

**SEMINOLE COUNTY
OFFICE OF MANAGEMENT AND BUDGET
PURCHASING DIVISION**

BLANKET PURCHASE ORDER PROCESS AUDIT

March 31, 1998

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The Honorable Randall C. Morris
Chairman
The Board of County Commissioners
Seminole County, Florida
1101 East First Street
Sanford, Florida 32771

Dear Mr. Chairman:

I am very pleased to present you with the attached audit of the County's Blanket Purchase Order process.

The audit was performed June 7, 1997 through August 30, 1997, in accordance with generally accepted government auditing standards. Management responses and corrective action plans are incorporated into this report.

I would like to thank County staff for their cooperation and assistance throughout the course of the audit. Their assistance is deeply appreciated.

With warmest personal regards, I am

Most cordially,

Maryanne Morse
Clerk of the Circuit Court
Seminole County

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BLANKET PURCHASE ORDER PROCESS AUDIT

The Internal Audit Division of the Office of the Clerk of the Circuit Court has completed a review of the Blanket Purchase Order (BPO) process utilized by Seminole County government. This review was requested by the manager of the Purchasing Division of the Office of Management and Budget.

PURPOSE

The purpose of the review was to determine if administrative controls are adequate and operating as intended; and to determine if actual utilization of the process is in compliance with applicable laws, regulations, and other Seminole County policies and procedures. In addition, the review was performed to determine if the process itself is designed to ensure that BPOs result in the most economical and efficient acquisition of materials and services possible.

BACKGROUND

Seminole County issues up to 3,000 BPOs a year; (2,400 in FY '97). These numbers are estimates, due to the fact that no report summarizes BPOs. Generally, a BPO is issued for the purchase of an unspecified amount of goods, materials, or services; during a specified period of time: typically, a fiscal year. The BPO also, generally, will set a "not-to-exceed" dollar amount for the life of the purchase order.

BPOs are issued to:

- Purchase materials, supplies, and basic labor and installation services with not-to-exceed amounts of \$10,000.00 or less; and,
- Commit and reserve funds to meet short and long term contractual obligations.

Requests for BPOs are submitted by various divisions and departments, utilizing the standard requisition form. The requisition will indicate the items to be purchased and the total amount to be encumbered. Once the BPO is approved, the division or department is authorized to place orders, via telephone or in person, directly with the vendor. Each division is responsible for tracking funds available on a BPO. Divisions are responsible for submitting evidence of receipts of goods in a timely manner so that County Finance can make payment to the vendor.

The Purchasing Division is currently analyzing items and services being purchased by individual divisions to determine the feasibility of seeking competitive bids for combined,

countywide purchases of these same items and services. Competitive bids should result in more favorable prices.

SCOPE

The scope of this audit included an examination of 50 BPOs processed between Oct. 1, 1996 and June 30, 1997. During that period the county issued approximately 2,400 BPOs for estimated dollar value of \$15 million. All source documents related to the BPO process were subject to review.

The review included:

- Review of the BPOs for compliance with established purchasing policies and procedures, Florida State Statutes, other applicable government regulations;
- Review of the terms and conditions of the BPOs;
- Interviews of key personnel; and,
- Other such review procedures considered necessary in the circumstances.

Field work began June 2, 1997, and was completed on August 22, 1997. The review was performed by Bill Carroll.

OVERALL EVALUATION

It is our opinion that the system of internal controls over the BPO process are insufficient to ensure economical or efficient purchases.

The county operates under a decentralized procurement system. Each division is granted the authority to recommend that BPOs be issued to vendors considered most suitable to its needs; and each division has designated certain employees to make these recommendations. Some of these same employees, however, are involved in determining job requirements (i.e. parts and service required), in negotiating prices with vendors; in selecting vendors; in recordkeeping (i.e. physical control of the inventory); and in approving invoices for payment. By allowing individual employees (free from oversight, and outside the presence of procurement professionals in Purchasing) to meet and negotiate with vendors, to determine certain specifications and perform other purchasing related functions, creates the risk of over-procurement and perceived (or real) favoritism. Potential conflicts of interest are created, as legitimate checks and balances are dissolved by the BPO process.

It has become a common practice for a division to simply request BPOs for all parts, supplies, and services, including those of a standard and repetitive nature. The following conditions demand immediate attention:

- There is no control to limit either: (1) the types of items to be purchased by an individual employee; or (2) the dollar value of purchases made by an individual employee;

- There are no reports available to county management that track purchases by commodity or by employee;
- In some cases, multiple BPOs are issued in order to circumvent the requirement of formal written quotes;
- Responsibilities and duties are not adequately segregated;
- There are no written agreements regarding hourly rates or unit prices for the contractors performing small labor and installation work for the county; and
- Contractor insurance certificates are not always kept on file to protect the county from litigation.

It is our opinion that Seminole County management should **abolish the use of BPOs** because of the weaknesses noted above. Instead, we endorse the “Procurement Card” program proposed by the manager of purchasing for purchases less than \$750.00. With this program, county managers will have access to detailed reports identifying purchases by commodity and by individual employee. Management should analyze these reports on a regular basis for waste and abuse. For those purchases greater than \$750.00 we recommend the county follow normal county purchasing procedures other than the current BPO procedure.

Our detailed findings and recommendations follow:

FINDING NO. 1

Finding

Controls to limit the items purchased with a BPO are not adequate. Also, the county does not have a mechanism to track and monitor the individual parts and supplies ordered.

A BPO is very similar to a blank check drawn on an account set up specifically to buy materials, parts, and supplies from a given vendor.

Materials, parts, and supplies are purchased until the fund balance stated on the BPO reaches zero. An employee simply decides he or she needs a item, part or service for a specific project, by the vendor (i.e. the nearest Home Depot), (or calls), and picks out the item. Later, he or she will pass along a copy of the sales slip to a second county employee (this one in charge of tracking BPO balances) who will subtract the amount from the running total. Later still, the division manager will approve the sales slip and forward it to County Finance for payment.

Master files of commodities-to-be purchased are not always maintained by the vendor; similarly, county divisions have no mechanism to track and monitor individual parts and supplies ordered. From a practical standpoint, any authorized county employee can purchase any item from any Home Depot and charge it to the BPO. Worse, we found from interviewing county employees and reviewing sales slips that Home Depot sales clerks are not always asking to see identification. By not properly verifying identity there is a risk of

non-county employees securing goods from Home Depot and charging them to the county.

The Purchasing Division is considering using "Procurement Cards" as a method to control spending and a method to analyze spending by the different divisions. A procurement card is similar to a bank credit card. According to the purchasing manager, the use of procurement cards will provide county management with the ability to confine the types of commodities purchased by employee and dollar value. In addition, the number of purchase orders issued will be drastically reduced. However, this program will only be effective if management analyzes the management reports for waste, abuse, and also to analyze for cost saving opportunities.

Auditor's Recommendation

1. It is our recommendation that the BPO process be abolished; and the proposed Procurement Card program adopted (for purchases less than \$750.00). As part of the program, card users should be encouraged to seek price comparisons from at least three different companies or vendors. For all other purchases in excess of \$750.00, requisitions should be submitted to the purchasing division for competitive bid selection and award.
2. The purchasing manager should establish a written policy and detailed procedures on how the Procurement Card program will be administered. The staff members receiving the cards should be required to sign a formal agreement on the specific use of the card; and
3. The manager of purchasing should have direct control over the administration of the Purchasing Card program; and spending limits for individual employees and commodities should be established.

Management's Response

The Purchasing Division is presenting to the Board of County Commissioners on October 14, 1997 the new Purchasing Manual, which includes the revised Purchasing Code and new procedures. Purchasing is recommending the implementation of purchasing cards, which will substantially reduce the numerous BPOs. The code and procedures define how the purchasing card system will be administered and the controls that will be in place to ensure accountability (Attachment D). Each cardholder will have to sign a Purchasing Card Cardholder Agreement (Attachment E) and Purchasing will be the program administrator for the Purchasing Card System.

The utilization of a purchasing card in lieu of BPOs allows for stricter controls and better accountability. All purchases can be regulated by a single purchase dollar limit (less than \$750.00), merchant category codes and the number of transactions per day (less than 10). County employees must present their own unique VISA procurement card in order to procure any goods or services. A daily, weekly or monthly report can be generated from a windows-based software-reporting package. Standard reports available through the software include: a.) Employee card use by spending category, vendor Merchant Category Code, and vendor name; b.) Client management of pertinent information by cardholders at all levels of the organization for the report period selected; c.) Cardholder usage for

established account parameters or County rules and regulations. and; d.) Sales tax and use tax information at both a summary and a detailed transaction level.

If the Board approves purchasing cards, we will be able to reduce the number of BPOs by approximately 70%. We will still need BPOs for vendors in remote areas and for service providers that do not accept VISA. Purchasing will actively promote the procurement card with Seminole County vendors so that we can reduce the number of BPOs by another 15% over the next two years.

The buyers in Purchasing also are now purchasing by commodity; not by department. This will allow Purchasing to have a better knowledge and control on what commodities are being purchased. In addition, by utilizing the reports that can be generated from the purchasing card, we will be able to determine large dollar volumes of similar commodities being purchased countywide. We will then develop annual quotes or bids on these commodities. Purchasing's goal is to have eight new annual quotes, or bids, established in fiscal year 1997/98.

FINDING NO. 2

Finding

BPOs are the primary vehicle for procuring those goods and services costing less than \$10,000.00. In some cases, multiple BPOs are issued in order to circumvent the requirement for formal written quotes.

Based on a review of the procurement records and through interviews with county employees, most divisions select the same vendors year after year. It is the county policy to have three written quotes for purchases from \$10,000.01 to \$25,000.00. For purchases under \$10,000.00 there is a requirement for only one verbal quote.

We found some instances where management opted to use multiple BPOs (split orders) rather than asking the purchasing division to request written quotes from at least three vendors. For example, one service related contractor was awarded ten individual purchase orders (all dated September 30, 1996) for work with a cumulative value of over \$20,000.00. Both the purchase requisitions and purchase orders were all consecutively numbered indicating that the orders were all awarded at the same time. Written quotes from three businesses were not obtained because the purchase orders individually were all under the \$10,000.00 threshold. By not seeking written quotes, there is no assurance that the county is obtaining the lowest possible price and other businesses in the community are not being afforded the opportunity to compete for county business.

Auditor's Recommendation

It is our recommendation that the manager of purchasing re-emphasize the purchasing policies to the division managers. In addition, any non-compliance with established county policies should be investigated and appropriate action taken to prevent reoccurrence.

Management's Response

BPOs may be issued in the amount of \$10,000.00, but each item purchased from them must be less than \$500.00 for FY 96/97 and \$750.00 for FY 97/98 (capital dollar limit).

The dollar amount encumbered is designed to support operational needs with that vendor for that fiscal year. In the past years, Departments have issued separate BPOs for each account number, instead of one BPO for multiple account numbers. Purchasing is no longer allowing Departments to split BPOs and the buyers are manually monitoring the dollar amounts of the BPOs issued to each vendor. If the combined dollar amount exceeds the quote or bid threshold we will inform the Department that no additional funds will be allocated unless a quote or bid is obtained; a proprietary/sole source justification is obtained; or an emergency data form is obtained. We are also requiring that Departments submit change orders to the BPO if additional dollars are needed. Purchasing is actively examining what commodities and services warrant an annual bid or quote. For example, in FY 1996/1997 Purchasing developed new annual bids on computer supplies and utility service supplies. We are currently working with Fire/Rescue to bid their uniforms.

The above process is detailed in the new Purchasing Code and Procedures. Once approved, Purchasing will meet individually with the Departments and explain the major Purchasing issues, such as: the Purchasing Card; ethics in Purchasing; establishing more annual quotes and bids; utilization of bids and quotes; and zero tolerance for splitting purchase orders.

FINDING NO. 3

Finding

Duties are not adequately segregated.

Each division designates certain employees to request BPOs; and to recommend which vendor should receive BPOs. However, many of those same employees also are involved in determining job requirements (i.e. parts and services required), in negotiating prices with the vendors, in selecting vendors, in approving invoices for payment. These employees, although involved in purchasing, do not report to the Purchasing Division.

A sound system of internal control dictates that checks and balances be maintained and that duties be segregated. One person should not handle all aspects of a transaction or transactions. If a single transaction is processed by several different people, each serves as a check on the other. By allowing individual employees to meet and negotiate with vendors, to determine certain specifications and perform other purchasing related functions, free from oversight, and outside the presence of procurement professionals in Purchasing, runs the risk of over-procurement and perceived (or real) favoritism. Potential conflicts of interest are created, as legitimate checks and balances are dissolved by the BPO process.

Auditor's Recommendation

In order to ensure that there are adequate division of responsibilities, we are suggesting the following:

1. A county policy should be established that prohibits vendors from meeting and negotiating with employees outside of the Purchasing Division;

2. Begin the process of transferring the responsibility for negotiating and selecting vendors from the individual divisions to the Purchasing Division; and,
3. To further ensure that there is adequate division of duties, management should consider appointing a specific manager to control the warehouse functions at the county. This manager would be responsible for the oversight of all of the warehouse related functions and would report to the county manager. Responsibilities would include establishing, monitoring, and controlling the materials received, issued, and stored including the stocked road maintenance materials.

Management's Response

Departments utilize BPOs for the procurement of low dollar, high quantity goods or services, which are purchased numerous times throughout the course of the year and are needed to keep the Departments operational. BPOs are common to stock items for Departments that have warehouses. Although Purchasing does not regulate the warehouses, we provide BPOs that they request. Purchasing is closely monitoring the large dollar and the multiple BPOs to the same vendor. Purchasing will determine what commodities warrant an annual quote or bid, and therefore vendors will be awarded through the competitive process.

The new Purchasing code emphasizes that Purchasing should be the primary contract with the vendors. Article XI defines ethics in public contracting. We will reiterate these issues when Purchasing meets with the Department after approval of the new Purchasing Code. By doing more quotes and bids, Purchasing will be selecting the low, most responsive, responsible vendor.

Departments should segregate the duties of individuals, ensuring that the same person does not select the vendor, order the goods, receive the goods and authorize payment for the goods. We don't feel a specific manager should be appointed to control warehouse functions. This responsibility should lie with each Department Director. However, a countywide procedure for warehousing should be established. Purchasing will work with the Departments to develop adequate division of duties and proper internal warehousing controls. A policy will be included in the Purchasing Procedures (Part 2) which can be approved by the County Manger by February 1998.

FINDING NO. 4

Finding

The BPOs for the contractors performing labor and installation work do not always include a provision for the contractor's hourly billing rates or for billing rates based on unit prices.

BPOs are issued to encumber funds for both long term contracts and for those small dollar labor and installation work performed by contractors that do not have formal contracts. The BPOs issued to encumber funds for the long term contracts specifically reference a contract number on the BPO. The BPOs for small dollar labor and installation work, however, do not list specific terms and conditions (such as agreed hourly rates or unit prices). The divisions simply request a BPO from purchasing with a not-to-exceed dollar amount.

The Division Manager and County Finance approve payment of such an invoice simply by whether or not the charges seem "reasonable" for the service provided. It is to management's advantage to encourage competition by reviewing prices and committing to specific terms and conditions. It is also to management's advantage to consolidate requirements of all the divisions and to request countywide bids for services instead of each division operating independently. The Purchasing Division is in the process of analyzing goods and services being purchased by more than one division in order to consolidate orders and to negotiate more favorable prices with vendors.

Auditor's Recommendation

It is our recommendation that specific terms and conditions be added to future purchase orders for hourly and unit price labor or installation work; or that a price schedule be referenced so that the county has a firm commitment from the vendor on per unit charges or hourly billing rates.

Management's Response

Purchasing is working with the Departments to determine what services should be purchased through an annual bid or quote. Annual bids and quotes allow for the competitive bidding for hourly rates or unit prices. Purchasing has already met with Facilities Maintenance. We have agreed to establish more annuals for services required throughout the course of the year. When the dollar amount for services does not warrant an annual quote or bid, Purchasing will negotiate with the vendors to establish hourly rates or unit prices and will include those rates in the body of the BPO.

FINDING No. 5

Finding

Contractor insurance certificates are not always kept on file, exposing the county to potential litigation.

We were not able to verify whether the contractors performing services for the county maintain the proper General Liability and Workers Compensation insurance because certificates were not kept on file with the county. Without these certificates on file, the county is exposed to potential litigation should an individual become injured while performing work for the county.

Auditor's Recommendation

It is our recommendation that contractors performing work for county furnish copies of their insurance certificates so that the county is protected from potential litigation.

Management's Response

Purchasing receives certificate of insurance and proof of workers compensation on bids and quotes. However, we were not obtaining proof of insurance and workers compensation for BPOs that were not done competitively through Purchasing. We are working with Risk Management to determine what level of insurance coverage and workers compensation is needed for small dollar BPOs. We have already adjusted workers compensation rates per Florida Statutes. We will have insurance rates established by January 1, 1998. Once that level of coverage is determined, we will require proof of insurance and worker compensation for all service BPOs. Proof of insurance will be filed with the BPO.