

HIGHLIGHTS

Highlights of City Auditor Report #1217, a report to the City Commission and City management

WHY THIS AUDIT WAS CONDUCTED

We conducted an audit of the Local Business Certification (LBC) Pilot Program during the pilot period April 1, 2011 through March 31, 2012. Our objectives were to: 1) analyze the LBC Pilot Program's effects on competition; 2) analyze procurement opportunities of local businesses to non-local businesses in the prior year to the pilot year; 3) evaluate the LBC Pilot Program's performance measures and information to determine whether the program achieved its stated goals; and 4) compare the cost of the Local Business Incentive Program in the prior year to the LBC Pilot Program year.

WHAT WE RECOMMENDED

In May 2012, the City Commission approved to extend the LBC Pilot Program six months, to October 2012, and decrease the LBC preference to 10%, for certified local businesses. With this change, local businesses in Leon, Gadsden, Jefferson, and Wakulla counties all receive the same 10% LBC preference.

There is a possibility that the Commission will not extend the LBC Pilot Program or a similar local business incentive program after October 2012. Our recommendations below are designed to improve the current LBC Pilot Program and for a future local incentive program should the City Commission decide to continue providing a similar program in the future.

We recommended the following actions be implemented while the LBC Pilot Program is still in effect:

- Revise the LBC Pilot Program policy to include guidance related to limiting the cost differential between winning bids to the current LBC preference.
- Revise the LBC Pilot Program policy to clarify the limitations related to stacking City incentive preferences.

Should the City Commission and management decide to continue the LBC Program past October 2012, we provided these additional recommendations to City management.

- Consider how subcontracting fits into the Local Businesses and M/WBE Programs in order to increase the likelihood that each achieves its intended goal and purpose.
- If there is a need to know the complete LBC preference impacts on small-dollar purchases between \$1,000 and \$25,000, a tracking and reporting requirement should be required.
- Consider saving costs by eliminating the certification requirement for local businesses and resort back to the prior method for determining eligibility for local business preference.

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AUDIT OF IMPACT OF LOCAL BUSINESS CERTIFICATION PILOT PROGRAM

WHAT WE CONCLUDED

First, our analysis revealed that during the LBC Pilot Program period, the City awarded more contracts as well as increased the overall procurement opportunities for local businesses within the four county region (Leon, Gadsden, Jefferson, and Wakulla). During the LBC Pilot Period for large-dollar purchases, the City: 1) provided more bidding opportunities to local and non-local businesses; 2) received more proposals from local businesses (certified and non-certified); and 3) awarded more contracts to local businesses (certified and non-certified).

Table 1

Comparison of City Purchases From Local and Non-Local Businesses During the LBC Pilot Year and Prior Year

Purchases from	Prior Year Amount	Pilot Year Amount
Local Businesses	\$63,547,493 28%	\$72,777,610 34%
Non-local businesses	\$161,073,965 72%	\$141,017,943 66%
Total Purchases	\$224,621,458 100%	\$213,795,553 100%

Note: Total purchases shown above excluded intergovernmental transfers, fuel for Utilities, employee reimbursements, and payroll and retirement related payments.

Second, the City met three of its four LBC Pilot Program goals. The City did 1) increase the preference for certified local businesses during the LBC Pilot Program period; 2) encourage City departments to increase utilization; and 3) increase access for local businesses for large-dollar procurement opportunities. The fourth goal related to adding a subcontracting component to the LBC Pilot Program was never implemented. Management reported that the factors barring inclusion were: a) lack of resources for tracking and monitoring subcontracting compliance; b) concerns of how the LBC subcontracting participation goals would impact the Minority/Women Business Enterprise Program's (M/WBE) subcontracting participation goals; and c) concerns of how the on-going modifications related to subcontracting in the current M/WBE Program would impact subcontracting in the LBC Pilot Program.

Third, the approximate cost to the City for the LBC Pilot Program was \$303,000. We estimated that during the LBC Pilot Program year \$213,000 was related to the amounts paid for goods and services over the lowest bids. An additional \$90,000 was needed to administer the program including certifying businesses (i.e., approximately 1.5 full-time equivalent of staff time and materials).

Forth, during our review, we also noted clarifications were needed in the LBC Pilot Program policy. Clarifications were needed to address: a) how to resolve a bid evaluation where cost is only one criteria; and the proposed cost of a LBC preference bidder with the highest points is 20% or greater than the bidder with the next highest points; and b) the limitations associated with applying multiple incentive preferences (i.e. "stacking") during bid evaluations.

Audit Report



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City Auditor

Impact of Local Business Certification Pilot Program

Report #1217

August 3, 2012

Executive Summary

This audit was conducted in accordance with the Local Business Certification (LBC) Pilot Program requirement for the City Auditor “to analyze any effects on competition that have arisen due to the implementation of the LBC Pilot Program during the pilot period April 1, 2011 through March 31, 2012. There were four objectives for this audit: 1) analyze the LBC Pilot Program’s effects on competition; 2) analyze procurement opportunities of local businesses to non-local businesses in the prior year to the pilot year; 3) evaluate the LBC Pilot Program’s performance measures and information to determine whether the program achieved its stated goals; and 4) compare the cost of the Local Business Incentive Program in the prior year to the LBC Pilot Program year.

The City Commission implemented the City’s Local Business Incentive Program in 1989 for the purpose of infusing more of the community’s money back in the local economy. Preferences were provided to local businesses on large-dollar procurement opportunities to help them compete with non-local businesses. In order to further stimulate the local economy, the City Commission implemented the LBC Pilot Program in March 2011 to increase the local preferences. During the LBC Pilot Program period, businesses submitted applications to the City to be certified as a Local Business Enterprise.

Our analysis revealed that during the LBC Pilot Program period, the City awarded more contracts as well as increased the overall procurement opportunities for local businesses within the four county region (Leon, Gadsden, Jefferson, and Wakulla). For large-dollar purchases (\$25,000 or more) during the review period, our data showed:

- Awards based on the local preference increased from three in the prior year to six in the LBC Pilot Program year.
- More bidding opportunities were provided to businesses (local and non-local) during the LBC Pilot Program year than in the prior year (105 vs. 95).
- More local businesses (certified and non-certified) submitted proposals during the LBC Pilot Program year than in the prior year (263 vs. 199).
- More contracts were awarded to local businesses (certified and non-certified) during the LBC Pilot Program year than in the prior year (78 vs. 62).

Also, our analysis of City purchases showed that during the LBC Pilot Program the City increased its local business purchases by 6% (\$9.2 million) even at a time when overall City purchases decreased by 4.8% (\$10.8 million).

**Table 1
Comparison of City Purchases From Local and Non-Local Businesses During the LBC Pilot Year and Prior Year**

Purchases from	Prior Year Amount	Pilot Year Amount
Local Businesses	\$63,547,493 28%	\$72,777,610 34%
Non-local businesses	\$161,073,965 72%	\$141,017,943 66%
Total Purchases	\$224,621,458 100%	\$213,795,553 100%

Source: City financial system

Note: Total purchases shown above excluded intergovernmental transfers, fuel for Utilities, employee reimbursements, and payroll and retirement related payments.

Our evaluation of the LBC Pilot Program’s performance indicated that the City met three of its four program goals.

- a. **The City did achieve its goal to increase the preference for certified local businesses during the LBC Pilot Program period.** During the LBC Pilot Program period, certified local businesses in Leon County received a 20% preference incentive in City bids/contracting of goods valued over \$1,000, an increase of 15% from the prior year (from 5% to 20%). Other local businesses in the surrounding three counties (Gadsden, Jefferson, and Wakulla) received an increase from 5% to 10%.
- b. **Subcontracting was never implemented in the City’s LBC Pilot Program.** Management reported that the factors barring inclusion were: a) lack of resources for tracking and monitoring subcontracting compliance; b) concerns of how the LBC subcontracting participation goals would impact the Minority/Women Business Enterprise Program’s (M/WBE) subcontracting participation goals; and c) concerns of how the on-going modifications related to subcontracting in the current M/WBE Program would impact subcontracting in the LBC Pilot Program. We recommend City management further consider how subcontracting fits into the Local Businesses and M/WBE Programs in order to increase the likelihood that each

achieves its intended goal and purpose.

- c. **The Procurement Services Manager met with City department directors in March 2011 to encourage increased utilization of local businesses for purchase under \$25,000. However, there was not a process put in place, nor was there a requirement, to track whether departments did increase their utilization of local businesses.** There was not a requirement in the LBC Pilot Program Policy for departments to track and report to Procurement the small-dollar purchases awarded based on the LBC preference. Additionally, while the LBC Pilot Program Policy required City departments to apply the LBC preference to all purchases between \$1,000 and \$25,000, three of eight large departments did not apply the LBC preference until after receiving guidance from Procurement Services in the February 2012 training, which was 10 months into the 12-month LBC Pilot Program that ended on March 31, 2012.

Should the City Commission and management continue the LBC Program and want to know the complete LBC preference impacts on small-dollar purchases between, \$1,000 and \$25,000, we recommend a tracking and reporting requirement should be included in the LBC Pilot Program policy.
- d. **For large-dollar purchases (\$25,000 or more), the City did achieve its goal to increase access by local businesses to City procurement opportunities during the LBC Pilot Program.** As noted above, the City provided more procurement opportunities for all businesses; more local businesses (certified and non-certified) submitted proposals; and more contracts were awarded to local businesses (certified and non-certified) during the pilot year compared to the prior year.

The approximate cost to the City for the LBC Pilot Program was \$303,000, compared to the prior year’s cost, \$2,500. We estimated

that during the LBC Pilot Program year \$213,000 was related to the amounts paid for goods and services over the lowest bids. An additional \$90,000 was needed to administer the program including certifying businesses (i.e., approximately 1.5 full-time equivalent of staff time and materials).

During the prior year, we estimated that it cost the City \$2,500; \$1,250 paid for goods and services over the lowest bid, and \$1,250 to administer the program. Previously, staff time occurred when staff evaluated the local business qualifications during the bid proposals process. Such qualifications included verification of: location, existence of local staff, percentage of work completed locally, and length of time the business had been established (minimum of six months prior to the proposal deadline was required). The staff time greatly increased during the LBC Pilot Program due to the certification process. Should the LBC Program continue, we recommend City management consider eliminating the certification requirement for local businesses and resort back to the prior method for determining eligibility for local business preference.

Additionally during our review, we noted clarifications were needed in the LBC Pilot Program policy. Clarifications were needed to address: a) how to resolve a bid evaluation where cost is only one criteria; and the proposed cost of a LBC preference bidder with the highest points is 20% or greater than the bidder with the next highest points; and b) the limitations associated with applying multiple incentive preferences (i.e. “stacking”) during bid evaluations.

We recommended Procurement revise the LBC Pilot Program policy to include guidance that limits the cost differential between winning bids to the current LBC preference, and limits for stacking City incentive preferences.

Subsequently, in May 2012, the City Commission approved to decrease the LBC preference to 10%, for certified local businesses, and extended the LBC Pilot

Program six months, to October 2012. With this change, local businesses in Leon, Gadsden, Jefferson, and Wakulla counties all receive the same 10% LBC preference.

We would like to thank the Department of Management Services Procurement Services Division for their assistance and cooperation during this audit.

Scope, Objectives, and Methodology

Our audit scope was defined at the March 8, 2011, City Commission meeting “to analyze any effects on competition that have arisen due to the implementation of the Local Business Certification (LBC) Program during the pilot period April 1, 2011 through March 31, 2012,” and to measure the success(s) of the program. We compared procurement opportunities and activities in the pilot period to the prior period (April 1, 2010 through March 31, 2011).

Our audit objectives were to:

- 1) Analyze any effects on competition that have arisen due to the implementation of the LBC Pilot Program.
- 2) Analyze procurement opportunities of local businesses to non-local businesses in the prior year to the LBC Pilot Program year.
- 3) Evaluate the program’s performance measures and information to determine whether the LBC Pilot Program achieved its stated goals. The following goals were stated during the March 9, 2011, City Commission meeting:
 - a. Increase preferences for certified local businesses when bidding on city contracts.
 - b. Increase participation of local businesses in subcontracting opportunities on City contracts.
 - c. Encourage City departments to increase their utilization of local businesses for small-dollar purchases (under \$25,000).
 - d. Increase access by local businesses to City procurement opportunities.

- 4) Compare the cost of the Local Business Incentive Program in the prior year to the LBC Pilot Program year.

In order to meet our objectives, we: reviewed policies and procedures, commission agendas and minutes, presentations, correspondence, and training materials; attended trainings; and surveyed department directors. We evaluated the LBC Pilot Program statistics and data gathered and reported by Procurement staff, tested the accuracy of the information by examining the source documentation, and verified the application of the LBC Pilot Program preference in large-dollar purchases (\$25,000 and over). Additionally, we inquired of City department directors of their implementation of the LBC Pilot Program for small-dollar purchases requiring competition (between \$1,000 and \$25,000).

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The City has various types of procurement methods based on the type of goods or services needed and the estimated cost, including 1) preliminary information requests and 2) bids, quotes, and proposals.

Preliminary information requests are designed to collect preliminary information to determine if there are prospective businesses with the capabilities and capacity to perform specialized services. Qualifications are submitted and evaluated by City staff, but costs are not submitted. Examples include: “Request for Qualifications” (RFQ) and “Request for Information” (RFI).

Bids, quotes, and proposals are designed to collect qualifications and costs for specific identified goods and services. Qualifications and costs are submitted by businesses and evaluated by City staff. The method for procuring such goods and services depends on the cost of the purchase.

- Large-dollar purchases, \$25,000 and over, are conducted by Procurement Services utilizing: “Request for Proposals” (RFP), “Request for Quotes” (RFQ), Invitation for Bids” (IFB), and Invitation for Quotes” (IFQ).
- Small-dollar purchases, under \$25,000, are conducted by individual departments utilizing Purchase Orders or Purchase Cards (PCards). Only purchases over \$1,000 require at least three quotes be obtained and retained.

An award is considered won by the LBC Pilot Program preference when the local business would not have been awarded the contract without the applied LBC preference.

In 1989, the City Commission determined that funds generated in the community should, to the extent possible, be placed back in the local economy. The Local Preference Ordinance (No. 89-0-0074) was enacted to give a preference to local businesses in making purchases whenever the application of such a preference is reasonable in light of the dollar-value of proposals received in relation to expenditures. The ordinance was amended in 1999 to provide more flexibility in relation to the amount of expenditures made.

Local businesses are persons, firms, corporations, or other business entity which is duly licensed and authorized to engage in the particular business at issue, and maintains a permanent place of business with full-time employees within Leon, Wakulla, Gadsden, or Jefferson County, Florida, for a minimum of six months prior to the date bids were received for purchase. Preferences in the form of evaluation points or cost percentages are given to local businesses during the bid evaluation process.

As a result of the Mayor’s 2011 Economic Summit and in accordance with the recommendations from the Financial Viability of

the Government Target Issue Committee, City staff redesigned and renamed its Local Business Incentive Program to the Local Business Certification (LBC) Program. The purpose of the LBC Pilot Program was to stimulate the local economy and promote the utilization and participation of local businesses with respect to City contracts within the confines of Federal and State procurement laws and regulations. The application of the local preference expanded from only purchases over \$25,000 to all purchases of goods and services where local competition is available, i.e., purchases over \$1,000 that require quotes.

On March 9, 2011, City Commissioners approved to a) allow staff to develop and implement the LBC Pilot Program with a 20% preference given to businesses located within Leon County and 10% preference given to businesses in Wakulla, Gadsden, and Jefferson counties; b) placing a \$200,000 cost differential cap on the amount paid over the low bid; c) implementing a one-year, pilot-project; and d) superseding the current Local Preference Ordinance, No. 99-0-0074 (dated November 23, 1999). A formal application process to determine eligibility was implemented and businesses were certified. The Local Business preference could not be combined with other

preferences such as the MBE or Charitable Contribution. Businesses with multiple preferences had to choose which preference they wanted to apply for each bid.

The LBC Pilot Program includes all categories of purchases where local competition is available, i.e., when there are qualified businesses that have the capacity to perform the work or provide the goods. This includes formal bid and quote processes for large-dollar purchases of goods or services by Procurement Services, and small-dollar purchases requiring competition (between \$1,001 and \$25,000) made by all City departments. For purchases under \$1,000, departments are not required to obtain quotes.

Table 2 shows the increases in preferences provided in the LBC Pilot Program for the various purchase levels. The preferences increased to 20% across all purchase levels during the LBC Pilot Program year. Additionally, there was not a formal application or certification process to pre-determine eligibility before the LBC Pilot Program. The business’s location was determined and the applicable preference was applied during the procurement process.

**Table 2
Comparing Program Preferences and Certification Requirement
During the LBC Pilot Program Year to the Prior Year**

Local Preference in bids	During Prior Year		During LBC Pilot Year	
	Businesses in Leon County	Businesses in Surrounding Counties	Businesses in Leon County (1)	Businesses in Surrounding Counties
Purchases \$0 - \$1,000	0%	0%	0%	0%
Purchases \$1,001 - \$10,000	0%	0%	20%	10%
Purchases \$10,000 - \$25,000	10%	10%	20%	10%
Purchases \$25,001 - \$500,000	5%	5%	20%	10%
Purchases > \$500,000	3%	3%	20%	10%
In RFP/RFQs	15%	15%	20%	10%
Required Certification	No	No	Yes	Yes

Source: City’s Fast-track Procurement Initiative and City Commission meetings.

Note (1): This category also includes businesses in surrounding counties that are City utility customers.

Some types of purchases not included in the LBC Pilot Program are purchases or contracts that:

- Are funded, in whole or in part, by a governmental entity and the laws, regulations, or policies governing such funding prohibit application of that preference or goal.
- Preclude the application of the preference by law.
- Utilize cooperative purchasing agreements with other governmental entities or made by way of contracts let by other governmental agencies, only when approved by the Procurement Manager. [Examples include Federal Government Services Administration contracts, state contracts, or other governmental-entity piggyback purchases].
- Are made under emergency procurement situations (defined in City's Procurement Policies and Procedures).
- Are sole source purchases.
- Determined by the Procurement Manager that there are not sufficient qualified LBC participants or that application of the policy with respect to a particular contract would not be in the best interest of the City.

Answers to the Audit Objectives and Related Recommendations

Objective 1: Analyze impact the Local Business Pilot Program has had on competition.

Our analysis revealed that during the LBC Pilot Program period, the City awarded more contracts as well as increased the overall procurement opportunities for local businesses within the four county region (Leon, Gadsden, Jefferson, and Wakulla) for large-dollar purchases (\$25,000 or more) during the review period.

Table 3 shows each of the large-dollar purchases awarded based on the Local Business Preference during the Pilot Program and Table 4 shows each of the large-dollar purchases awarded based on the Local Business Preference in the prior year.

While there were more local businesses participating and winning awards, there were only six awards based on the local business preference during the LBC Pilot Program; three more than in the prior year. An award was won based on the local preference when the lowest bid was not submitted by a certified local business, but after application of the additional local business preference, the bid was won by the certified local business.

While the Local Business Incentive preference was 5% in the prior year and the LBC Pilot Program preference was 20%, the additional direct cost of the programs (i.e., the amount paid over the lowest bid) was only 1.8% and 6% of the amounts awarded, respectively.

Table 3
Large-Dollar Purchases Awarded Based on the LBC Pilot Program Preference
During the Pilot Year (April 1, 2011 through March 31, 2012)

Count	Description	Award Amount	Low Bid	Additional Cost to City	Percent over Low Bid	Department
1	Circuit breakers	\$1,825,174	\$ 1,677,450	\$147,724	8%	Electric
2	Printing Services	\$ 125,000	\$ 106,509	\$18,491	15%	DMA
3	Drainage Ditch Improvement Construction	\$ 714,075	\$ 686,070	\$28,004	4%	Public Works
4	Drilling Machine	\$ 44,280	\$ 43,503	\$ 777	2%	Underground Utilities
5	Parking management	\$ 138,000	\$ 120,000	\$18,000	13%	Real Estate
6	Aerial Survey Services	\$ 447,500	n/a (1)	n/a (1)	n/a	Electric
	Totals	\$ 3,294,029	\$2,633,533	\$212,996	6%	

Source: Procurement records

Note: (1) The LBC preference was added to the qualification points (as described in Example 3 on pages 8-9), and the contract cost was negotiated afterward. Therefore, the cost due to LBC is not available.

Table 4
Formal Bids and Quotes Awarded Based on the Local Business Preference
During the Prior Year (April 1, 2010 through March 31, 2011)

Count	Description	Award Amount	Low Bid	Additional Cost to City	Percent over Low Bid	Department
1	Traffic signal poles	\$ 33,575	\$ 33,371	\$ 204	0.6%	Public Works
2	Traffic signal poles	\$ 9,059	\$ 8,865	\$ 194	2.2%	Public Works
3	Traffic signal poles	\$ 26,838	\$ 25,990	\$ 848	3.3%	Public Works
	Totals	\$ 69,472	\$ 68,226	\$1,246	1.8%	

Source: Procurement records

Objective 2: Compare procurement opportunities of local businesses to non-local businesses in the prior year to the pilot year.

Our analysis revealed that during the LBC Pilot Program period, the City awarded more contracts as well as increased the overall procurement opportunities for local businesses within the four county region (Leon, Gadsden, Jefferson, and Wakulla).

In the prior year, local businesses were not certified and local businesses included businesses located in Leon, Gadsden, Jefferson, and Wakulla

counties. Therefore, in order to be able to compare the LBC Pilot Program year to the prior year, we included both certified local businesses and non-certified local businesses within the four counties in our comparison of procurement opportunities for local businesses.

We compared the total count of procurement activities during the pilot year (April 1, 2011 through March 31, 2012) to the year prior (April 1, 2010 through March 31, 2011). For large-dollar purchases during the review period, Table 5 shows the following:

- The City provided 10 more large-dollar bidding opportunities for businesses (local and non-local) during the LBC Pilot Program than in the prior year (105 vs. 95).
- Local businesses (certified and non-certified) submitted 64 more bids during the LBC Pilot Program than in the prior year (263 vs. 199).
- Local businesses (certified and non-certified) were awarded 16 more contracts during the LBC Pilot Program (78 vs. 62, or a 26% increase) than in the prior year.
- The City paid \$211,750 more for goods and services during the LBC Pilot Program year than in the prior year due to the LBC preference (\$212,996 vs. \$1,246).

**Table 5
Comparison of Total Formal Bids, Quotes, and Proposals for Large-Dollar Purchases in the Pilot Program to the Prior Year**

Formal Bid and Quote Submissions Included (RFPs, RFQs, IFBs, IFQs)	Prior Year (4/1/10-3/31/11)	Pilot Year (4/1/11 – 3/31/12)	Increase or (decrease) from prior year
Number of Bid and Quote Submissions:			
Bids rejected or not reviewed yet	-14	-24	10
Bids still in evaluation (no decision yet)	1 } 95	22 } 105	10
Bids evaluated	94 }	83 }	
Total Bids and Quotes included in test:	109	129	20
Number of Bidders by Type:			
Local Business Enterprise (LBE)	199 (1)	200	64
Extended LBE (ELBE)		34	
Local Non-Certified		29	
Non-local	179	157	-22
Total Bidders	378	420	42
Number of Bids and Quotes Awarded to:			
LBEs	62 (1)	62	16
ELBEs		7	
Local Non-Certified		9	
Non-Local	44	47	3
Total Awards	106	125	19
Number of Bids and Quotes that were awarded based on Local Business Preference	3	6	3
Amount of Contracts Awarded Based on Local Business Preference	\$69,472	\$3,294,029	\$3,224,557
Additional Cost to the City Due to the LBC Pilot Program	\$1,246	\$212,996	\$211,750

Source: Procurement records

Note (1): In the prior year, local businesses included all businesses within the four county region and were not differentiated between LBEs, ELBEs, and local non-certified. Therefore, the total number of local businesses in the Prior Year is compared to the LBE, ELBE, and local non-certified in the LBC Pilot Program Year.

Objective 3: Determine whether the LBC Pilot Program achieved its stated objectives and goals.

Goal 1: Increase preferences for certified local businesses when bidding on city contracts

Yes. During the LBC Pilot Program, the City increased the local preference incentive for certified businesses located in Leon County and businesses outside Leon County that are City utility customers from 5% to 20%. For certified businesses located in the surrounding counties (Gadsden, Jefferson, and Wakulla), the local preference increased from 5% to 10%. Table 2 on page 5 shows the local preferences in the prior year and the LBC Pilot Program year.

The LBC preference could be applied during the evaluation of the proposed cost or evaluation of the qualifications process. When the preference was applied during the evaluation of the proposed cost, 20% (or 10% as applicable) was added to

the lowest bid (by a non-locally certified business), and the local certified business with the lowest proposed cost within the adjusted cost would be awarded the purchase. See Example 1 below.

Low bid: \$157,500
 Add 20% Preference: 31,500
 Adjusted bid: \$189,000

In this example, NOP, Inc., the local certified business is the second lowest bidder with a bid of \$167,500, which is less than the adjusted bid of \$189,000. Therefore, NOP, Inc. may be awarded the bid due to the Local Business Preference

As shown in Example 2, when the lowest bidder is a local certified business, that business may be awarded the bid. In this example, NOP, Inc., the local certified business may be awarded the bid based on price (low bid of \$4,000); it is not based on the Local Business Preference.

Example 1
Low Bidder is Not a Local Certified Business

Business	ABC Company Miami, FL	NOP, Inc. Tallahassee, FL	XYZ, LLC Midway, FL
Proposed Cost	\$157,500	\$166,750	\$172,000
LBC Status	Non-Local 0%	Local 20%	Extended Local (Gadsden) 10%

Example 2
Low Bidder is a Local Certified Business

Business	NOP, Inc. Tallahassee, FL	XYZ, LLC Midway, FL	ABC Company Miami, FL
Proposed Cost	\$4,000	\$4,005	\$4,200
LBC Status	Local 20%	Extended Local (Gadsden) 10%	Non-Local 0%

When the preference was applied during the evaluation of qualifications process, a pre-defined point value was added to the local certified business. In Example 3, the local business preference can be applied during the evaluation of qualifications process, which is not associated with the proposed costs. Costs and local preference are independent criteria in the evaluation and contracts are awarded based on the highest total points. In this example, without the local preference incentive, the ABC Company would have won the bid with 66 points, as without the LBC preference incentive, NOP, Inc. would have received 54 points (72-18) and XYZ would have received 55 points (64-9). But when the local preference of 18 points (20% of 92 total points) was applied, the local certified business NOP, Inc. may be awarded the contract. Procurement Services management indicated that during the

qualifications evaluations, should the cost differential between the winning certified local business and the business with the next highest points be greater than the LBC Pilot Program incentive (i.e. 20% for the LBC Pilot Program), the certified business would not be awarded the contract. Instead, the business with the next highest points, ABC Company, would be awarded the contract. In Example 3, NOP, Inc. was still the winning bidder because increasing ABC Company’s bid of \$120,000 by 20% (\$120,000 plus 20% = \$144,000) is higher than NOP, Inc.’s bid of \$138,000. Had NOP, Inc. submitted a bid of \$144,000 or higher, ABC Company would have been awarded the bid. The business from Midway (XYZ, LLC) would not have been awarded the bid, even with the lowest cost, because the proposal was ranked third (64 points was the lowest total points of the three proposals).

Example 3
Local Business Program Preference Being Applied During the Evaluation of Qualifications

Business	Maximum Points	NOP, Inc. (certified)	XYZ, LLC (certified)	ABC Company
	per Category	Tallahassee, FL	Midway, FL	Miami, FL
Evaluation Category				
Executive Summary	5	4	3	5
Experience & Qualifications	25	20	17	24
Operational Plan	25	20	18	24
Revenue Enhancement	10	7	5	8
Local Business Incentive (1)	18 for LBE; 9 for ELBE	18	9	0
MBE Enterprise (1)	10	0	0	0
Charitable Contribution (1)	5	0	0	0
Subtotal points	80	69	52	61
Bid proposal cost		\$138,000	\$84,000	\$120,000
Cost Max Points (2)	12	3	12	5
Grand Total Points	92	72	64	66

Notes: (1) Businesses could only select 1 incentive to apply during evaluation. Stacking of incentives was only allowed with Charitable Contribution..

(2) 12 cost points are awarded to the lowest cost, and proportional points are awarded for the other costs.

Procurement Services provided various examples of how to apply the LBC Pilot Program Preference when evaluating bids and quotes during their trainings. The three examples above are the most common application of the preference.

Goal 2: Increase participation of local businesses in subcontracting opportunities on City contracts

No. Subcontracting was never included in the LBC Pilot Program. Local subcontractor participation goals were scheduled to be part of this program; however, Procurement management reported there were several factors that delayed the implementation of subcontractors, including:

- Lack of resources for tracking and monitoring compliance.
- Concerns of how Local Business participation goals and Minority/Women Business Enterprise participation goals would work together.
- Concerns of how current planning to revise the Minority/Women Business Enterprise Program would impact the LBC Pilot Program (i.e., should a small business enterprise component be included in the revised program).

The Minority Business Enterprise (MBE) Office is currently working on revising the MBE Program, including a component related to local business, and is not expecting to be completed until fall 2012. We recommend City management further consider how subcontracting fits into the Local Businesses and MBE Programs in order to increase the likelihood that each program achieves its intended goals and purpose.

Goal 3: Encourage City departments to increase their utilization of local businesses for small-dollar purchases (under \$25,000).

Yes. The Procurement Services Manager met with City department directors in March 2011 to encourage increased utilization of local businesses for purchase under \$25,000. However, there was not a process put in place, nor was there a requirement, to track whether departments did increase their utilization of local businesses. There was not a requirement in the LBC Pilot Program Policy for departments to track and report to Procurement the small-dollar purchases awarded based on the LBC preference.

We inquired of City department directors when they implemented the 20% Local Business preference for small-dollar purchases requiring competition (between \$1,000 and \$25,000). Of eight large departments (Parks, Recreation, and Neighborhood Affairs; Fire; Information Systems Services; Electric; Public Works; Underground Utilities; and Police), three departments reported they did not start to apply the increased LBC Preference until after guidance was provided by Procurement Services during the trainings provided in February 2012, which was 10 months into the 12-month LBC Pilot Program that ended on March 31, 2012. A major barrier to program implementation in the departments was that the LBC Pilot Program policy and procedures were not completed and distributed to the departments until training was provided in February 2012.

Even though three departments did not apply the increased local preference according to the LBC Pilot Program policies, we still estimated the City purchased over \$72 million from local businesses during the LBC Pilot Program year. Our analysis of City purchases showed that during the LBC Pilot Program the City increased its local business purchases by 6% (\$9.2 million) even at a time when overall City purchases decreased by 4.8% (\$10.8 million).

Table 6
Comparison of City Purchases from Local and Non-Local Businesses During Pilot Year and Prior Year

City Purchases from:	Prior Year (4/1/10-3/31/11)	Pilot Year (4/1/11 – 3/31/12)	Change from prior year
Local Businesses	\$63,547,493 28%	\$72,777,610 34%	\$ 9,230,117
Non-Local Businesses	\$161,073,965 72%	\$141,017,943 66%	\$(20,056,022)
Total Purchases	\$224,621,458 100%	\$213,795,553 100%	\$ (10,825,905)

Source: City’s financial system

Note (1): Total purchases shown above excluded intergovernmental transfers, fuel for Utilities, employee reimbursements, and payroll and retirement related payments.

To make the above comparison, total purchases included payments made through purchase orders, check requests, and PCards, and excluded intergovernmental transfers, fuel for utilities, and payroll and retirement related payments (e.g., tax withholding, social security, insurance payments, garnishments).

For purchase orders and check requests, local businesses were identified in the City’s financial system by the business address zip codes in each of the four counties. For PCards, the amounts paid to local businesses were estimated due to the lack of an automated process of identifying local businesses. City staff performed monthly reviews of the PCard transactions to identify as many of the local businesses as possible. Because it is a manual process, the amounts paid to local businesses could only be estimated. Table 7 shows that PCard purchases make up approximately 8% of the total purchases in the prior year and 7% of total purchases in the pilot year.

Table 7
Comparison of City PCard Purchases from Local and Non-Local Businesses During Pilot Year and Prior Year

City Purchases	Prior Year (4/1/10-3/31/11)	Pilot Year (4/1/11 – 3/31/12)
PCard from Local Businesses	\$8,462,709	\$6,889,094
PCard from Non-Local Businesses	\$8,678,636	\$9,098,311
Total PCard Purchases	\$17,141,345 8%	\$15,987,405 7%
Total City Purchases	\$224,621,458	\$213,795,554

Source of PCard data: DMA Procurement Services

City purchases shown in Table 6, on the prior page, include both large-dollar and small-dollar purchases. Should City Commission and management continue the LBC Program and want to know how the LBC preference impacts small-dollar purchases and whether departments are applying the LBC preference appropriately, we recommend that a tracking and reporting requirement be included in the policy.

Goal 4: Increase access by local businesses to City procurement opportunities.

Yes. For large-dollar purchases (\$25,000 or more), the City did achieve its goal to increase access by local businesses to City procurement opportunities by providing more contracts for businesses to bid on during the LBC Pilot Program. As noted above, the City provided more procurement opportunities for all businesses; more local businesses (certified and non-certified) submitted proposals; and more contracts were awarded to local businesses (certified and non-certified) during the LBC Pilot Program year compared to the prior year.

For additional information related to large-dollar purchases, see Objective 2, beginning on page 7.

Objective 4: Determine the cost of the LBC Pilot Program.

There are two types of costs associated with the LBC Pilot Program: 1) direct costs resulting from paying additional amounts to procure the goods or services from local businesses when they are not the lowest bidders; and 2) administrative costs associated with managing the program and certifying businesses, including staff time, materials, supplies, promotions, etc.

In the year prior to the LBC Pilot program, there were three awards based on the Local Business Preference, with an estimated additional cost to the City of \$2,491, or an average of \$830 per award. During the pilot year of the Program, there were six awards based on the Local Business Preference, with an estimated cost to the City of \$303,059, or an average of \$50,510 per award. The direct costs of the LBC Pilot Program for the pilot year were much greater than the prior year (from \$1,246 to \$212,996). A summary comparison of the LBC Pilot Program costs is provided below in Table 8. Details for each of the awards based on the Local Business Preference for both the pilot year and the prior year are provided in Tables 3 and 4 on page 7. We estimated that the total cost associated with the LBC Pilot Program was 9.2% of the amount awarded, compared to 3.6% during the prior year.

Table 8
Comparison of Local Business Program Costs for LBC Pilot Program Year and Prior Year

	Prior Year (4/1/10- 3/31/11)	Pilot Year (4/1/11- 3/31/12)
Number of Awards due to Local Business Preference	3	6
Amount paid over lowest bids	\$ 1,246	\$ 212,996
Administrative Costs of LBC Pilot Program (Staff direct time, materials, supplies) (1)	\$ 1,245	\$ 90,063
Total Estimated Cost of LBC Pilot Program	\$ 2,491	\$ 303,059
Estimated Average Cost per Award Based on Local Business Preference	\$ 830	\$ 50,510
Amount Awarded Based on Local Preference	\$ 69,472	\$3,294,029
Estimated Percent Total Cost is of Amount Awarded	3.6%	9.2%

Note (1): Administrative costs were estimated based on information provided by Procurement Services staff.

In the prior year, there was not a certification component to the Local Business Program and the staff time to administer the program only included evaluating the local business eligibility during the bid proposal process. Such eligibility criteria included verification of: location, existence of local staff, percentage of work completed locally, and length of time the business had been established (minimum of six months prior to the proposal deadline was required). It took staff less time to perform the evaluation of local businesses in each bid than in the certification process.

During the LBC Pilot Program year, staff time increased to approximately 1.5 FTE (full-time equivalent) to develop the certification program and policies and procedures, certify over 600 local businesses, conduct training sessions for City staff and local businesses, and track program performance. The process to certify LBC businesses requires businesses submit an application and supporting documentation. City Procurement staff review and verify the submitted information, conduct interviews and random site visits to determine eligibility and continued

compliance, promote LBC vendors to City departments, maintain LBC business information on the City’s web site, and provide training opportunities for local businesses.

As of March 31, 2012, there were 602 certified local businesses, 537 LBEs (Local Business Enterprises within Leon County), 4 ELBEs with utilities (Extended Local Business Enterprises within the surrounding four counties and a City utility customer), and 61 ELBEs without utilities (Extended Local Business Enterprises within the surrounding four counties). See Table 9 below.

Table 9
Certified Local Businesses by Type
as of April 2012

Type of Local Business Preference	Preference Percent	Counts
LBE	20%	537
ELBE with Utilities	20%	4
ELBE without Utilities	10%	61
Totals		602

Source: City Financial System

In May 2012, the City Commission approved to decrease the LBC preference to 10%, for all certified local businesses (i.e., LBEs and ELBEs), and extended the LBC Pilot Program six months, to October 2012. The decrease in LBC preference to 10%, approved by the City Commission in May 2012, should help to reduce the future costs of the program.

Should the LBC Program continue, we recommend City management consider eliminating the certification requirement for local businesses and resort back to the prior method for determining eligibility for local business preference. The staff time and associated administrative costs required to administer the local business preference would be greatly reduced.

Other Recommendations Related to the LBC Pilot Program Policy

During our review of the LBC Pilot Program policy, we noted there was no guidance in the LBC to address how to resolve a bid evaluation where cost is only one criteria, and the proposed cost of a LBC preference bidder with the highest points is 20% or greater than the bidder with the next highest points. We also noted that the policy did not address the limitations associated applying multiple incentive preferences (i.e., “stacking”).

Without adequate guidance regarding how to resolve bid evaluation cost differences and limitations to stack multiple incentive preferences, there is an increased risk that bids may not be consistently and accurately evaluated. We recommend Procurement revise the LBC Pilot Program policy to include guidance that limits the cost differential between winning bids to the current LBC preference, and that limits stacking of City incentive preferences.

Conclusion

We concluded the following:

1. For large-dollar purchases, the number of awards given to businesses as a result of the LBC Pilot Program increased from three awards in the prior year to six awards during the LBC Pilot Program year.
2. There was evidence to support that the City awarded more contracts to local businesses (certified and non-certified). The City also increased the overall procurement opportunities for local businesses within the four county region (Leon, Gadsden, Jefferson, and Wakulla) during the LBC Pilot Program period.
3. The City met three of its four program goals. Specifically,
 - The City did increase the preference for certified local businesses during the LBC Pilot Program.

- The City did not increase participation of local businesses in the subcontracting opportunities on City contracts during the LBC Pilot Program.
 - The Procurement Services Manager met with City department directors in March 2011 to encourage increased utilization of local businesses for purchase under \$25,000. However, there was not a process put in place, nor was there a requirement, to track whether departments did increase their utilization of local businesses.
 - The City did increase access to all businesses (local and non-local) to large-dollar purchases by providing more contracts for businesses to bid on during the LBC Pilot Program.
4. The approximate cost of the LBC Pilot Program was \$303,000, compared to the prior year's cost, approximately \$2,500.

Should the LBC Program continue, we recommended that City management:

- Further consider how subcontracting fits into the Local Business and MBE Programs in order to increase the likelihood that each program achieves its intended goals and purpose.
- Consider saving costs by eliminating the certification requirement for local businesses and resort back to the prior method for

determining eligibility for local business preference.

- Revise the LBC Pilot Program Policy to include: a tracking and reporting requirement; guidance that limits the cost differential between winning bids to the current LBC preference; and guidance that limits stacking City incentive preferences during bid evaluations.

We would like to thank the Department of Management Services Procurement Services Division for their assistance and cooperation during this audit.

Appointed Official's Response

City Manager:

I am pleased to see that the recent audit of the City's Local Business Certification Pilot Program confirmed that the City awarded more contracts as well as increased the overall procurement opportunities for local businesses during the pilot period. Of the five action steps recommended in the audit, two items involving policy clarifications are already being addressed. Should this program be extended past the six months approved by the City Commission in May of this year, staff will complete the remaining action steps by the target date indicated in the report. I appreciate the hard work by the City Auditor's Office as well as the hard work and cooperation of the Department of Management and Administration's Procurement Services Division.

Appendix A – Management’s Proposed Action Plan

Action Steps	Responsible Employee	Target Date
A. Objective: <i>To increase participation of local businesses in subcontracting opportunities on City contracts</i>		
1. City management further consider how subcontracting fits into the Local Businesses and MBE Programs in order to increase the likelihood that each achieves its intended goal and purpose.	Cathy Davis, Procurement Services Manager	March 31, 2013
B. Objective: <i>To save administrative costs</i>		
1) Consider eliminating the certification requirement for local businesses and resort back to the prior method for determining eligibility for local business preference during the bid evaluation process.	Cathy Davis, Procurement Services Manager	March 31, 2013
C. Objective: <i>To revise and clarify the LBC Pilot Program Policy</i>		
1) Revise the LBC Pilot Program policy to include guidance related to limiting the cost differential between winning bids to the current LBC preference.	Cathy Davis, Procurement Services Manager	September 30, 2012
2) Revise the LBC Pilot Program policy to clarify the limitations related to stacking City incentive preferences.	Cathy Davis, Procurement Services Manager	September 30, 2012
3) Should the LBC Program continue, revise the policy to require a tracking and reporting component by departments for small-dollar purchases (between \$1,000 and \$25,000).	Cathy Davis, Procurement Services Manager	March 31, 2013

Copies of this audit report #1217 may be obtained from the City Auditor’s website (<http://talgov.com/auditing/index.cfm>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

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