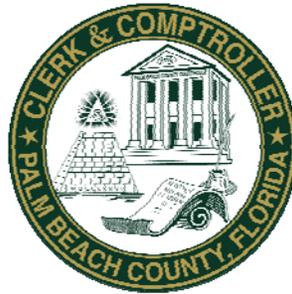# Palm Beach County
Clerk & Comptroller's Office
Contracting & Purchasing Review

SHARON R. BOCK

Clerk & Comptroller
Palm Beach County

Audit Services Division
September 18, 2008
Report 2008-03

SHARON R. BOCK
Clerk & Comptroller
Palm Beach County

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The Honorable Sharon R. Bock
Clerk & Comptroller

We conducted an audit of the contracting and purchasing functions of the Clerk & Comptroller's Office. Our objectives were to perform an independent assessment of the risks impacting the functions, evaluate internal controls in place to mitigate the risks, and assess opportunities to improve efficiency and effectiveness.

Except for the Observations and Recommendations noted in this report, the Clerk's contracts and purchasing internal control environment was generally adequate. Opportunities exist to improve controls, enhance performance measures, and implement best practices.

Responses to our recommendations were received from management and are included in the report.

We appreciate the cooperation of management and staff during the course of this audit.

Respectfully submitted,

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INTRODUCTION

Background

Purchasing activities are dispersed throughout the Clerk's office. Each department is responsible for contacting vendors, initiating requisitions and receiving the goods and services. Two individuals within the Clerk's Accounting Department support the purchasing function.

Two types of purchases are processed. Exempt purchases consist of common items (e.g., office supplies) that do not require a requisition/purchase order. Non-exempt purchases are initiated via requisitions submitted by various Clerk departments. Requisitions are reviewed by Clerk's Accounting staff and purchase orders are then generated and released to vendors. These activities are facilitated by the Banner Finance Purchase module, which routes requisitions through authorization approval queues and verifies that budgeted funds are available. An American Express "ghost card account" is used for business travel expenses.

The following chart displays the number of purchase orders generated and related dollars spent on non-exempt purchases in FY 2006 and FY 2007. Exempt purchases are not tracked or reported.

	FY 2006	FY 2007
Number of Purchase Orders	1,021	1,036
Dollars of Purchase Orders	$8,645,872	$9,183,385

Source: Clerk's office Accounting Department

Contracting responsibilities are also dispersed throughout the Clerk's office. Each department is responsible for drafting initial contracts and involving subject matter experts (e.g., Information Technology) when necessary. The Clerk's Legal Counsel supports the contract review process, maintains a listing of all executed contracts (with 141 entries as of January 15, 2008), and stores the related official documents. A senior accountant in Budget and Financial Analysis supports the contracting process. This individual verifies funds are encumbered

for contracts, maintains contract files, and ensures approval for payment of invoices supported by contracts.

Scope and Methodology

The Clerk's Audit Services Division conducted a review of the contracting and purchasing functions. The objectives of the review were to:

- Perform a risk assessment to identify risks and vulnerabilities impacting the functions.
- Design review work to evaluate the adequacy of procedures and internal controls for all core processes and areas deemed high risk. Execute testing of select areas including, but not limited to, preparation and approval of purchase orders, encumbrances, and contract files.
- Determine if goals and performance measures are developed and utilized to assess the success of operations.
- Survey other counties to evaluate their contracting and purchasing processes. Identify best practices and opportunities for improvement.

In order to meet these objectives, we conducted interviews, reviewed policies and procedures, evaluated legislative requirements, evaluated performance measures and reporting, and evaluated the internal control environment. Testing of contracting and purchasing processes included sampling of activity throughout FY 2007. We performed other procedures that were deemed necessary under the circumstances.

Conclusion

Except for the Observations and Recommendations noted in this report, the Clerk's Contracts and Purchasing internal control environment was generally adequate. Opportunities exist to improve controls, enhance performance measures, and implement best practices.

Review Team:
Alan Bray, Manager
Mike Bodle, Senior Auditor
Stuart Grifel, Senior Auditor

OBSERVATIONS & RECOMMENDATIONS

The Clerk's review identified certain policies, procedures and practices that could be improved. The review was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the observations and recommendations presented in this report may not be all-inclusive of areas where improvement may be needed.

Contracting & Purchasing - Shared Observations and Recommendations

1. Contracting and purchasing activities are largely decentralized

Contracting and purchasing functions are largely decentralized within each of the various Clerk's office departments. Limited centralized support and oversight is provided by the Clerk's Accounting Department for purchasing activities, with their support primarily clerical in nature. Some contracting and purchasing support is provided by the Clerk's Legal Counsel, Facilities, and Information Technology (IT).

Within this decentralized structure, Chief Officers and their staff are responsible for contacting vendors, drafting contracts and preparing purchase requisitions.

Benchmarking surveys conducted during the review indicated four of five Florida clerk's offices combined the purchasing and contracting functions into a largely centralized department. Centralized responsibilities often include maintaining standardized policies and procedures, registering new vendors, coordinating with existing vendors, issuing purchase orders, obtaining or reviewing bids when required, and verifying proper authorization.

Recommendation:

A. Strengthen the purchasing and contracting functions, with consideration given to centralizing the responsibilities into one department. Refer to Appendix A for a description of the roles and responsibilities that should be considered to strengthen and centralize these functions.

Management Response:

A. Agree. Purchasing and payable duties and functionality will remain the same within Banner Finance until the PeopleSoft launch on October 1, 2008. In preparation of the launch, contracting and procurement policies will be drafted and approved. Effective on the go-live date, purchasing functions will be separated from payables, a senior accountant (reporting to the manager of Budget and Financial Analysis) will handle requisition and purchase order processing and contract monitoring, and staff will be trained in the new system and procedures.
Target Completion Date: 10/1/2008

In conjunction with the planned PeopleSoft launch, management will implement a centralized purchasing function and related procedures using the recommendations outlined in Appendix A. IT related purchase requests will be submitted by user departments via email to a resource coordinator within the IT Division, who will obtain quotes and complete requisitions as needed.
Target Completion Date: 3/31/2009

2. Approval authorities are not clearly defined

Approval authorities over signing contracts and authorizing purchases are not formally defined and limits vary between departments.

The Clerk has provided an oral directive that all contracts, regardless of the amount, require the Clerk's signature. Formalizing this practice in policy and monitoring compliance would help ensure that all contracts were signed by the Clerk.

Within the purchasing function, a requisition approval matrix is embedded within the Banner System. Requisitions of goods and services are entered into the system by the designated purchasing support staff within each of the various departments, and routed within the system to the designated management level.

The approval limits within each of the departments vary significantly based on Clerk Officers' preferences. Changes to standardize the approval limits by title have been proposed but have not been formalized or implemented. The purchasing supervisor is responsible for updating Banner purchasing approval capabilities for new hires and transfers.

Implementation of an organization-wide approval authority matrix and delegation of approval authority process and related policy would assist in ensuring that a comprehensive strategy is in place and consistently applied for approving all types of expenditures. It would also define and formalize the desired strategy in delegating the Clerk, Chief Officer and supporting management approval authorities when these individuals are not available.

Recommendations:

A. Formalize and communicate the contract signature authority requirements in writing. Reassess if the Clerk's signature will be required for all contracts or if such authority will be delegated to a Chief Officer(s) for smaller dollar contracts or when the Clerk is not available.

B. Review the existing approval authority levels for purchasing goods and services across all departments and revise the limits as deemed appropriate. Consider transferring Banner purchasing approval update capabilities from the purchasing supervisor to Information Technology.

C. Define and formalize a framework and related policy for the Clerk's Office organization-wide approval authorities and delegation of such approval authorities.

Management Responses:

A. Agree. Management has drafted a contract policy and presented it to the Executive Committee for approval. Once approved, the policy will be distributed, which is expected by October 1, 2008. Training will be provided as necessary by January 15, 2009.
    Target Completion Date: 1/15/2009

B. Agree. Authorization requirements will be established, formalized and communicated in writing. Signature authority requirements will contain dollar threshold levels, which management anticipates will be aligned with best business practices. These requirements will be integrated into a

procurement policy and imbedded in the PeopleSoft application and workflow routing methodology. Management does not intend to transfer update capabilities to IT. User set up will reside within IT and user role assignment will reside within purchasing, which will be formally documented.
Target Completion Date: 10/1/2008

C. Agree. Organization-wide purchasing approval and limits will be incorporated into the procurement policy and presented to the Executive Committee for approval. Approval authorities will be based upon an individual's position level (i.e. manager, director and Chief Officer).
Target Completion Date: 10/1/2008

3. Some responsibilities over contracts and fixed assets as well as purchasing and accounts payable are not sufficiently segregated

Responsibilities over managing contracts and fixed assets as well as handling purchasing and accounts payable activities are not sufficiently segregated.

The senior accountant in Budget and Financial Analysis is responsible for the finance areas of the contracting process. This individual verifies funds are encumbered for contracts, maintains contract files, and provides approval for payment of invoices supported by contracts. This same individual is responsible for tagging and monitoring assets, recording transfers, and conducting annual inventories of the Clerk's office fixed assets.

Best practices in internal controls recommend that no single individual should be responsible for ordering, tracking and accounting for assets. The principal incompatible duties that should be segregated are:
- Custody of assets,
- Authorization or approval of related transactions affecting those assets,
- Recording or reporting of related transactions, and
- Execution of transaction activity.

In addition, within the Clerk's purchasing function, staff is responsible for receiving purchase requisitions from various departments, preparing and forwarding purchase orders to vendors, capturing invoices, initiating check requests and matching invoices to printed checks. Best practices indicate that purchasing and payable processing responsibilities should be segregated.

The review also disclosed that purchasing policies and Banner Financial System capabilities do not restrict the same person from requisitioning and receiving goods and services. Best practices indicate these duties should be segregated.

Recommendations:

A. Segregate fixed asset accountability and control responsibilities (i.e., asset tagging and inventory control) from the duties within Finance related to recording and reporting of fixed assets in the accounting records.

B. Segregate the purchasing, accounts payable and disbursement activities that are all handled within the purchasing function.

C. Segregate the ability of one individual to both requisition and receive the goods and services.

D. Require that signed packing lists or other systematic receipt of goods and services be forwarded to the Clerk's Accounting Department.

Management Responses:

A. Agree. Fixed asset custodial accountability and control responsibilities have been transferred to the senior accountant for revenue within the Clerk's Accounting Department.
    Target Completion Date: Completed

B. Agree. Purchasing and accounts payable responsibilities will be segregated on the go-live date of PeopleSoft.
    Target Completion Date: 10/1/2008

C. Agree. The requisition and receiving roles will be mutually exclusive. Managers will be allowed to delegate their receiving role (though will remain ultimately responsible) but not to the individual who has been assigned a requisition role.
    Target Completion Date: 10/1/2008

D. Agree. "Blind Receiving" will be implemented within the PeopleSoft application, which represents an automated receiving document. The Clerk's Accounting Department will not require packing slips to be forwarded as it is not practical to enforce.
Target Completion Date: 10/1/2008

4. Opportunities exist to develop and improve contracting and purchasing policies and procedures

Draft purchasing policies and procedures are in place though formal written policies and procedures guiding the contracting and purchasing functions have not been developed or fully updated.

Best practices in internal controls indicate that written policies and procedures should be in place within an organization to help ensure accuracy and consistency in the quality of work.

- Within the contracting function, an initial draft has been developed but further revisions are required prior to submission to the Clerk's Officers for review. Policies and procedures should define specific criteria when contracts are required, provide guidance in preparing contracts and ensuring subject matter experts are engaged, establish approval requirements, define monitoring and renewal practices, and provide performance standards by which to evaluate results.

- Within purchasing, the draft policy and procedures manual was last updated in April 2005 to reflect changes when the Banner System was implemented. Additional topics to incorporate into the manual include, but are not limited to: competitive bidding, sole source purchasing, and vendor registration and assessment.

Given the decentralized nature of the contracting and purchasing functions, with responsibility resting largely within each department, it is important that policies and procedures be clearly defined and available.

Recommendations:

A. Develop and distribute approved contracting policies and procedures to all senior staff and other individuals responsible for contracts. Refer to Appendix B for specific recommendations of content to include in the manual.

B. Update and finalize the draft purchasing policies and procedures manual or consider developing a consolidated manual that includes both contracting and purchasing. Refer to Appendix B for specific recommendations of content to include in the manual.

C. Provide updated contracting and purchasing policies and procedures to all staff via the Clerk's intranet. Likewise, provide access to registration forms to vendors via the intranet.

Management Responses:

A. Agree. Management will complete the contracting policy. The documents will be submitted to the Executive Committee for approval and formal distribution, which is expected by October 1, 2008. Procedures will be prepared and issued by March 31, 2009. Recommendations in Appendix B of this report will be incorporated.
    Target Completion Date: 3/31/2009

B. Agree. The procurement policy will be updated and approved by October 1, 2008. Procedures will be updated and distributed by March 31, 2009. Recommendations in Appendix B of this report will be incorporated.
    Target Completion Date: 3/31/2009

C. Agree. Management will research the feasibility with IT and Communications to develop a procurement link on the Clerk's external website, including vendor registration forms as well as contracts available for bid and contracts awarded. The Clerk's intranet will also provide a link to all purchasing and contracting policies and procedures.
    Target Completion Date: 12/15/2008

5. Purchase orders are not always prepared to encumber funds for executed contracts

The Clerk's purchasing manual does not clearly define when purchase orders should be prepared for contracts so that funds are encumbered. The review disclosed that purchase orders were not always prepared to encumber funds for executed contracts, which could result in understating total contractual encumbrances in Clerk's Accounting reports.

Recommendation:

A. Encumber funds for all contractual expenditures by preparing purchase orders or developing another mechanism to record this information.

Management Response:

A. Agree. Contracting policies and procedures will require that all contracts have a corresponding purchase order completed, which will encumber the funds. This will be incorporated into the contract monitoring procedures. As part of the vendor registration process, vendors will be required to attest that they have read and agree to the Clerk's contracting policy and purchasing requirements. The vendor registration form will indicate that the Clerk will not consider an invoice for goods or services valid without a purchase order reference and that it is the vendor's responsibility to acquire a purchase order prior to accepting an order.
Target Completion Date: 10/1/2008

6. Opportunities exist to enhance training

Opportunities exist to enhance the training provided to those individuals within the Clerk's organization who are responsible for purchasing and contracting activities.

Clerk Accounting staff who handle purchasing and contracting functions have received some training in general areas such as business processes, policies, and procedures. However, limited training has been provided for specific government contracting and administration. Also, job descriptions do not include purchasing-related duties.

Training for other Clerk's office managers and staff is limited to a brief overview of the purchasing function in the Management Orientation & Success Workshop curriculum.

Those individuals authorized to enter purchase requisitions and receiving information into the Banner System are trained by their managers, with a requisition user's guide and receiver guide available for guidance. Detailed policies and procedures, when distributed, will assist in the training process.

Recommendations:

A. Enhance the training program for purchasing and contracting activities performed throughout the Clerk's office.

B. Ensure staff devoted to contracting and purchasing functions receives the training required to enable them to fulfill their responsibilities.

C. Monitor the effectiveness of training through performance measures and customer/employee feedback.

D. Revise job descriptions to reflect the purchasing and contracting responsibilities for those tasked with these duties.

Management Responses:

A. Agree. Purchasing procedures will be distributed and incorporated into the manager/supervisor training series. Initial training will be provided by October 1, 2008 and all training will be completed by January 15, 2009. Specific individual training has been offered by IT in the past. Consideration will be given to offering a course in The Learning Connection (TLC).
    Target Completion Date: 1/15/2009

B. Agree. Managers will provide documentation of employees who are assigned new contracting and purchasing user roles in PeopleSoft. Required training will be coordinated with Administration.
    Target Completion Date: 10/1/2008

C. In the current process, all participants attending Clerk-sponsored training are requested to complete evaluation forms. Management believes this process is an acceptable performance measurement of training effectiveness.
Target Completion Date: Completed

D. Agree. Job descriptions are determined by Administration relative to titles (e.g., accountant, senior buyer, and manager) and cover broad responsibilities. Management will develop a specific list responsibilities related to purchasing and contracts.
Target Completion Date: 12/15/2008

7. Opportunities exist to solicit feedback from customers

Opportunities exist to solicit feedback from Clerk's office managers regarding their satisfaction levels with vendor performance (e.g., price, quality and timeliness) and services provided by contracting and purchasing staff. Feedback should also be solicited from vendors.

Without customer feedback, management may be unaware of deficiencies in service delivery and the need for improvements. In addition to identifying improvements, customer feedback is useful in determining training needs and measuring employee and/or team performance. Proper design and targeting of the surveys is essential to their usefulness.

Recommendation

A. Develop customer satisfaction questions specific to the purchasing and contracting functions for Clerk staff and vendors. Surveys should be sent on a periodic basis. Respondents should be encouraged to answer the survey via internet when this functionality is available.

Management Response:

A. Management will research the feasibility and practical application and implementation of a purchasing web link on the intra- or extra-net so that internal and external customers can provide real-time feedback.
Target Completion Date: 12/15/2008

Purchasing Observations & Recommendations

8.   Purchasing policy does not require a competitive bidding process

The Clerk's office purchasing policy does not require a competitive bidding process. Although utilizing only one vendor may be justified in some circumstances, such as where the vendor is a sole provider or there is only one good or service that meets the requirements, it may result in using a vendor that does not offer the best price or meet other performance criteria. Although Florida law does not require the Clerk to have a competitive bidding process, competitive bidding creates cost saving opportunities and helps enhance public confidence in the procurement process.

Draft policy indicates a quote should be obtained by IT for computer equipment and by Facilities for furniture and work stations. However, Clerk departments do not always contact IT and Facilities prior to submitting requisitions and negotiating contracts. Given their expertise and the heightened need for cost containment, the IT and Facilities departments could play a more active consultative role in procurement decisions (e.g., alternative features/ products, compatibility, lease vs. buy). The Clerk's office has largely developed sole source relationships with Dell (computer equipment) and JC White (facilities).

Benchmark surveys of five other Florida clerk offices disclosed that four have formal bidding requirements. Bidding thresholds varied as two offices required three bids for purchases over $1,000 (Broward and Volusia) while another office required three bids for purchases exceeding $2,000 (Lee). Also, a FY 2004 external audit recommended that the Palm Beach Clerk's office identify a dollar threshold over which all purchases would necessitate obtaining quotes from at least three vendors before making a purchase.

In FY 2007, purchase orders over $1,000 accounted for 33% (342 of 1,036) of the number of purchase orders while representing 98% ($9.0 million of $9.2 million) of the related total dollars. If management decides to continue sole source relationships with Dell and JC White, which accounted for 106 (31%) of the total purchase orders over $1,000 in FY 2007, a thorough assessment should be

performed to ensure these vendors are providing superior value. Further, agreed rates for a specific period (e.g., annually) should be evidenced in written documentation.

Recommendations:

A. Establish a policy that requires competitive bidding. Establish an escalating number of bids for increasing dollar thresholds of items purchased that are not included on the exemption listing.

B. Require written justification and documentation when deviating from the competitive bidding policy, including next-level approval of the purchase.

Define and document those purchases which should be exempt from bidding requirements, including sole source agreements.

Management Responses:

A. Agree. A competitive bid requirement will be established and incorporated into the procurement and contracting policies and procedures, including corresponding threshold identification and requirements. The bids will be obtained by the requisitioning departments and reviewed by the purchasing staff. The policy will be presented to the Executive Committee for approval. Target Completion Date: 10/1/2008

B. Agree. The competitive bid procedures within the procurement policy will define and document proper handling of any allowable deviations from bid requirements.
Target Completion Date: 10/31/2008

C. Agree. Management will address items specifically exempt from the bidding process, including sole source agreements and "piggy back" contract items.
Target Completion Date: 10/31/2008

9. Purchases are not always supported by requisitions and purchase orders

Requisitions are not always submitted by department managers and purchase orders are not always created to support the acquisition of goods and services in accordance with established Clerk policies.

Purchasing policy states that "Clerk and Comptroller Managers shall submit a purchase requisition for the issuance of all purchase orders (P/O). Purchase orders shall be issued prior to the acquisition of all goods and services. Exceptions to this statement are items listed on the common office supply list and requisition / purchase order exemption lists". Draft procedures in place include an exemption list that defines the goods and services that do not require a requisition and purchase order.

Our review of invoices indicated that some items purchased were erroneously treated as exempt and were not properly supported by a purchase requisition and purchase order.

Recommendations:

A. Improve oversight of the requisition process and enforce policy that requires managers to submit requisitions for all goods and services, except for those items included on the exemption list. Follow up with the managers and their staff who do not comply with the policy. Develop sanctions for those individuals that are continually purchasing non-exempt items without a requisition.

B. Update the goods and services recorded on the exemption list to reflect current Clerk policies and practices.

Management Responses:

A. Agree. Management agrees that purchases must be supported by requisitions. Accounts Payable will generate a monthly listing of all direct pay vouchers (i.e., payments made without a purchase order) for distribution to the Executive Committee. In addition, implementation of the vendor registration process should reduce exceptions as vendors are made aware of the Clerk's purchasing policy.

Target Completion Date: 10/1/2008

B. Agree. The purchase order exemption list will be reviewed, updated and incorporated into the purchasing procedures manual.
Target Completion Date: 3/31/2009

10. Purchasing policy does not require vendors to be registered or approved in advance

Purchasing policy does not require vendors or contractors to be registered or approved prior to conducting business with the Clerk's office. The purpose of a registration process is to ensure that the vendor is qualified to perform the contracted work or provide the goods and services, which also helps instill public confidence in the vendor selection process.

Vendors are set up by an accounting clerk after receiving basic vendor information via e-mail including company name, mailing address, fax and telephone numbers, and vendor contact. Best practices suggest that vendors should provide additional information at inception such as: data to validate their financial stability, proof of insurance, licenses, references, and company officials or principals that may be Clerk employees or related to Clerk employees.

Recommendations:

A. Require all current and any new vendors to complete a registration form, and ensure management review and approval.

B. Require annual verification of current company address and any change in company officials or principals who may be Clerk employees or related to Clerk employees.

Management Responses:

A. Agree. A vendor registration process will be developed and made available on the Clerk's website under Accounts Payable. Accounts Payable will develop an appropriate approval methodology and workflow.
Target Completion Date: 12/15/2008

B. Agree. Accounts Payable will implement an annual assessment process to verify continued vendor compliance and validation.
Target Completion Date: 12/15/2008

11. There is no systematic review of long-term vendors' prices, quality and timeliness

Many of the same vendors are used year after year with no documented review of the prices they charge, quality of the items purchased and timeliness of delivery. The lack of any periodic vendor review may result in less competitive pricing and deteriorating performance. A periodic assessment and review of each vendor's performance helps provide a continuously improving vendor base.

Current draft policies do not require periodic assessment and review of each vendor's performance. Forms or standard criteria are not in place to guide vendor reviews. It is the sole discretion of the individuals conducting purchasing activities in each department to determine when and how to evaluate vendor performance. JC White has been the workstation and office furniture supplier for the Clerk's office for nearly 20 years without documentation to indicate that a vendor assessment had been performed. Likewise, no vendor assessment has been performed for Dell.

Purchasing opportunities could be expanded by pursuing the ability to piggyback on existing state and other government contracts and to identify items available from the County's warehouse for procurement. These resources are not adequately communicated to or utilized by Clerk employees.

Recommendations:

A. Require an annual documented review of purchases for the previous fiscal year to evaluate the vendors to be utilized for the coming fiscal year for any given commodity or set of commodities.

B. Develop a standard form to objectively assess vendor performance. Criteria may include, but is not limited to: cost, quality, availability and adaptability of the goods and services to the particular requirements of the Clerk's office.

C. Identify state and other government contracts that departments can piggyback on as well as items and corresponding prices from the County warehouse. Communicate these sources on the Clerk's intranet. In addition, provide the current prices of common items (e.g., copy paper) from one or more vendors on the Clerk's intranet.

Management Responses:

A. Agree. Purchasing staff will review vendor pricing and performance on a real-time basis. As quotes are reviewed and purchases made, Purchasing will assess the need to register and establish new vendors as well as inactivate existing vendors based upon pricing and performance. On an annual basis, Purchasing will review vendors used during the previous year and internally publish a list of those vendors to be maintained for use in the next fiscal year.
Target Completion Date: 3/15/2009

B. Agree. Management will develop a real-time feedback mechanism within a web environment to obtain and accumulate internal customer assessments of specific vendor performance. Vendors will be reaffirmed annually by Accounts Payable using this information.
Target Completion Date: 3/15/2009

C. Agree. Purchasing will maintain a listing of relevant government contracts on which the Clerk's office may "piggyback". Also, a current listing of items available from the County warehouse will be maintained and referenced as a preferred vendor when purchasing.
Target Completion Date: 12/15/2008

12. Opportunities exist to improve reporting and implement performance measures in purchasing

The purchasing function provides monthly reports to track open purchase orders. Opportunities exist to improve reporting and implement performance measures for the purchasing function. Without measurement data and comprehensive reporting, it is difficult for internal management and external stakeholders to assess performance.

With performance data, management can track trends over time and take necessary actions to enhance the efficiency, effectiveness and quality of the purchasing activities. Information from a performance measurement system is also useful in conducting benchmarking, evaluating best practice applications in other organizations, and identifying areas in need of improvement.

Once Purchasing develops performance measures and begins to collect performance data on a regular basis, it will need a system that will facilitate monitoring, reporting, analysis and feedback. With a measurement tracking and reporting system, all levels of management can monitor the status of key performance measures. Thereafter, a quality assurance program should be developed to proactively identify non-compliance with policies and performance standards, which can be used to drive continual process improvement.

Some of the common purchasing measures found in other local governments include: number of purchase transactions, cost per transaction, percent of supplies delivered on schedule, percent of purchase orders returned due to errors of incomplete descriptions, number of past due orders, average purchase order turnaround time, and total cost of purchases.

Recommendations:

A. Develop purchasing-related performance measures.

B. Develop a tracking and reporting system to capture performance measurement results that can be compared over time (trend analysis). This will allow management to take the necessary action to plan and control work and more effectively utilize their resources.

Management Responses:

Agree. Performance measures are a valuable tool. However, management believes procedures should be implemented and modified in a "live" environment prior to identifying the most value-added measures. Performance measures will then be identified and documented, incorporating the measures listed above.
Target Completion Date: 3/31/2009

13. Opportunities exist to increase efficiency and reduce costs by using purchasing cards

Opportunities exist to utilize purchasing cards for small dollar purchases. Advantages of purchasing cards include, but are not limited to: reduced operating costs through fewer purchase orders and disbursements, process efficiency and simplification, and the ability to leverage on-line purchasing capabilities.

A 2001 study by the National Institute of Government Purchasing found that the cost of processing a purchase order ranges from $81 to $150. Within the Clerk's office, a substantial portion of the 694 purchases below $1,000 in FY 2007 could have been processed using a purchasing card. A benchmark survey of five Florida clerk's offices conducted during this review disclosed that four have implemented purchasing card programs.

Recommendation:

A. Evaluate the feasibility of implementing a purchasing card program.

Management Response:

A. Disagree. Management understands that opportunities exist to reduce costs and inefficiencies and that purchasing cards are a means to controlling costs. However, management believes that establishing a purchasing card program will generate unauthorized purchases by avoiding the purchase order process and requirements.

Contracting Observations & Recommendations

14. Some vendor payments were made without current contracts in place

Payments were made to vendors in which current agreements were either not in place or did not have defined termination dates. Also, some vendor payments were not aligned with contractually-agreed rates.

Recommendations:

A. Require contracts to be finalized and signed prior to acceptance of any products or services. Rates and prices should be clearly stated in the contracts, with any subsequent changes approved and documented.

B. Limit the use of contracts with no defined expiration dates. Periodically review these indefinite term contracts (e.g., annually) to ensure terms remain competitive. Any service or rate changes should be approved and documented in official contract files.

Management Responses:

A. Agree. A contracting monitoring process will be developed and included in the contracting policy. In addition, the vendor registration process will clarify that the Clerk will not be liable for any goods or services received from or performed by a vendor prior to the contract execution date. The contracting policy will be completed by October 1, 2008 and the procedures will be finalized by March 31, 2009.
Target Completion Date: 3/31/2009

B. Agree. The purchasing and contracting policies and procedures will include references to term limits on contracts, automatic renewals and rate change approvals. The contracting policy is expected to be completed by October 1, 2008 and the procedures will be finalized by March 31, 2009.
Target Completion Date: 3/31/2009

15. Opportunities exist to improve contract oversight

Process improvements and better use of technology are required to track all executed and draft contracts, monitor actions required, and highlight key deliverables and renewal dates.

The master contract index, intended to include all executed contracts, and official contract files are maintained by the Clerk's Legal Counsel office. A separate contract list is maintained in Clerk's Accounting, which is primarily used to verify that invoices and payment requests are supported by contracts when required. Various differences exist between the purpose and intended use of these two lists as well as the specific entries recorded on each. A review of Legal Counsel's master contract index indicated that some contracts were not on file or had expired.

In addition, the following observations and opportunities for improvement were noted.

- Established criteria are not in place that define when contracts are required. Departments lack sufficient guidance when preparing draft contracts.

- Contracts are provided to Legal Counsel by the originating departments after being signed by the Clerk. Legal Counsel assigns unique numbers to the contracts and updates the master contract index, generally when contracts are signed and executed. Better use of technology should be made to develop an adequate tracking system to provide accurate and timely information of the current status (e.g., active, closed, draft) and location of each contract. Unique numbers should be assigned when contracts are initially drafted and recorded in the tracking system. These numbers should be recorded on contracts and vendors should refer to these numbers in subsequent invoices and communications.

- Key contract terms are not summarized and periodic reviews are not performed to verify compliance. Also, the master contract index does not identify contract expiration dates or renewal dates to prompt the appropriate actions. The contracted dollar value should be documented to facilitate

ongoing review of encumbered funds. This information should be included in a tracking system.

Recommendations:

A. Establish a contract management system to record the status of all executed and draft contracts, capture the unique numbers assigned to each contract, summarize key terms, highlight expiration and renewal dates, monitor encumbered funds, and record other key information for ongoing review.

B. Define, document and communicate criteria to guide Clerk management in deciding when contracts must be prepared.

C. Provide read-only access to the contract tracking system to all key Clerk staff to provide adequate communication and awareness of contract status.

D. Create a permanent electronic file of executed contracts to supplement original paper documents.

Management Responses:

A. Agree. A more effective and centralized system will be implemented for contract management. The purchasing and contracting areas will work with Clerk's Legal Counsel to facilitate the implementation.
    Target Completion Date: 3/31/2009

B. Agree. Criteria for purchases requiring a contract will be included in the purchasing and contracting policies by October 1, 2008 and will be included in the procedures by March 31, 2009.
    Target Completion Date: 3/31/2009

C. Agree. Management will assess the access and communications requirements when developing the contract management system.
    Target Completion Date: 3/31/2009

D. Agree. The electronic file format exists for contracts; however, it will be made openly available to person(s) responsible for contract management.
    Target Completion Date: 6/30/2009

Appendix A:
Suggested Responsibilities for a Centralized Purchasing and Contracting Function

Purchasing
1. Obtain and/or review bids and quotes.
2. Update common office supply list and exempt items list.
3. Provide consultative support as needed, engaging IT and Facilities when necessary.
4. Determine the need for and identify sole source vendors (e.g., common office supplies). Ensure proper documentation exists for sole source vendor relationships.
5. Negotiate and maintain a current list of vendor prices for common items.
6. Maintain a current list of state and other governmental contracts that the Clerk's office may piggyback off for purchases.
7. Coordinate vendor evaluations and review vendor performance periodically (e.g., annually).
8. Maintain a current purchasing and contracting policies and procedures manual.
9. Review contracting and purchasing related management reports.
10. Implement and review customer satisfaction surveys and take action as necessary.
11. Maintain and evaluate purchasing and contracting performance measures.
12. Effectively communicate and train managers on purchasing and contracting policies and procedures.
13. Obtain and verify initial vendor registration information.
14. Verify vendor updates and information on a periodic basis (e.g., annually).
15. Conduct periodic quality assurance testing of key purchasing activities.

Contracting
1. Maintain an official master contract index.
2. Maintain official contract files.
3. Draft contracts and assign unique identification numbers to each contract.
4. Route contracts to appropriate departments for technical review (e.g., IT).
5. Route contracts to Legal Counsel for review of legal sufficiency.
6. Route contracts for required authorization signatures.

7. Track contracts through the approval, signature and execution process.
8. Ensure funds are encumbered to cover current year requirements for contracts.
9. Communicate official master contract index to all Clerk departments.
10. Monitor impending contract end dates and advise departments of required reviews and renewals.
11. Document key terms of contracts, monitor compliance, and conduct periodic reviews and assessments of contractor performance.

Appendix B:

Purchasing Policy and Procedures Manual Recommendations

As discussed in Observation #4, the purchasing policy and procedures manual should be reviewed to determine if the information is current, valid, accurate and complete. The manual should be revised as necessary. In order to facilitate usage of the manual, it should be produced in both hard copy and electronic form. An electronic copy placed on ClerkNet will allow for embedded links from which users can be directed to lists of exempt items, common office supplies and other information that requires ongoing review and update. Other links can direct the user to lists of County warehouse items and prices, contracts to leverage from other entities, and standard price agreements that have been negotiated with vendors for common supplies.

In addition to the information currently residing in the purchasing manual, the following areas should be considered for inclusion:

1. Process and documentation requirements for sole source purchases.
2. Process for leveraging contracts of other entities ("piggyback purchases").
3. Process for directing all IT purchase requests to the Help Desk and all facilities related requests to the Facilities Department.
4. Explanation of the difference between goods and services that require requisitions and purchase orders versus those that do not.
5. Process and forms for setting up new vendors and periodically reviewing the information.
6. Process and forms for evaluating existing vendors.
7. Statement of disciplinary actions when purchasing policy is violated.
8. Information on purchasing manual maintenance (e.g., position/person responsible, when and how manual will be updated, how suggestions can be made for recommending revisions).
9. List of responsibilities for management and staff within Purchasing and supporting departments (e.g., Accounts Payable, IT and Facilities) as well as other key decision makers (e.g., Chief Officers and directors).
10. Process for obtaining bids.
11. Process for ordering from County warehouse and from standard price agreements.

12. Enhance procedures and related forms for expediting purchases due to emergencies or other time-sensitive situations.
13. End-of-year purchasing procedures.
14. Travel policy and procedures.
15. Make reference to the code of ethics for Clerk Officers and employees regarding any financial interest in existing or potential Clerk & Comptroller Office vendors (Clerk & Comptroller Employee Handbook (January 2007; page 12)).
16. Process for identifying vendors that have been convicted of a public entity crime.
17. Statement regarding consistency with the purposes and intent of F.S. 287 (procurement of personal property and services).

The following topics should be considered for inclusion in the contracting manual. Alternatively, these contracting topics could be combined with the purchasing manual to the extent not already covered.

1. Definition of procurements that require a contract.
2. Designation of officials allowed to sign (execute) contracts and delegation of authority for expected absences.
3. Clear, comprehensive statement of contracting function responsibilities.
4. Applicability of guidance incorporated by reference (e.g., Florida Statutes) if determined appropriate.
5. Requirement to adhere to competition requirements established for purchasing, including criteria for any exception to such requirements
6. Special procurement methods to be used for specific types of contracts (e.g., professional services) as appropriate.
7. Description of contract numbering and tracking system.
8. Requirement for vendors to affix contract numbers on correspondence and billings.
9. Location and required content (including evidence of competition, when required, and reviews of contractor performance) of official contract files and listing.
10. Standard terms and conditions which must be included in a contract including:
    a. Annual appropriation clause
    b. Public entity crime clause
    c. Minority/Small Business Enterprise participation clause
    d. Insurance and bonding requirements
    e. Right to audit clause

      f.   Requirement for SAS70 Type II review for third party service providers

11. Method for ensuring adequate budget authority is available for contract or for first year of contract if multiple years are involved.
12. Requirement to route contracts for review of legal sufficiency and technical sufficiency.
13. Policy statement regarding piggybacking on state and other existing contracts.
14. Policy statement regarding acceptable length of contract terms.
15. Requirement to include starting and expiration (where applicable) dates in contracts.
16. Requirement for clear description of prices, including cap on contract, and deliverables with schedules.

Appendix C:
Benchmarking Results – Clerk's Office Purchasing

Questions	County					
	Broward	**Hillsborough**	**Lee**	**Polk**	**Volusia**	**Palm Beach**
1. Written policy & procedures?	Yes	Yes, requires consistency with FS 255 and 287 and with Chapter 60-A, Florida Administrative Code, unless otherwise specified in policy and procedures.	Yes, manual states that any violation of the policy and procedures manual may be grounds for disciplinary action and may result in Clerk's refusal to pay for improperly ordered goods or services.	No	Yes, incorporates Florida Statute 287 related to purchasing, requiring compliance whenever feasible.	In draft, not formally approved or released
2. Performance measures?	Not asked	Limited to purchasing volume and one timeliness measures.	No	Not asked	Not asked	No
3. Management reports?	Not asked	No	No	No response	Not asked	One - monthly PO aging report
4. Organizational placement?	Finance	Human Resources and Strategic Planning	Accts Payable in Finance	Clerk's Accounting	Administrative Services	Accounting Department
5. Centralized or decentralized purchasing / contracting?	Largely centralized	Largely centralized	Mostly decentralized	Mostly centralized	Largely centralized	Mostly decentralized
6. How many staff?	1 Purchasing manager. No separate contract staff.	3 in Purchasing, separate contract manager in Legal department	2 part-time in A/P, small percentage of their time. No separate contract staff.	1 Purchasing clerk. No separate contract staff	2 staff – about 90% of their time; Administrative Services director – small amount of time. No separate contract staff.	2 Accounting clerks, 1 senior accountant, (contracts – part-time)
7. What are the centralized functions?	Maintains the following: vendor contact, purchasing catalog, vendor registration, purchasing files, quotes for items > $1,000	Maintains price lists, deals with vendors, obtains quotes, performs all purchasing functions after department determines needs.	Maintains purchasing manual, reviews approvals on requisitions, cuts POs, reviews compliance with purchasing manual. Information Systems has procurement officer to handle negotiations for large IT purchases.	Places orders, cuts POs, deals with vendors, and receives goods.	Everything after department determines needs and provides initial specifications with potential vendor and estimated price.	Reviews requisitions to generate purchase orders. Mails purchase orders and checks to vendors. Matches purchase order, invoice, and receivers.

Questions	County					
	Broward	**Hillsborough**	**Lee**	**Polk**	**Volusia**	**Palm Beach**
8. Bid thresholds?	Under $1K – no bids $1K - $30K – three bids (fax, mail, phone) Over $30K – written, sealed bids (compiled list of bids becomes public records)	Under $5K – prefers 2 written quotes $5K - $25K – 3 written quotes Over $25K – sealed RFP. Must include a completed Clerk's authorization form.	Over $2K – 3 bids. Over $25,000 - 3 bids plus justification memo approved by manager and director. Every PO must be approved by manager.	None. There are certain types of purchases they tend to get quotes on such as printing.	Under $1K – no bid $1K - $15K – try to get 3 oral or written bids. Over $15K sealed written bids (no specified number). Bid tabulation must be completed for any purchase over $1,000 unless on State contract and filed with PO. Have specific criteria for "best bidder."	None
9. Authorizing signature thresholds?	No response	Under $5K – department director $5K - $10K – chief deputy Over $10K – senior mgmt and Clerk. A Clerk authorization request form must be completed.	$2K - $25K - department directors Over $25K – Clerk All contracts signed by Clerk.	All requisitions signed off by division director. Purchases over $1,000 also signed by Clerk. All contracts signed by Clerk.	Under $500 – supervisor. $500-$10K – department director Over $10K – Clerk. All contracts signed by Clerk.	Varies by department. All contracts signed by Clerk.
10. Vendors registered?	Yes	No, but ask for a letter with references from government entities they do business with. Minority business certification (if available)	Yes	No response	No response	No

Question	County					
	Broward	**Hillsborough**	**Lee**	**Polk**	**Volusia**	**Palm Beach**
11. Last day for purchases in fiscal year?	Not asked	No response	No response	Not asked	September 10	September 30
12. P-Cards used?	Yes, extremely limited	Yes, limited to 10 senior staff	Yes	No. A few people who have P-cards in the BOCC.	Yes, limited to directors	No
12. a. If P-Cards used, written policy?	No	Yes	Yes, in purchasing manual	Not applicable	Yes	Not applicable
12. b. If P-Cards used, dollar limits?	No	Varies from $5K to $25K	Transaction limits and overall credit limits established by department director, no greater than $25K credit limit without Clerk approval. Clerk approves selection of standardized products annually.	Not applicable	$15K credit limit per card, $1K per transaction	NA
13. Purchasing volumes?	No response	3,056 purchase orders, totaling $16.8 million in FY 07	$3,034,580 in FY07, including nearly $2 million on IT	No response	633 purchase orders totaling $1,779,354 in FY 07; 94 vendors used.	1,036 purchase orders totaling $9.2 million in FY 07