

Office of the City Auditor

City of San Diego

Performance Audit of the Public Utilities Department's Chemical Purchases

**The City Could Enhance Its Purchasing Practices for Water Treatment
Chemicals and Ensure that it Complies With State Mandated
Inspections of Treatment Facilities**

Presentation to the Audit Committee
January 7, 2013



Introduction

- We conducted an audit of the Public Utilities Department's (PUD) chemical purchases program as part of a Service Level Agreement with the Office of the City Auditor for audit work in 2012
- We identified two findings and four recommendations to improve program efficiency and productivity

Background

- Water treatment chemicals play a critical role in providing clean water
- The City's Public Utilities Department (PUD) utilizes certain chemicals to treat drinking water and decontaminate wastewater
- Starting in FY 2009 through April 2012 PUD spent an average of about \$16 million per year on chemical purchases

Background

- PUD works closely with the City's Purchasing and Contracting Department (P&C) to obtain the best prices for its chemicals
- Key responsibilities are as follow:

PUD	P&C
Determine which chemicals are needed based on testing	<ul style="list-style-type: none">• Oversee the purchasing process• Ensure compliance with the City purchasing requirements• Obtain needed chemicals at the lowest possible cost

Finding 1

- The City may realize savings by **improving contracting practices**, such as reverse auction or piggybacking
- Reverse auctioning – is a real time online bidding process, which allows vendors of goods and services to bid during a specified timeframe, with the lowest bidder awarded the contract
- Piggybacking – is a system in which the City initiates a contract and allows another agency and/or City to join (or piggyback) on that contract, with the intent to double the amount purchased and command a better price

Finding 1

- The County utilizes reverse auction and saved an estimated \$1.3 million for various goods and services between FY 2009 and 2012
- The City in April 2012 issued a RFP for fuel that included several public agencies, which more than doubled the total estimated number of gallons of fuel to be purchased
- P&C has been working with the City Attorney to propose modifications to the municipal code to allow the implementation of market strategies that could be utilized to achieve better cost control

Finding 1

- Chemical prices fluctuate due to volatility of market conditions
- No departmental agreements exist which clearly define PUD and P&C responsibilities in regard to tracking chemical prices
- Tracking chemical prices and supply over time and conducting regular meetings to share this information would allow both departments to make strategic decisions regarding purchases of chemicals

Finding 1

- Between FY2009 and 2012, the City entered into about \$48 million dollars worth of contracts without final signatures of the City Attorney-a City Charter requirement
- Based on the result of an OCA performance audit of P&C issued in March 2012, P&C and the Office of the City Attorney have reviewed their practices and are in the process of reviewing all contracts for appropriate signatures

Finding 2

- San Diego Fire-Rescue Department (SDFD) does not conduct annual inspections of PUD's water and wastewater treatment facilities as required by law
- Although other agencies inspect these facilities, some facilities have not been inspected by SDFD for up to 10 years
- SDFD agrees these facilities should be inspected on a regular basis

Recommendations

- We made 4 recommendations to management to ensure that
 - ♦ The City obtains the best prices for its chemical purchases and
 - ♦ State-mandated inspections are performed
- Management agreed with all 3 recommendations and partially agreed with 1 of the recommendations

Questions?

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