



**Audit Report
Council Approval Thresholds
October 4, 2017**

**City Auditor's Office
Gregory L. McDowell, CPA, CIA**

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Purpose and Scope

The following report addresses a narrow scope issue regarding the dollar threshold of contracts which require Council approval. For several years, City staff has raised questions of whether the threshold for Council's approval of contracts could or should be raised. Internal Audit's interest in this topic is related to both appropriate levels of control, and process efficiency.

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.

This report is intended for the use of the City Manager's Office, City Council, and all City Departments.

Conclusion

The City's internal controls and processes support the increased operational efficiencies which can be gained by raising the dollar threshold of contracts submitted to Council for approval. Specifically:

- State statutes now allow for increases to the limit established in 1995
- Increasing the Council approval threshold can improve staff efficiencies significantly, by decreasing the administrative effort for Consent Items up to 50%
- Audit results over the past several years support this action

Recommendations

- A. The City Manager should seek Council approval to raise the threshold of Requests for Council Actions (RCAs) for construction, goods and service contracts normally presented as part of the Consent Agenda from \$100,000 to \$500,000.
- B. Contracts over \$250,000 which are approved by the City Manager should be reported to Council periodically. Concurrently, this level should be set as the required threshold for submittal to Charlotte Business Inclusion, for establishment of MWSBE subcontracting goals.

- C. Department Head authority should be raised from \$50,000 to \$100,000, by revising Citywide Procurement Policy MFS 24.

Background

City Council adopted the current contract approval threshold of \$100,000 in 1995, exercising what was at that time the maximum delegation authority permitted under state law for construction contracts and the purchase of goods. The \$100,000 was based upon special legislation enacted by the N.C. General Assembly in 1995 to increase the threshold for governing board approval on such contracts only for the City of Charlotte. (There was no state bid statute applicable to services; however, Council chose in 1995 to apply the same \$100,000 threshold allowed for construction and goods to service contracts as well.)

After adopting the legislation specific to Charlotte, the General Assembly began increasing the governing board contract approval thresholds for construction and goods statewide. In 1997, the General Assembly amended the state bid statute to allow governing boards to delegate unlimited contract award authority for goods to the city manager or chief purchasing official. Through a series of subsequent amendments, the statewide threshold for Council approval of construction contracts was increased to \$500,000 by 2007, where it remains. (Council still has the ability to delegate authority for the city manager to approve non-construction service contracts at any amount.)

In July 2017, the City Attorney's Office completed a survey of seven N.C. cities and Mecklenburg County. (The seven cities are Asheville, Cary, Chapel Hill, Durham, Fayetteville, Greensboro and Raleigh.)

- Of the eight municipalities, five have authorized their managers to award construction contracts up to \$500,000; four have no caps on their managers' authority to award contracts for services; and four have no caps on their managers' authority to award contracts for goods.

Other important contracting thresholds established by state statute include:

- \$500,000 – formal bidding threshold for construction
- \$300,000 – requires MWBE goals and good faith efforts on vertical construction
- Sole source and piggyback contracts must be awarded by City Council

According to the U.S. Bureau of Labor Statistics, the U.S. Consumer Price Index has risen over 60% since the state statute established the \$100,000 threshold for Charlotte (from June 1995 through August 2017, the latest date available).

Findings

1. A Council approval threshold of \$500,000 in FY17 would have removed 226 (49%) Consent agenda items, but only 7% of the dollars. All but one action was approved unanimously.

If the threshold for Council approval is raised, staff administrative efforts can be reduced significantly. Because the average dollar amount of consent items is so much higher, Council would continue to take action on over 90% of the dollars previously reviewed.

- In fiscal years 2016 and 2017 combined, Council approved 100% of the 945 consent items presented. These consent items represented over \$1.3 billion in contracting authority.
- For FY17, 226 of the 464 consent items were under \$500,000. These represented 49% of the number, but only 7% of the dollars approved (about \$50 million of \$700 million).
- For FY17, 225 of 226 items under \$500,000 were approved unanimously. One item for \$300,000 was approved 8-3.

2. Internal Audits have determined that the City's controls are sufficient to support an increased level of delegated procurement authority to the City Manager.

Audits over the past few years have noted a high confidence level that contracts are being awarded properly.

- An audit of Authorized Contracts and Payments was completed in June 2014.
 - About \$479 million (68% of \$706 million) paid by the City in FY13 was tested, and verified as accurate, supported, and in compliance with Council's approval and the City's accounts payable policy. (The test sample was drawn from vendors and service providers paid more than \$1 million in FY13.)
 - Over 99.9% of payments tested were determined to be sufficiently supported by the entities' invoices and documentation.
- In 2012, a followup to the 2011 audit of Water Department (Utilities at the time) contracting deficiencies was conducted.
 - The followup concluded that Water had completed RFPs for the majority of vendors which had not been previously in place, and was on track to completely address the audit findings.
- In 2010 and 2011, separate audits of P-Cards and CMPD procurement deficiencies resulted in strengthened citywide policies and effective controls over

many procurement operations. The attention given to procurement during this time period improved the overall culture of compliance.

3. **In 2008, a consultant recommended the City raise its Council approval threshold to at least \$250,000.**

- At the City Manager's request for a best practices review, the Audit Department engaged Matrix, Inc., a government procurement specialist, to conduct a study of City procurement. Matrix reported on a wide range of effective controls found to be in place, along with many opportunities for improvement. One recommendation addressed efficiencies which could be gained by raising the Council approval threshold.
- Internal Audit reported that a review of 2007 Council actions found a high percentage of consent items were approved unanimously.
- The City Auditor presented the auditor's and Matrix's results to Council in 2008, and stated that a recommendation to increase the threshold would be made when audit results supported such a change.

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