the effectiveness of Convention Center management controls ensuring compliance with applicable policies, procedures and other requirements.

We identified areas for improvements, including:

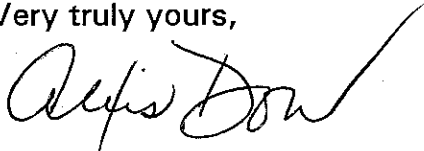
- More aggressively pursuing potential opportunities to obtain supplies and services at lower cost through buying in higher volumes,
- Improving management controls to ensure Convention Center staff adhere to MERC's quote requirements, including obtaining quotes from Target Area and minority-owned businesses,
- Streamlining purchasing and invoice review processes, and

- Improving internal controls to ensure staff obtain management's authorizations for purchases more consistently before ordering from vendors.

MERC agrees with the above suggestions and with most of the specific findings and recommendations in the audit report. Action is being taken to implement many of our recommendations. The last section of this report presents MERC's written response to the report.

We appreciate the cooperation and assistance provided by MERC staff during our work on this review.

Very truly yours,

A handwritten signature in black ink that reads "Alexis Dow". The signature is written in a cursive style with a large, sweeping flourish at the end.

Alexis Dow, CPA
Metro Auditor

Auditor: Doug U'Ren

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Response to the Report

Summary

We reviewed Oregon Convention Center purchasing practices to evaluate the effectiveness of management controls, determine whether policies and procedures ensure supplies and services are obtained at competitive prices, and identify opportunities to streamline Convention Center purchasing processes. The Convention Center is managed by MERC, the Metropolitan Exposition-Recreation Commission. The Convention Center's materials and services budget for the current fiscal year is \$7.0 million.

We concluded that management needs to devote more attention to Convention Center and MERC purchasing activities to ensure staff obtain services at competitive prices and comply with MERC's policies. Convention Center staff seem receptive to improving the effectiveness and efficiency of purchasing processes, but they need clearer policies and more assistance and directions from MERC's Administration Division in order to do this. Our findings include:

- MERC and Convention Center staff should more aggressively pursue potential opportunities to obtain supplies and services at lower cost through buying in higher volumes. Currently, each MERC facility negotiates its own prices and terms with vendors, and there is no formal process for identifying services that could be acquired jointly or with other government agencies.
- Convention Center staff did not obtain quotes from the number of vendors required by Commission policy before purchasing supplies and services costing between \$2,500 and \$31,000. As a result, prices paid for supplies and services in this price range may not always have been competitive. Also, Target Area and minority-owned businesses may not have been provided the level of opportunity to do business with the Convention Center that the Commission envisioned when it approved MERC's purchasing policy, which applies to the Convention Center. Better controls are needed to ensure Convention Center staff adhere to MERC's quote requirements.
- Although we recommend Convention Center staff follow purchasing policies and procedures more stringently, we found opportunities to streamline those purchasing and invoice review processes. MERC policy currently requires staff to obtain four competitive quotes when buying services costing between \$2,500 and \$31,000. We believe three quotes should be sufficient to obtain competitive prices on purchases under \$10,000. We also recommend allowing Convention Center managers to authorize purchases up to \$2,500; MERC policy allows them to do this, but it has not been the practice. Finally, we recommend ways to reduce the effort required to process vendors' invoices for payment.
- Convention Center purchases were usually authorized in accordance with MERC policy and properly recorded. However, audit testing indicated staff sometimes place orders, then seek purchase approval after receipt of supplies or services. Internal control changes are needed to ensure staff obtain management's authorizations for purchases more consistently before ordering from vendors.

Chapter 1

Introduction

MERC The Metropolitan Exposition-Recreation Commission (MERC) was created to operate, maintain and renovate metropolitan convention, trade and spectator facilities. MERC currently operates the Portland Center for the Performing Arts (PCPA), the Expo Center, the Civic Stadium and the Oregon Convention Center (Convention Center; Figure 1). MERC's adopted budget for FY 1996-97 is \$39.1 million, including \$26 million for materials, services and capital outlays.

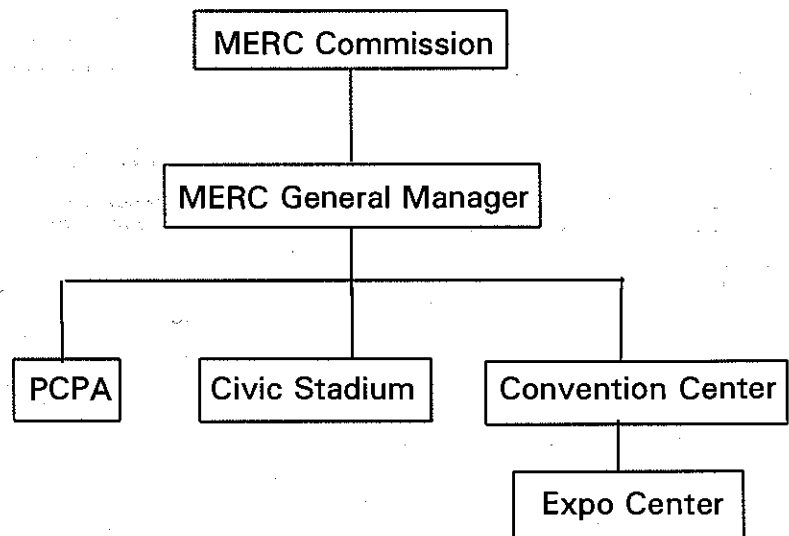


Figure 1. MERC organizational chart.

MERC assumed its first major responsibility in 1988 when it began hiring staff and marketing the Convention Center; Metro was responsible for construction of the facility. In 1990, the City of Portland gave MERC responsibility for operating three spectator facilities — the Portland Center for the Performing Arts, the Civic Stadium and the Memorial Coliseum — under the first phase of a consolidation agreement approved by the

Metro Council and the Portland City Council. MERC assumed control of the Convention Center in September 1990, after construction was completed. In July 1993, Metro and the City of Portland transferred responsibility for operating the Memorial Coliseum to Oregon Arena Corporation. The Expo Center was transferred to MERC by Multnomah County in January 1994.

MERC's seven-member commission reviews and approves MERC budgets and contracts, appoints the MERC General Manager and sets policy. Positions on the commission are nominated by the City of Portland (2), Metro's Executive Officer (2), and Multnomah, Clackamas and Washington counties (1 each). Appointment to the Commission is subject to Metro Council approval.

Convention Center

The Oregon Convention Center, located in Northeast Portland, is a major Metro region public facility. It has the ability to house multiple and large events, and has a targeted economic impact on the Metro region of \$60 million during FY 1996-97. The Convention Center is a 500,000 square foot facility featuring 150,000 square feet of column-free exhibit space, a 25,000 square foot ballroom, 28 breakout and meeting rooms and 55,000 square feet of lobby and pre-function space. Its adjacent parking lot holds up to 875 vehicles.

Annual attendance at Convention Center events has ranged from approximately 600,000 to nearly 800,000 people in the last five years (Figure 2). The targeted occupancy rate for FY 1996-97 is 75%, which is considered capacity. Maximum capacity is less than 100% because of holidays, set-up and take-down time for exhibits, etc.

The Convention Center is managed by a director who reports to the MERC general manager. Operations are funded from a hotel/motel tax levied by Multnomah County and from enterprise revenues. The latter include food service, building rent and parking revenues. The proportion of revenues from tax support and enterprise revenues varies from year to year. For the FY 1996-97 budget, about 64% of Convention Center revenues come from enterprise activities

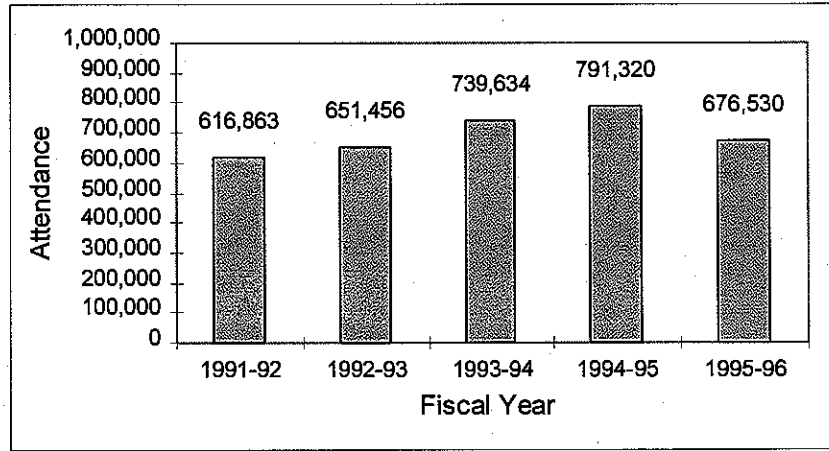


Figure 2. Attendance at Convention Center events.

and 34% from the hotel/motel tax. Income from interest and other sources comprise the remaining 2% of Convention Center revenues (Figure 3).

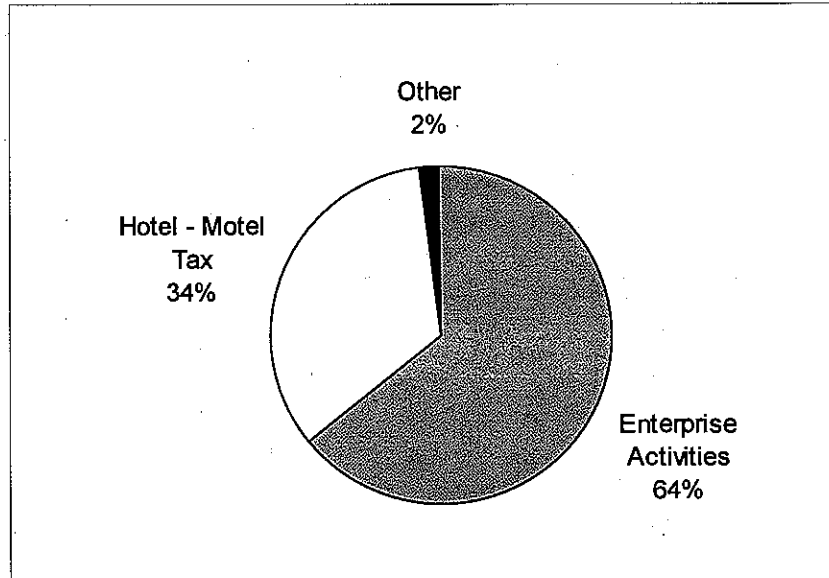


Figure 3. Convention Center budgeted revenue sources.

On the expenditure side, the Convention Center's total budget for FY 1996-97 is approximately \$13.2 million. About 53% (\$7.0 million) of the total budget pays for materials and services (Figure 4). Another 31% (\$4.1 million) covers personal services or employee

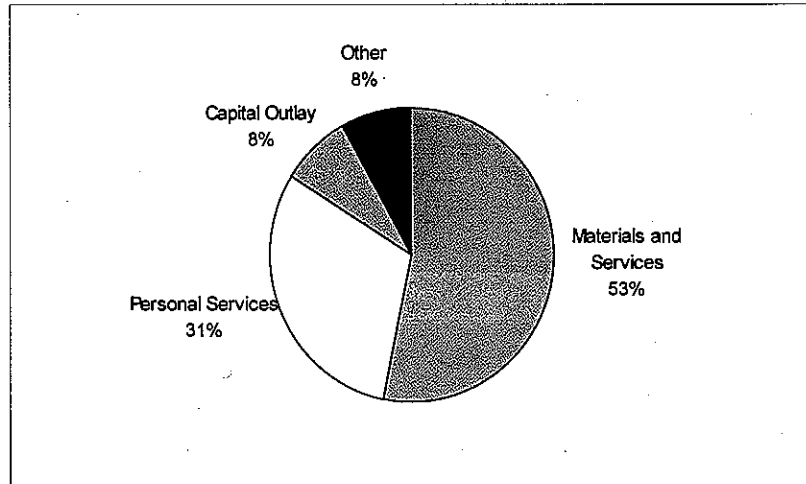


Figure 4. Convention Center budgeted expenditures by category.

compensation. The remaining 16% of budgeted expenditures are for capital outlays and internal service charges. Expenditures for materials and services have grown from \$4.6 million in FY 1991-92 to \$6.4 million in FY 1995-96 (Figure 5).

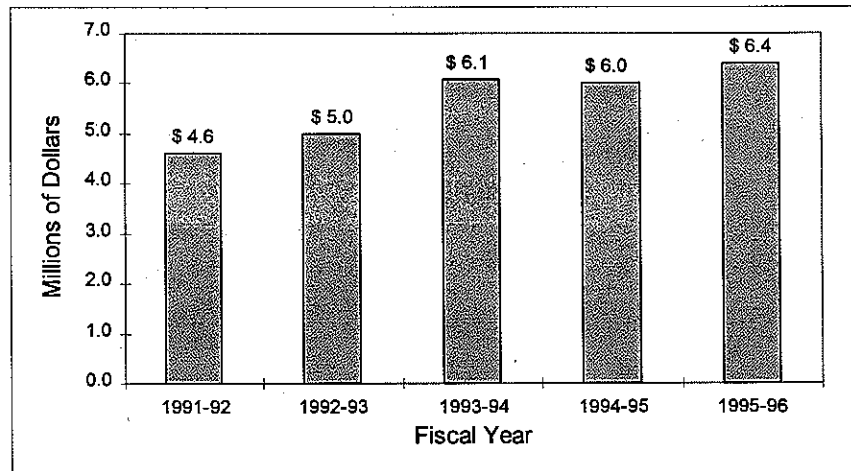


Figure 5. Convention Center Operating Fund expenditures for materials and services.

**MERC
Purchasing Policy**

MERC's purchasing policy and procedures were approved by the Commission in May 1991. They cover purchasing, contracting, petty cash funds and travel expenses.

Purchases of personal services over \$25,000 and purchases of supplies, materials, equipment, labor and construction costing over \$31,000 are considered formal purchases and have several requirements. These requirements include Commission approval of advertising for proposals or bids, Commission approval of the contract award, and written contracts. Purchases of all other supplies and services are designated informal purchases and do not need Commission approval. However, MERC policy establishes competitive quote and purchase authorization requirements for these informal purchases.

Metro Purchasing Policies The Metro Code empowers the MERC Commission to enter into any contracts and to procure any services necessary to carry out its mission of operating, maintaining, renovating and marketing regional trade, convention and spectator facilities. Until February 1997, the Metro Council had authority to retroactively change or nullify MERC resolutions, including those pertaining to unexecuted contracts and purchase commitments. However, in February 1997 the Metro Council passed Ordinance 97-677 which contained provisions enabling MERC to operate more independently from Metro. Ordinance 97-677 also gave the Council more opportunity to review MERC resolutions before they are considered by the MERC Commission and eliminated the Council's option to retroactively review MERC resolutions. Metro's Code requires MERC to provide Metro with information about all contracts into which it has entered. In addition, MERC must comply with Metro's policy against doing business with certain former officials who had authority in the area of interest while with MERC or Metro.

Audit Purpose and Scope

The objectives of the audit were to:

- determine if policies and procedures ensure supplies and services are obtained at competitive prices;
- identify opportunities to streamline Convention Center purchasing processes; and

- evaluate the effectiveness of Convention Center management controls ensuring compliance with applicable policies, procedures and other requirements.

We interviewed MERC and Convention Center personnel, reviewed applicable MERC and Metro policies and procedures, and tested selected Convention Center purchases. We considered four variables in selecting purchases to test: (1) vendors, (2) general ledger accounts, (3) timing and (4) cost centers. We sought a range of purchases with respect to all four variables. The 21 tested purchases occurred in March, June and July 1996. Each purchase involved a different vendor.

We had hoped to state the magnitude of purchases to help put our results in perspective. For example, we would like to have identified the percentage of Convention Center materials and services purchases that fall between \$2,500 and \$31,000. Unfortunately, Metro's current financial system does not allow this information to be obtained in a timely manner. This short-coming should be corrected when a new financial system is installed in July 1997.

We did not review Convention Center processes for bidding and awarding contracts over \$31,000, nor did we review capital expenditure processes. These processes are subject to direct oversight by the MERC Commission. Our review was made in accordance with generally accepted government auditing standards.

Chapter 2

Opportunities to Obtain Supplies and Services at Lower Cost

Purchase More Supplies and Services on a MERC-wide Basis

We believe opportunities exist to obtain lower prices by pooling the purchasing requirements of all MERC facilities. MERC's largest purchases are made under contracts that benefit two or more facilities. For example, a single vendor provides concessions and catering services for all of MERC. Establishing contracts that benefit two or more facilities can save money, because vendors will frequently offer lower prices if their costs can be spread across a greater volume of business.

We recommend the MERC General Manager assign responsibility to identify these opportunities and coordinate efforts to take advantage of them. Good candidates for joint purchasing include janitorial supplies; photocopier leasing, maintenance and supplies; office supplies; and building supplies and services.

Some MERC Purchases Could be Coordinated with Metro

Both MERC and Metro may be able to realize savings by pooling some purchases, but they have no process in place to evaluate those potential benefits. We recommend the MERC General Manager appoint someone on his staff to contact Metro and other local jurisdictions and begin exploring the feasibility and level of benefit that could be achieved if selected services were to be acquired on a pooled basis.

Access to Basic Purchasing Information Could be Improved

The Metro financial system has been adequate for accounting and financial reporting purposes but does not provide easy access to basic purchasing information. For example, neither MERC nor Metro personnel were able to tell us how many purchase orders Convention Center or MERC initiated in FY 1995-96. This information would have been available only by manually counting all purchase orders filed by the MERC purchasing manager that fiscal year. MERC and Metro staff were unable to

provide any reports showing purchases by vendor or by commodity, which would be useful in identifying the best opportunities to obtain lower prices on supplies and services. If MERC facilities are to purchase more services together and/or with other government agencies, and to identify other opportunities to reduce costs, staff will require an information system that provides better access to purchasing information.

Metro plans to start replacing its financial system in July 1997. We were told the new financial system will contain a purchasing module and will provide both MERC and Metro personnel with much better capability to access and analyze purchasing data. Due to the weaknesses of the current financial system, MERC staff may not be able to identify all reasonable opportunities to buy supplies and services MERC-wide or jointly with other government agencies until the new financial system has been installed.

**MERC Staff Need
Better Information on
Use of State of Oregon
Price Agreements**

MERC should develop a program to increase staff's awareness and understanding of purchasing under price agreements established by the State of Oregon and other agencies. The State of Oregon Department of Administrative Services negotiates price agreements with a large number of companies that provide a wide range of equipment, supplies and services under the agreements. Local governments can make purchases on these agreements by using a special purchase order form (CRO) and paying a small fee to the State of Oregon. We were told that the prices of items on these agreements are generally, though not always, quite competitive. Because of this competitive pricing, MERC purchases between \$2,500 and \$31,000 made on a state price agreement can be sole-sourced. MERC purchasing policy generally requires buyers to obtain four competitive quotes before making purchases in this price range, and sole-sourcing could save staff time. Further, the one purchase in our audit sample that was made on a state purchasing agreement was incorrectly processed, indicating better training on correct procedures may be needed.

MERC staff should establish a more effective process for communicating price agreements information operating

departments that make purchase decisions. Personnel from Metro's Risk and Contract Management Division can access State of Oregon computer databases that identify the items available on these agreements. They can provide the special purchase order forms (CROs) that are needed and coordinate fee payment. We were told that Risk and Contract Management Division also has information on other price agreements from which MERC can purchase.

We recommend that the MERC Purchasing/Systems Manager periodically obtain lists of the items that are available on the various pricing agreements from Metro's Risk and Contract Management Division. The lists could then be distributed to all MERC department managers and others who are routinely involved in making procurement decisions.

Chapter 3

Compliance with MERC and State of Oregon Requirements

No Evidence MERC's Competitive Quote Policy Was Followed

Under MERC policy, Convention Center staff generally must obtain four quotes prior to purchasing supplies and services costing between \$2,500 and \$31,000. One quote must be obtained from a business in the Target Area, which includes selected neighborhoods near the Convention Center. Staff must also obtain a quote from a state-certified minority- or women-owned business enterprise (MBE or WBE), and the two remaining quotes can be obtained from any qualified vendors. A reasonable effort must be made to obtain quotes from Target Area and MBE or WBE vendors. If such quotes cannot be obtained, MERC policy requires staff to document their efforts.

We reviewed eleven Convention Center purchases between \$2,500 and \$31,000 and found none of them were made in full compliance to MERC's competitive quote policy. Seven of the eleven purchases were made on purchase orders. The remaining four purchases were made through contracts.

Two of the eleven purchases were sole-sourced. A sole-source purchase occurs when there is only one qualified provider of the required service or material. Sole-source purchasing involves directly using vendors who provide specialized materials or services not available elsewhere. We concur no alternative providers likely existed in those two instances. However, Convention Center staff did not document the extent of their efforts to find alternative providers or their reasons for sole-sourcing if other providers existed.

One of the eleven purchases was a photocopier lease obtained on a State of Oregon price agreement. Under MERC purchasing policy, purchases from the State's price agreements list are exempted from the requirement to obtain four quotes. Although it appears that the

photocopier lease was included on the list, we were told staff relied on vendor-supplied information and did not confirm the price agreement status with the State. Direct confirmation is needed to avoid buying services that are no longer included on the price agreements list.

Four purchases appear to have been made after only one vendor was contacted. None of the vendors from whom these purchases were made was a Target Area, MBE or WBE business. Additional quotes could have been obtained for each of the four purchases, including quotes from MBE or WBE businesses.

Two purchases appear to have been made after contacting only two vendors. We found no documentation of any attempts to contact MBE or WBE businesses for quotes. We believe at least one WBE business was available in each case. An attempt was made to obtain a quote from a Target Area business for one purchase but not the other.

The remaining two purchases appear to have been made after Convention Center staff obtained three quotes. No quote was obtained from MBE or WBE vendors in either case. It appears staff could have procured at least one MBE or WBE quote in one case. In the other case, no MBE or WBE vendor appeared to be available to provide the quote.

Number of Documented Quotes Obtained for Eleven Purchases at the Convention Center			
<u>Number of Purchases</u>	<u>Documented Number of Quotes Obtained</u>	<u>Required Number of Quotes</u>	<u>Comments</u>
3	1	1	Sole-sourced purchases
4	1	4	
2	2	4	
2	3	4	

The four-quote requirement is intended to assure competitive pricing on purchases of goods and services. However, this requirement does not appear to have been met for any of the tested purchases. Possible reasons for this include:

- No one has been assigned responsibility for ensuring Convention Center staff comply with MERC's quote requirements before supplies and services are ordered from vendors.
- Staff appear to be confused whether quotes must be obtained from MBE or WBE businesses and whether four total quotes are required.
- MERC's policy and procedure do not provide much guidance for documenting quote information. This may explain why Convention Center staff do not consistently follow the MERC procedure for recording quote information on pre-printed quote sheets. Quote sheets were filled out for only two of the seven purchase orders we tested. The quote sheets are formatted to help ensure quote requirements are met (Appendix A).
- There appears to be confusion regarding procedures to follow when making purchases from the State of Oregon's pricing agreements list.
- Staff are not consistently trained on purchasing procedures.

The apparent failure to obtain the four competitive quotes specified by MERC policy results in two significant effects. First, it creates the risk Convention Center paid higher prices than necessary for the services received. Second, Target Area businesses and state-certified MBE and WBE vendors miss opportunities to conduct business with the Convention Center.

Recommendations

The Convention Center Director or designee should develop internal control processes to ensure:

- Purchases comply with the competitive quote provisions of MERC's purchasing policy;
- Convention Center staff document their efforts when quotes are not obtained from four vendors; and
- Decisions to award sole-source purchases are supported with sufficient documentation.

The MERC General Manager should:

- Develop changes to MERC's purchasing policy and procedures for Commission consideration. These changes would provide staff with better guidance on obtaining competitive quotes and documenting quote information; and
- Assign a staff member to provide training to personnel in complying with MERC's purchasing policies and procedures. MERC's Purchasing/Systems Manager or other staff member could provide the training.

Convention Center Staff Sometimes Ordered Supplies and Services Prior to Obtaining Management Approval

Purchases less than \$31,000 must be authorized in accordance with MERC's signature delegation list. The list was prepared and approved by management in 1994. Purchases should be authorized in accordance with MERC's signature delegation policy before staff place orders with vendors unless the cost of services cannot reasonably be established in advance. Utility billings and many contract payments fall into this category. Such services should usually be purchased with a Payment Authorization rather than a purchase order.

Six of thirteen Convention Center purchase orders we tested were authorized prior to the date services were received; four other purchases were not sufficiently documented for us to determine the dates services were either ordered or received (Figure 6). However, three of the thirteen Convention Center purchase orders we tested were approved *after* vendors had provided services to the Convention Center. It appears management either has an informal signature delegation policy that differs from the official MERC policy or it is not aware that staff sometimes orders services prior to submitting purchase orders for management's approval.

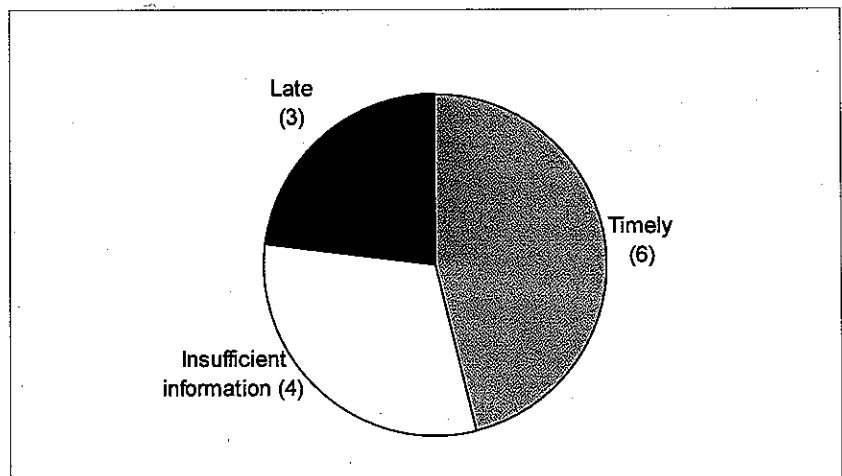


Figure 6. Authorizations for purchase orders.

To ensure accountability, department managers should have the opportunity to review and approve all expenditures recorded to their cost centers. Two of the Payment Authorizations did not contain the signature of the manager whose department was charged for the purchase.

Recommendations

The Convention Center Director should:

- Instruct staff to obtain authorization before they order supplies and services from vendors;

- Develop a process to ensure purchases are authorized prior to ordering services from vendors; and
- Ensure managers have an opportunity to review all costs to be charged to their departments.

**Convention Center Did
Not Verify
Out-of-State Vendors
Met Requirements**

We did not find any documentation in the Convention Center's purchasing records indicating staff tried to determine if out-of-state vendors met State of Oregon requirements. State law (ORS 279.021) mandates Oregon governments meet certain requirements prior to making final payment to an out-of-state vendor on any purchase that exceeds \$10,000. The statute is designed to help the Department of Revenue identify companies that do business in Oregon that do not pay some or all of the required income taxes. Governments must ensure out-of-state vendors have either registered to do business in Oregon or provided the Oregon Department of Revenue with an "Application for Final Payment Release". An Convention Center manager who initiated two of these purchases told us he was not aware of the law. The staff member who initiated the third purchase order told us he did not feel the need to comply with it because other local governments do not bother to comply with it, either.

Recommendation

The MERC General Manager should ensure staff receive training in the proper procedures to follow to comply with ORS 279.021 and other state purchasing requirements. The General Manager should also develop a process to monitor staff's compliance with ORS 279.021.

**Convention Center
Purchases
Were Recorded to
Correct Cost Centers**

In our testing, we checked the coding of purchases into Metro's accounting system. All 21 Convention Center purchases tested were recorded to appropriate cost centers and object codes. This part of the purchasing process appears to work well.

Chapter 4

Purchasing Processes Could Be Streamlined

MERC Could Reduce the Number of Quotes Required for Purchases

MERC should determine whether the benefits of obtaining a fourth quote for purchases under \$10,000 outweigh the extra effort needed to acquire the quote. As noted previously, MERC's purchasing policy requires staff to obtain four quotes before buying services costing between \$2,500 and \$31,000. The MERC Commission may wish to require the fourth quote only if the first three quotes widely vary in price or service level provided. Metro staff must obtain only three quotes when making purchases in the \$2,500 to \$10,000 range, and this is probably sufficient for MERC as well.

More Use of Open Purchase Orders Would Reduce Paperwork and Staff Time

The use of more open or blanket purchase orders would reduce paperwork and save time. Open purchase orders enable staff to make two or more purchases on the same purchase order over an established period of time -- often a year. Open purchase orders can lower purchasing costs by reducing the number of purchase orders that must be prepared, authorized by management and entered into Metro's financial system. Two of thirteen Convention Center purchase orders we reviewed were designated as open purchase orders. We recommend Convention Center management identify vendors that receive four or more Convention Center purchase orders a year and consider using open purchase orders.

Signature Authority for Small Purchases Could be Delegated More Effectively

The Convention Center could reduce the administrative effort needed to process purchase orders by allowing department managers to authorize small purchases. MERC's signature delegation list requires Convention Center purchases greater than \$2,500 to be authorized by either the Convention Center Director or the MERC General Manager. The signature delegation list gives selected Convention Center managers the authority to approve expenditures up to \$2,500. MERC policy

generally requires purchases and contracts over \$31,000 to be authorized by the MERC Commission.

MERC and the Convention Center could streamline purchasing by better implementing its current delegation of signature authority. Audit testing of purchase orders revealed the Convention Center Director signs all of them, even those under \$2,500. Purchase orders could be processed more rapidly and the Convention Center Director could free up his time for other pursuits if Convention Center department managers were allowed to sign for purchases up to their established signature limits.

**Convention Center's
Payment
Approval Process
Could be Simplified**

Our testing indicated the Convention Center's payment approval process for purchase orders is cumbersome. Vendors are not always paid by established due dates. We reviewed 13 invoices submitted by vendors who provided services under purchase orders. Three of them were paid late. Our analysis clearly showed that slow payments were caused primarily by processing delays within Convention Center and MERC. Although the late payments did not result in interest charges or extra fees, they indicate the need to streamline Convention Center's system for processing invoices. Two changes would help Convention Center staff process invoices faster and more efficiently:

- Department managers or their designees should be empowered to indicate receipt of supplies or services on receiving copies of purchase orders. Currently, nearly all Convention Center invoices are reviewed and approved by both the Convention Center Director and a department manager. Allowing others to sign receiving copies would eliminate the need for the Convention Center Director to review each purchase twice (once when authorizing the purchase and again when authorizing the payment).
- Convention Center should reduce the number of addresses used by vendors for invoices. Vendors should be instructed to send their invoices directly to Metro's Accounts Payable section if the purchase was made on a purchase order. All other invoices should be directed to a single MERC or Convention Center

mailing address. Currently, invoices are sent to one of three addresses: Convention Center's post office box, MERC's post office box and Convention Center's street address. Directing vendors to a single mailing address would simplify invoice processing and avoid confusing vendors providing services to multiple Convention Center and MERC departments.

Use of Purchasing Cards Would Save Time and Money

MERC should consider using purchasing cards to obtain services costing less than \$500. MERC departments currently have two options for these services: they can either use a purchase order, or use petty cash for items costing less than \$50. Purchase orders are relatively expensive to use for small purchases because they must be prepared, authorized, recorded in the accounts payable system and monitored until they are closed. Although use of petty cash is more efficient, it cannot be used for purchases exceeding \$50. Raising the petty cash limit is inadvisable for maintaining internal control (such as avoiding theft).

Purchasing cards could be cost-effective for MERC departments buying supplies that are not needed on a routine basis. Purchasing cards are credit cards that can be issued to selected employees to buy relatively inexpensive supplies and services. They can reduce purchasing costs by decreasing the number of purchase orders issued. Purchasing cards also improve the ability to identify the vendors and supplies used most frequently, which helps identify opportunities to negotiate lower prices with vendors.

We recommend that MERC consider establishing a purchasing card program. Metro's Contract Management Division plans to make purchasing cards available to Metro and MERC departments by mid-1997. Detailed information on Metro's purchasing card program is not yet available, but we were told that departments will have the option to use the cards instead of purchase orders when buying most kinds of supplies costing less than \$500. MERC may want to participate in this program. Metro has initiated a pilot purchasing card project, and MERC may want to participate in this as well.

Electronic Purchasing Should be Implemented When it Becomes Available

MERC should take full advantage of opportunities to process purchases electronically when Metro installs its new information management system. Metro plans to begin replacing its general ledger, accounts payable and accounts receivable software in July 1997. Installation of purchasing software, which Metro's current financial system lacks, is also planned for July 1997. We understand the new financial system will provide MERC and Metro departments the capability to prepare and authorize purchases electronically. Eventually, the system will enable MERC to receive, review and approve vendors' invoices electronically as well. MERC should implement these features to the extent feasible, given the capabilities of MERC's computer network. This would reduce the labor needed to execute purchases, speed the purchasing and vendor payment processes, and cut the amount of paperwork that current purchasing processes generate.

Chapter 5

MERC's Purchasing Policies and Procedures Need Revision

Policies and Procedures Need to be Updated

MERC's current Purchasing Policy and Administrative Procedures were adopted by the Commission in May 1991, and do not reflect changes occurring since that time. For example, MERC Policy 3.0 "adopts in principle, policy and content Metro Code 2.04.100 through 2.04.180 (Metro Disadvantaged Business Program) as they apply to locally-funded contracts of the Commission." The Metro Code has changed in the last few years and 2.04.100 now describes Metro's Minority Business Enterprise Program. DBE is a status developed for federally financed grants and is not the same as MBE. MERC's purchasing policy should be re-written to clear up the confusion created by Metro Code changes.

Also, MERC Purchasing Policy 5.0 requires four quotes for purchases between \$2,500 and \$31,000. One quote must be obtained from a Target Area business, one quote must be from a state-certified DBE or WBE, and two quotes must be obtained from other vendors. It is unclear whether a quote from a MBE would suffice to fulfill the requirement to obtain a quote from a DBE or WBE, or if the quote must be from a DBE or WBE.

Procedures refer to forms no longer in use. MERC's purchasing procedure indicates that a purchase requisition/order form should be filled out and approved by management prior to obtaining competitive quotes. MERC no longer uses purchase requisition/order forms.

The "Payment" Section of MERC's Informal Purchasing Procedure does not reflect MERC's current invoice processing practices. For example, the procedure indicates vendors' invoices are mailed to Metro Accounts Payable, date stamped, then sent to the appropriate MERC department heads for review and approval. In reality, MERC departments receive invoices directly from vendors and invoices are not sent to Metro Accounts

Payable until they have been approved by MERC's managers.

Policies and Procedures Need to be Clarified

Parts of MERC's purchasing policy are unclear. For example, MERC staff may not be able to obtain quotes from Target Area, DBE or WBE vendors. MERC's policy is unclear whether MERC departments must obtain only two quotes from other vendors, or if they must always acquire four competitive quotes when purchasing services between \$2,500 and \$31,000.

Terms used in MERC's purchasing procedures need to be better defined. MERC's purchasing procedures state "If a quote from a DBE, WBE or target area business cannot be obtained, evidence of reasonable effort must be documented and attached as well. Failure to provide requested information may delay processing." "Evidence of reasonable effort" needs a definition to provide MERC personnel with guidance on how to implement this requirement.

MERC Policies and Procedures are Incomplete

A number of responsibilities and processes are not found in MERC's policies and procedures. The following checklist could be used to help ensure the policies and procedures are more useful.

- ✓ Procedure and responsibility for maintaining MERC's signature authorization list.
- ✓ Responsibility for ensuring competitive quote requirements have been met or the reasons for sole-sourced purchases have been adequately documented.
- ✓ Responsibility for ensuring purchasers check State of Oregon and other pricing agreements before materials and services are purchased.
- ✓ Provide guidelines on who may approve invoices where the expenditure was previously authorized on a purchase order.

- ✓ Procedure for ensuring MERC purchases are made in compliance with Metro Code 2.02.240 (Ethical Requirements for Employees, Officers, Elected and Appointed Officials) and State of Oregon ethics standards (ORS Chapter 244).
- ✓ Policy on how long to keep purchase and contract documents, where they should be stored, and when alternative storage media (e.g. microfiche or computer disks) can be used.
- ✓ Guidelines on using Payment Authorizations to process expenditures (as opposed to purchase orders).
- ✓ Responsibility for assigning the appropriate account codes to purchases.

**Attempts to Contact
Target Area Vendors
Should be Documented
for Purchases
Under \$2,500**

MERC should require staff to document their attempts to contact Target Area vendors first when making purchases under \$2,500. Under MERC's purchasing policies, personnel need to obtain only one quote before purchasing materials or services that will cost less than \$2,500. However, they must make a good faith effort to obtain this quote from a Target Area vendor certified by the Oregon Department of Consumer & Business Services as a DBE or WBE business. Quotes can be obtained from other, non-Target Area vendors if attempts to locate a Target Area vendor to provide the services are unsuccessful. MERC's purchasing policy does not require purchasers to maintain written records of their attempts to contact Target Area vendors. Because of this, MERC's managers have no means to verify compliance with the requirement. We also were unable to determine if this requirement has been met.

Chapter 6

Summary of Recommendations

MERC Recommendations

1. The MERC General Manager should:

- Ensure MERC departments comply with MERC purchasing and contracting policies and procedures, especially those which set authorization, competitive quote and documentation requirements;
- Ensure MERC purchases comply with all relevant State of Oregon statutes;
- Raise MERC staff's awareness of the supplies and services that are available at competitive prices through price agreements established by the State of Oregon and other organizations;
- Assign staff to identify opportunities and strategies to obtain equipment, supplies and services at the lowest cost, consistent with MERC's objective of fostering opportunities for Target Area vendors and MBE and WBE vendors;
- Assign staff to coordinate efforts to streamline purchasing and invoice review procedures and practices throughout MERC; and
- Revise MERC purchasing policies and procedures so they are complete, clear, and consistent with referenced Metro Code provisions.

2. The MERC General Manager should assign staff and resources to identify opportunities to purchase more services and supplies on a MERC-wide basis. Staff should also be assigned to explore the feasibility and benefits of negotiating price agreements and contracts jointly with Metro and other government agencies.

3. The MERC General Manager should assign staff to develop a program to increase awareness of the equipment, supplies and services available on price agreements negotiated by the State of Oregon and other purchasing groups.
4. MERC's current purchasing and contracting policy and procedures need revision. We recommend the MERC General Manager assign staff and resources to develop proposed changes that would make the policy and procedures clearer, more complete and more consistent with referenced Metro Code provisions. The proposed changes should then be forwarded to the MERC Commission for its consideration and approval.
5. The MERC General Manager should consider asking the MERC Commission to approve purchasing policy changes that would:
 - Reduce the required number of competitive quotes from four to three when purchasing supplies and services costing between \$2,500 and \$10,000;
 - Require purchasers to document the scope of their attempts to obtain quotes from Target Area vendors when buying services costing less than \$2,500.
6. The MERC Purchasing/Systems Manager should ensure MERC takes full advantage of opportunities to process purchase orders and invoices electronically when Metro installs a new management information system later in 1997.
7. Metro plans to set up a program in the near future that would enable selected employees to use purchasing cards when buying supplies costing less than \$500. MERC should consider joining Metro's program and issuing purchasing cards to a limited number of personnel.

**Convention Center
Recommendations**

1. The Convention Center Director or a designee should develop internal control processes to ensure:
 - Purchases are sufficiently authorized prior to ordering services from vendors;
 - Purchases comply with the competitive quote requirements of MERC's purchasing policy;
 - Adequate documentation is provided when purchases are sole-sourced; and
 - Out-of-state purchases are made in compliance with ORS 279.021.
2. The Convention Center Director or a designee should identify opportunities to use more open purchase orders that can be used repeatedly until a set dollar limit or expiration date is reached.
3. The Convention Center Director should allow department managers to authorize purchases under \$2,500 and to indicate receipt of services on the receiving copies of purchase orders.
4. The Convention Center Director or a designee should see that vendors billing the Convention Center on purchase orders are instructed to send their invoices directly to Metro Accounts Payable if MERC continues to contract with Metro for accounting and accounts payable services. Other invoices should be directed to a single Convention Center address.

METROPOLITAN EXPOSITION-RECREATION COMMISSION

COMPETITIVE QUOTE SHEET FOR INFORMAL PURCHASES

\$2,500 TO \$31,000

Facility _____ Department _____

Name & telephone person soliciting quotes _____

Description of goods or services _____

1) Target Area Vendor:

Co. _____

Name _____

Telephone # _____

Date _____

Response _____

2) DBE or WBE Vendor:

Co. _____

Name _____

Telephone # _____

Date _____

Response _____

3) Vendor:

Co. _____

Name _____

Telephone # _____

Date _____

Response _____

4) Vendor:

Co. _____

Name _____

Telephone # _____

Date _____

Response _____

IF QUOTES SUPPLIED IN WRITTEN FORM ATTACH COPY OF CORRESPONDENCE

Response to the Report



METROPOLITAN EXPOSITION-RECREATION COMMISSION

DATE: March 18, 1997
TO: Alexis Dow, Metro Auditor
FROM: Alice Norris, MERC Chair
SUBJECT: MERC Response to Oregon Convention Center Purchasing Audit

I. Introduction

On behalf of MERC, I want to thank you for this opportunity to comment on your recent audit of the Oregon Convention Center's (OCC) purchasing practices. We appreciate the work that you have done in helping us to review our practices and policies, and we welcome your input.

In general, MERC agrees with most of your findings and almost all of your recommendations. It is our intention to implement these recommendations as indicated below. We do note that many of the findings and recommendations deal with MERC's relationship with Metro. As you know, the Metro Council has recently significantly revised the MERC/Metro relationship; accordingly, those comments which touch upon this relationship are of limited value in our future planning. Many of these issues are dependent on MERC's future relationship with Metro with respect to contracting, accounting, and purchasing, which is subject to a negotiation which has not yet been concluded.

II. MERC's Response to Summary of Audit

- **MERC agrees that it should pursue a MERC-wide volume buying program in order to lower costs.** The MERC General Manager has directed MERC staff to draft a proposal for such a program within the next two weeks.
- **MERC agrees that OCC and other MERC staff should always follow MERC's stated policies regarding documentation of the number of quotes obtained for medium-sized contracts.** The MERC General Manager has issued a general directive to staff reminding them to follow the stated procedures until they are changed. In addition, MERC staff has been directed to draft procedures to ensure that such quotes are always properly documented within the next two weeks.
- **MERC agrees that its purchasing policies and quote requirements should be**

streamlined. You recommend in your audit that MERC reduce its bid requirements for medium-sized contracts from four to three, and that OCC managers be permitted to authorize purchases up to \$2,500 on their own signatures. We concur, and additionally submit that MERC's entire purchasing policies require a comprehensive review, in no small part due to the Metro Council's recent actions which allow MERC considerable additional freedom in purchasing. The MERC General Manager has directed MERC staff to prepare a complete re-draft of MERC's contracting policies by May 1, 1997, for MERC consideration in May and June, 1997, followed by implementation effective July 1, 1997.

- **MERC agrees that OCC purchases should always document any necessary approvals prior to, and not after, the purchase.** The MERC General Manager has directed MERC staff to draft procedures to ensure that such approvals are obtained and documented within the next two weeks.

III. MERC'S Response to Summary of Recommendations

A. MERC Recommendations

- MERC generally agrees with these recommendations. The General Manager has directed MERC staff to draft a proposal for implementing those recommendations that do not require MERC formal action within the next two weeks.
- With respect to recommendations which require MERC formal action, we believe that it would be most beneficial to enact such changes as part of a comprehensive re-write of MERC's entire purchasing policy, with an eye towards the changes mandated by the Metro Council in its recent ordinance. Accordingly, staff has been directed to draft a proposed revision of MERC's purchasing policy by May 1, 1997, for MERC consideration in May and June, with implementation scheduled for July 1, 1997.
- Some of the recommendations refer to or are contingent upon MERC's contracting relationship with Metro; as MERC's future relationships with Metro on this subject are under discussion, such recommendations will have to await the outcome of these negotiations.

B. OCC Recommendations

MERC agrees with all of these recommendations except number 4, which is addressed below. The General Manager has directed MERC staff to prepare a draft proposal for implementing those recommendations within the next two weeks.

IV. Areas of Disagreement

- **Quote Requirement**—As noted above, MERC agrees that better documentation of staff's efforts to comply with MERC's quote requirements is required. MERC does not agree with the apparent conclusion that a failure to document these quotes means in all cases that the quotes were not obtained. Similarly, we do not agree that any evidence exists that MERC has either paid higher prices than necessary for goods and services, or that any particular classes

of vendors have missed opportunities to do business with MERC—since both of these points were beyond the scope of the audit, no evidence was garnered on these issues. Accordingly, we feel that no conclusions on these points are warranted; we do agree that better documentation of the quotes MERC obtains is in order.

- **The Photo Copier Lease**—One of your audit findings dealt with a photocopier lease—MERC leased this photocopier on a State of Oregon price agreement—initially, there was some confusion as to whether this particular model was actually on the list. Your office requested more information, which MERC staff supplied, and you have now agreed with MERC in your audit that “the photocopier lease was included on the list...” Since this particular purchase was in full compliance with law and policy, we see no basis for an audit finding here.
- **MERC disagrees with OCC Recommendation Number 4**—That recommendation suggests that MERC require that OCC vendors send their invoices directly to Metro Accounts payable if MERC continues to contract with Metro for these services. We appreciate the intent, which is to speed up payment to vendors; however, MERC staff has observed that vendors have a tendency to confuse “ship to” and “bill to” addresses in their files. Accordingly, we believe that this recommendation might create more problems and delays than it solves. We believe that we can correct this problem with some minor adjustments to our purchase order form.

V. Conclusion

We appreciate the work that you and your staff have done to point out places where we can improve our contracting procedures. We intend to implement your recommendations as noted above, and we look forward to further improvements in MERC’s contracting functions.

cc: MERC Commissioners
MERC Management Team



METRO

Metro Auditor Report Evaluation Form

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Your feedback helps us do a better job. If you would please take a few minutes to fill out the following information for us, it will help us assess and improve our work.



Name of Audit Report: _____

Please rate the following elements of this report by checking the appropriate box.

	Too Little	Just Right	Too Much
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Length of Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Suggestions for our report format: _____

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Name (optional): _____

Thanks for taking the time to help us.

Fax: 797-1799

Mail: Metro Auditor, 600 NE Grand Avenue, Portland, OR 97232-2736

Call: Alexis Dow, CPA, Metro Auditor, 797-1891