



**Colorado Independent
Consultants Network, LLC**



Adams County, Colorado

Procurement Process Follow-up Review

Prepared by:

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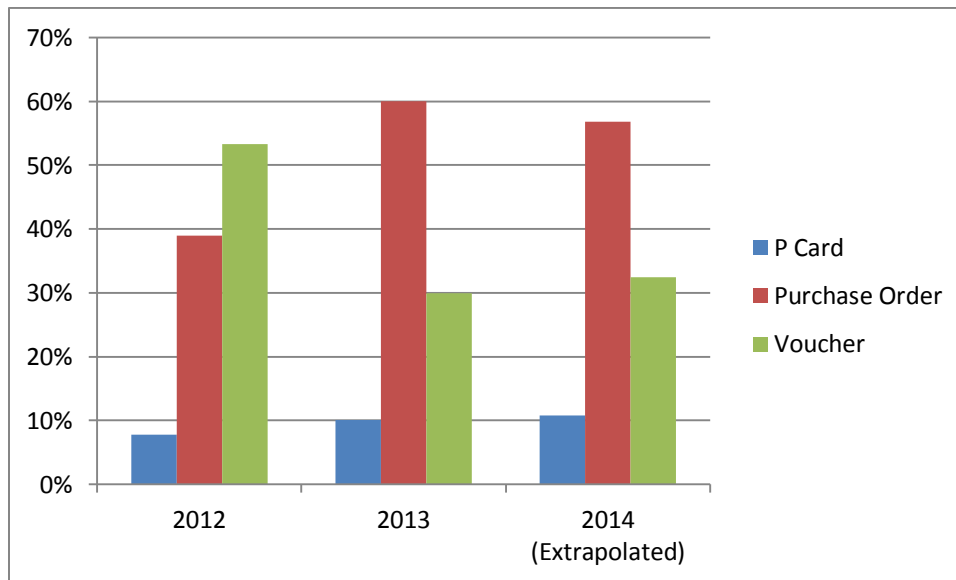
Executive Summary

Colorado Independent Consultants Network, LLC (CICN) was engaged to perform a review of Adams County’s purchasing function for the purposes of instituting leading practices, improving efficiency, and implementing effective controls. The original review was performed in 2012 with follow-up reviews scheduled in 2013 and 2014. This 2014 follow-up review consisted of focus group interviews of Directors and Elected Officials, examination of judgmentally selected transactions, and review of BOCC approved Purchasing policies now available on the County inter/intra net. Each element of our review is presented in further detail in the body of this report. It should be noted that, while the Purchasing function serves to support the County, compliance with established policies is the responsibility of all County Departments and Elected Offices. Certain unresolved issues, namely solicitation of competitive bids/price quotes require the compliance of Department Directors and Elected Officials.

A Requisition Self Service (RSS) module within the JD Edwards accounting system began implementation in 2012. As of the time of our audit, all business units, with the exception of Human Services Operations in the Social Services Fund, the Clerk & Recorder’s Office, and the Front Range Airport, are using this module for items purchased under a purchase order. It is the County’s intent to integrate these remaining two business units in early 2015. The use of RSS allows for the automated and better controlled authorization of purchase requisitions, electronically restricting approval to authorized individuals.

In conjunction with the roll out of the RSS system, Purchasing, as evidenced by the table in *Figure 1* below, has significantly reduced the number of purchases executed via voucher since 2012, successfully promoting use of the RSS system and the centralization of purchasing.

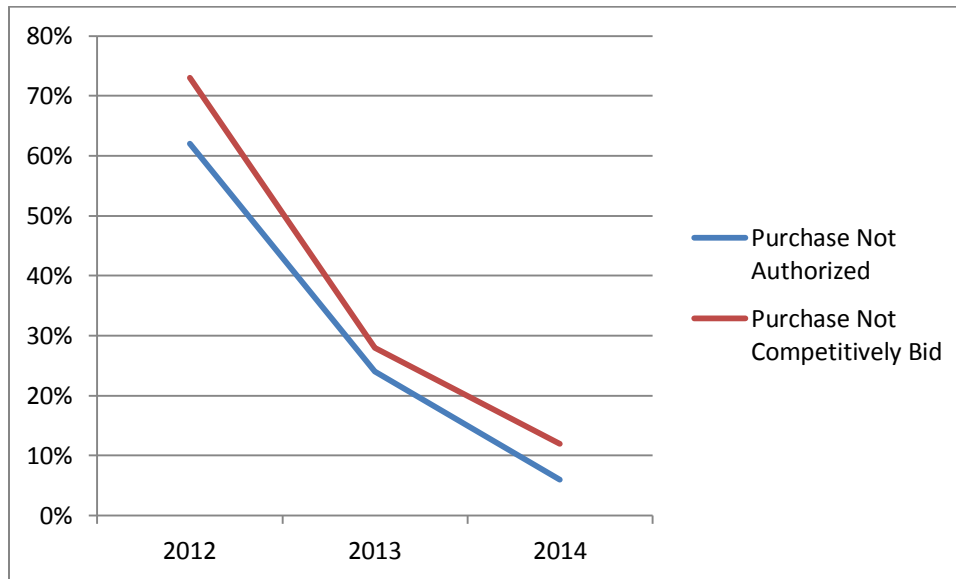
Figure 1: Adams County External Spending by Type





While all issues noted are repeat issues from prior years, the exception rates have consistently decreased as shown by *Figure 2*, below:

Figure 2: Audit Exception Rates



Prior year figures for insurance certificate exceptions (observation #3) are not available, due to the process deficiency noted in prior year reports (inconsistent application of insurance requirements).

During our review, we identified the following opportunities to improve controls over the Purchasing function:

1. Noncompliance with competitive bidding requirements

12 percent of the 50 transactions we reviewed were not put out to competitive bidding as required. This is a decrease from the 28 percent exception rate we noted last year. We recommend the addition of data fields within the County's JD Edwards system to systematically track compliance on a go-forward basis, allowing the purchasing function to recommend competitive bidding where appropriate and/or required per policy.

2. Lack of Proper Authorization/ Approval Controls

6 percent of the 50 transactions we reviewed were not properly authorized. This is a decrease from the 24 percent exception rate we noted last year. While the compliance rate for purchase approvals was strong, we noted three control weaknesses that would permit unauthorized purchases. These weaknesses include a lack of system controls over approval thresholds in JD Edwards, a lack of established dollar thresholds for manually approved invoices, and the current practice of approving batch cover sheets, rather than actual invoices.



3. Insurance Requirement/ Enhancement of Contracting

There is currently no standard procedure for obtaining insurance certificates, and the responsibility of obtaining such certificates is unclear (Purchasing vs. Business Unit). As a result, 36 percent of transactions we reviewed requiring insurance did not have any evidence of insurance, while 61 percent did not have evidence of insurance at the time of our selected invoice. We recommend the establishment of criteria defining when insurance certificates should be obtained and who should be responsible for obtaining them.

Additionally, as with prior years, certain services are procured using a P-Card, without defined insurance requirements that would typically be present in a contract or purchase order.

End of Executive Summary Section



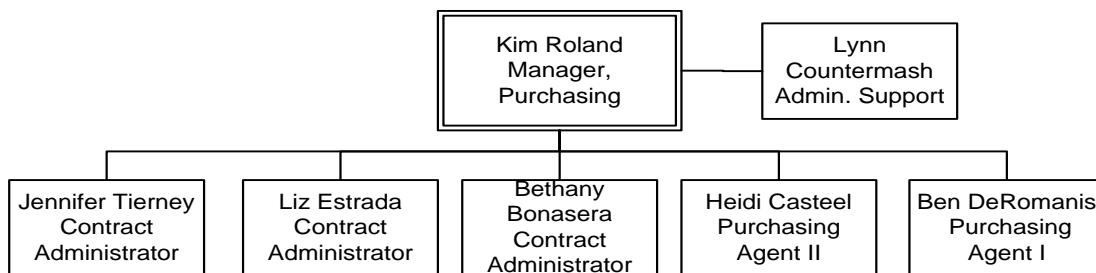
Background

The Purchasing Department, with the authorization of the Board of County Commissioners, is responsible for coordinating:

- Request For Proposal (RFPs) for goods and services over \$25,000.
- Invitations For Bids (IFBs) for goods and services over \$25,000.
- With departments and elected officials for goods and services valued between \$5,000 and \$25,000 on an as needed basis.
- Contract administration / origination / disputes.
- Research regarding State, Local, and Federal purchasing agreements the County may use to purchase goods and services.
- Equipment / services / vendor standardization.
- Purchase Order functions through the JD Edwards One World financial software package.
- Disposal of County Assets once they have exceeded their useful life.

The Department consists of seven employees: A Manager, three Contract Administrators, two Purchasing Agents and one administrative support staff. *See Figure 3: Organizational structure of the Purchasing Department*, below. The Purchasing department reports to the Director of Finance who reports up to the County Manager.

Figure 3: Organizational structure of the Purchasing Department



In 2014 (through 11/30/14), the Purchasing Department processed 298 purchasing projects resulting in a total spend of \$37.5M.

It is the responsibility of the Purchasing Division to buy the right quality of goods and services, in the right quantity, at the right time, from the right supplier at the maximum end-use value per dollar spent. To accomplish this, Purchasing staff must know the marketplace, determine the best way to acquire materials and services, and develop bid documents and procedures that are consistent with state and federal laws, county policies and standard procurement practices. Purchasing oversees all bid processes in excess of \$25,000 to ensure compliance with these standards and to promote goodwill and mutually beneficial relationships between the county and its suppliers. Two Purchasing Agents are certified through the Universal Public Purchasing Certification Council and a third will be certified in 2014 ensuring procurement professionals have the requisite knowledge, skills and training to assist county personnel in the purchase of required goods and services.



Services provided by the Adams County Purchasing Department include management and coordination of all phases of the competitive solicitation process. These include vendor research on behalf of customer departments, pre-bid conferences and meetings with vendors and contractors, the prequalification of vendors, and assisting departments in developing bid specifications and statements of work. Services also include bid document preparation, coordination of required advertising and other statutory requirements, public bid openings, bid tabulation, negotiation activities, preparation of award recommendations, issuance of award notices, contract administration, and support services related to contract processing.

Adams County Purchasing is a member of the National Institute of Governmental Purchasing (NIGP), the Rocky Mountain Governmental Purchasing Association (RMGPA), and the Colorado Front Range Multiple Assembly of Procurement Officials (MAPO). Participation in multi-jurisdictional purchasing cooperatives allows for volume discount prices on goods and services.



Objective, Scope, and Procedures Performed

Colorado Independent Consultants Network (CICN) was engaged to perform a follow-up audit of the 2012 and 2013 reviews of Adams County's Procurement Process. The overall objective of this project is to determine if the action items from the 2012 and 2013 reports were implemented and are being followed and whether the County can further enhance the quality, efficiency, and customer satisfaction of its contracting and procurement processes.

To accomplish our objective, we held focus group sessions with Elected Officials and Department Directors and performed detailed documentation reviews for an aggregate of 50 payment vouchers, purchase orders and P-Card transactions. The scope of our review covered all transactions from 9/1/13 through 10/24/14. Our year-two purchasing follow-up covered transactions through 8/31/13. Our review of the process focused on bids and vendor selection for purchases in excess of \$5,000 on an annual basis, which is the dollar threshold by which competitive price quotes or bidding is required.

Our testing helped determine if bidding procedures and internal controls are operating effectively. This testing was also used to identify and research any questionable transactions.

Procedures performed during this review included the following:

- Review of purchasing process and considerations for 17 selected departments
- Testing of 50 transactions across those functions (including payment vouchers, purchase order payments and P-Cards)
- Re-assessment of the adequacy of communication between purchasing and customers
- Review of BOCC approved and published purchasing policies



End User Feedback

One element of our review involved interviews with both process owners (Purchasing) and internal customers (Departments and Elected Offices). We conducted two focus group interviews as part of this review. These focus sessions allowed us to understand the current perception of the purchasing process and staff. In addition to facilitated group sessions, we also offered the ability for end users to provide anonymous feedback regarding their experiences with the purchasing function.

Some of the current perceptions are as follows:

Perceived Strengths

- In general, most users were satisfied with the performance of the purchasing function. It should be noted that the turnout at one of the two meetings was very low, which likely indicates that users are generally satisfied with the performance of the Purchasing function. Additionally, no feedback was received in response to our solicitation efforts, furthering our belief that individuals are satisfied with the function.
- The Requisition Self Service (RSS- the automated requisition system) process was confusing at first, but is operating much smoother now
- Significant improvement has been made in purchasing communication
- Purchasing has developed a better ability to “tell the story” of the procurement process when making presentations to the Board of County Commissioners (BOCC), including the bids received, criteria used for evaluation, and results of the selection committee evaluation.
- Better teamwork noted between purchasing and other departments
- Purchasing agents were very helpful taking users through the process, including assisting infrequent users with the RSS system.
- Expanded purchasing authority limits have helped streamline the process and de-politicize purchasing decisions.
- Study session request documents and meetings have reduced the percentage of items that get postponed on the BOCC approval schedule.
- Strengthened checks and balances in the purchasing process are understood and appreciated.
- Sole source worksheet is easy to use, not overly burdensome
- Purchasing works well under tight deadlines when necessary



Perceived Opportunities for Improvement¹

- Some users don't know where their purchase is in the purchasing process. This is likely a training issue, as users can go into JD Edwards to see where their purchase is in the process.
- Periodically put major purchase contracts out to bid (such as copiers)
- Field personnel feel that initiative to track contract expiration dates and inform the field of upcoming contract expiration dates has not been fully implemented. Field personnel are not always recognizing contract expiration dates with sufficient time to undergo a proper bid process.
- Comment was made that having to go through BOCC slows down purchase and could politicize purchase, especially considering each department/office's budget has already been approved by the BOCC.
- Participants felt the BOCC tends to over-criticize decisions when a purchasing committee has chosen a vendor which is not the lowest bid (but which the committee has determined provides the best value to the County).
- Consider bidding out contracts prior to budget approval when demand warrants this. Contract could be contingent upon budget approval. This would allow more time to go through the bid process.

¹ These are summarized perceptions resulting from our focus sessions and do not necessarily represent the views/recommendations of CICN or results of our audit procedures. To the extent we feel action should be taken by the County, we have included such items in the "Observations and Recommendations" section of our report.



2013 Observations and Recommendations Status

As part of the process with this follow-up review, we met with purchasing management to determine the status of our 2013 observations, which are summarized in the table below (Action items represented as completed were verified by CICN):

Topic of Observation	Status as of December 2014
1. Enhancement of Purchasing Department Communication	Complete- Recommend posting primary/backup purchasing agents for each business unit on myAdams intranet.
2. Centralized Document Retention/Competitive Bidding	Exception rate cut in half. Still an issue, but notable improvement.
3. Lack of Proper Authorization for Expenditures	Exception rate has decreased 3-Fold. Preventative controls could use enhancement.
4. Approval Limits	County Manager approval increased to \$100K. Deputy County Managers set at \$50K. Current levels seem appropriate.
5. Consolidation Of Commodity Purchases	County will keep in mind for future reference, but removed from short term plan.
6. Insurance Requirements/ Enhancement Of Contracting	As with our 2013 follow up, Facility Operations has not provided the necessary list of potential service providers to be vetted. Additionally, we noted a number of instances where proof of insurance was either never obtained or not updated.
7. P-Card Issues	No P-Card specific issues noted.



2014 Observations and Recommendations

Our observations are summarized in the table below and presented in detail on the following pages. More specifically during the course of our review, we have come across various opportunities to continue to improve the purchasing function. Our recommendations are based on our experience in internal audit, as well as best practices from other purchasing functions. These recommendations have been tailored to consider the specific needs of Adams County.

Topic of Observation	Detail on Page
1. Noncompliance with competitive bidding requirements	11
2. Lack of proper authorization/ approval controls	13
3. Insurance Requirements/Enhancement of Contracting	16

All issues noted on the following pages are repeat issues from our 2012 and 2013 (issued 1/17/14) reports. The extent to which progress has been made on these issues, if any, is noted within the specific issue section.



1. Noncompliance with competitive bidding requirements

Issue:

12 percent of purchases were not put out to competitive bidding/price quotes as required. This is a decrease from the 28 percent exception rate we noted last year. Three of the six exceptions were known issues where the County plans to put the expenditures out to bid in the near future. Two of the exceptions involved purchases for which there was no evidence of competitive bidding. The remaining exception was a sole sourced purchase, for which a sole source justification form (Appendix F to Purchasing Policies) was not completed and approved by the County Manger. It should be noted that while this purchase was made with the assistance of the purchasing division, the majority of exceptions to this testing attribute originated outside the centralized purchasing function.

During the course of our testing, we noted several instances where multiple departments use the same vendor, and are likely unaware of the total spend or economies of scale that may be realized through competitive bidding of common purchases.

Risk:

Presently it is not possible to verify that competitive bids occurred as required for all purchases initiated by departments and elected officials between \$5,000 and \$25,000 in annual spend. Competitive bidding helps ensure the county receives good value for taxpayer dollars, while centralized document management ensures the county is adequately protected with vendor insurance policies and appropriately indemnified in all contract documents.

Recommendation:

All contracts, including single sourced contracts, should be put out to bid, at a minimum every 3-5 years to ensure the County is receiving the best value for goods and services, and that no other vendors can adequately provide goods/services that are currently single sourced. We recommend the competitive bidding thresholds be re-emphasized to key personnel in all departments/elected offices.

To systematically test competitive bidding compliance in the future, the County may consider adding a “date of last competitive bid” field to the JD Edwards system. This could be used to prompt periodic competitive bid processes or to better manage total vendor spend. Using a combination of “date of last competitive bid” and “total vendor spend”, Purchasing could alert users of the potential need for competitive bidding. In cases where total vendor spend consists of a large volume of relatively small dollar items, the business units may be unaware of their total vendor spend and competitive bidding considerations.



Management Response:

2012- We agree that there needs to be centralized contract management and storage of documents. This will take the cooperation of Elected Officials, Department Heads and the County Attorney's Office. We understand this report will be forwarded to these individuals for review and comment.

Purchasing will assume responsibility for retention and storage of related documentation. As part of this purchasing study, CICN will conduct follow-up testing in 2013 and 2014 to assess compliance.

It is anticipated full adherence to the requirements proposed in this recommendation will take time. Additional staffing may be required to fulfill the increased administrative responsibilities.

2013- We have made significant improvement in this with the implementation of RSS. As we finalize the rollout of RSS, this will further reduce non-compliance. Some of these were also missing documentation of single source purchases. We will develop a formal process to enhance the process of documenting single source purchases and defining who is responsible for providing the justification.

2014- As we finalize the implementation of RSS with all departments, we will begin the review of all contracts processed through purchasing and the total spend associated with these and single sourced suppliers.

Having a 3-5 year review all contracts for potential solicitations is reasonable, if deemed prudent by Management. However, not all single/sole sourced agreements will require a solicitation, as per Purchasing Policy Appendices E and J.

Responsible Party:

Kim Roland, Purchasing Manager

Completion Date:

6/30/15



2. Lack of Proper Authorization/ Approval Controls

Issue:

6 percent of the 50 transactions we reviewed were not properly authorized. This is a decrease from the 24 percent exception rate we noted last year. Two of the three exceptions involved the approval of purchases by individuals who were not officially authorized to approve the purchase. The third involved delegated approval in excess of the \$10,000 allowable delegation limit permitted by policy #1010.

While the compliance rate for purchase approvals was strong, three controls contain weaknesses that permit unauthorized purchases.

- a. For purchase orders: There are no electronically imposed dollar approval limits within the JD Edwards (JDE) Requisition Self Service (RSS) module for purchase requisitions. This allows any approver within JDE (so long as they can approve for the designated business unit) to approve purchases in excess of authorization levels per policy #1010. Additionally, there is no documentation evidencing the official delegation of authority from a Director/Elected Official to their subordinates.
- b. For vouchered payments: Signature authority is a manual process, by which lists of authorized signatories are maintained. The control is set up in an “all or none” fashion, in that any authorized signatory has unlimited approval authority. Unlimited signature authority is necessary for purchase orders, where the purchase has presumably already been approved at the authorized level. In this case, the signature on the invoice indicates receipt of the goods/services.
- c. For vouchered payments: As part of our 2012 report, we recommended discontinuing the practice of signing batch cover sheets in lieu of invoices, based on the assumption that a reviewer is more likely to perform a more detailed review if they need to physically view each invoice (which would be necessitated by a requirement to sign the individual invoices). The original management response stated this process was being phased out; however, our testing noted the practice was still prominent.

Risk:

Unauthorized or inadequately authorized transactions may not be properly reviewed to ensure the legitimacy of the expenditure and due diligence in the purchasing decision.



Recommendation:

Authorization levels in the RSS system should be restricted to mirror those per policy #1010 (which generally limit the amount of delegated authority to \$10,000). Exceptions can be made for Directors and Elected Officials, who need unlimited authority to create requisitions resulting from Board approved contracts.

Delegation of authority within the RSS system should be evidenced by an e-mail or other official correspondence by the authorized individual.

For payment vouchers, approval limits should be established in accordance with Policy #1010. These limits should be incorporated into the signature approval matrix.

We recommend the process of batch approval be discontinued and replaced with individual transaction approval in accordance with the approval authority matrix.

Management Response:

2012- With the implementation of the JD Edwards RSS (Requisition Self Service) this issue should be resolved through electronic signatures. All invoices are being forwarded to Department Heads and Elected Officials for approval. All vouchers that are processed outside of RSS will be required to have the appropriate authorized county employees' signatures and follow the approval authority matrix.

The process of signing batch cover sheets as an approval process is being phased out. P-card cover sheets are still signed by management and attached to receipts.

2013- As we further reduce the number of transactions that are handled through the remote voucher process, this situation will continue to improve. Alternatively, we will look to what changes we need to make to our policies for small dollar (<\$2,500) transactions and the possibility of returning non-compliant transactions for entry into RSS.

2014-

Item a: We will review current policies and practices to determine best approval authorization requirements within the JD Edwards system. Once established the proper approval requirements will be communicated.

Item b: The County has several ways to pay vendors including p-cards, the automated RSS system and vouchers. The internal audit did identify that voucher payments for items not going through the RSS system rely on a manual process for signature authority. In response to the observation, our A/P staff will monitor batch vouchers not processed via the centralized RSS procedure for the spending thresholds per purchasing policy #1010. Items above the director level signature authority will require approval by higher levels as appropriate and outlined in policy. The A/P staff will let management know when manual process vouchers pass those limits without proper signatures or attached contracts demonstrating that higher level approvals have been made. Before payment, those proper approvals will be documented and/or obtained.



Item c: The County has a process to make payments via vouchers that are not practical to be made via the p-card process or the RSS process. Our procedure combines such vouchers to be paid together with others in a batch. Invoices or payment requests are required to back up these transactions. The batch cover sheets listing the individual transactions require the signature of appropriate management and will be monitored for to comply with the purchasing levels in policy #1010. Individual items over limits will be forwarded to management for appropriate approvals. Management understands that it is the responsibility of directors, elected officials and their appropriate delegates to sign off on the batch cover sheets demonstrating their approval. Management is comfortable with the current process and maintains that signing each attached item provided as backup would provide very little additional benefit. While the Finance Department continues to emphasize the use of the RSS process, the County needs to maintain some level of the manual batch processing of vouchers to efficiently and effectively pay for items the County needs.

Responsible Party:

Item a: Kim Roland, Purchasing Manager

Item b: Mary Ha, General Accounting Manager

Item c: Mary Ha, General Accounting Manager

Completion Date:

6/30/15



3. Insurance Requirement/ Enhancement of Contracting

Issue:

There is currently no standard for obtaining insurance certificates. At times they are requested from the vendor prior to start of work, other times documentation is never requested (though the vendor is typically contractually obligated to have specified insurance). Additionally, it is unclear whether the responsibility for obtaining insurance certificates lies with the business unit or the centralized purchasing function. As a result, 36 percent of purchases requiring insurance did not have any evidence of insurance, while 61 percent did not have evidence of insurance at the time of our selected invoice. The latter is inclusive of the 36 percent that had no proof of insurance. These exception rates indicate a greater diligence to initially obtain insurance certificates at the time of contract, with a lesser compliance around renewal certificates.

Additionally, based on our 2012-2014 interviews with departments, elected officials, and purchasing personnel, a number of vendor relationships are governed by informal price sheets or vendor initiated contracts. These informal arrangements and outside contracts normally do not provide the same level of protection as county initiated contracts approved by the County Attorney's Office. P-Card purchases of services do not require a contract with indemnities, insurance, etc.

Risk:

The county may be liable for claims involving an uninsured or insufficiently insured vendor, or where insurance provisions have not been formally defined.

Recommendation:

Due to the cumbersome task of obtaining and maintaining continued proof of insurance from vendors, the County should establish guidelines for when proof of insurance must be obtained. This guidance could include, for example, whether or not a vendor will be altering county structures, or engaging in other activities with greater potential for loss. While the dollar value of contracts could also be used as more objective criteria in this judgment, caution must be exercised, as relatively lower dollar expenditures may still carry high risk of loss/damage. Additionally, the responsibility for obtaining insurance certificates (Purchasing vs. Business Unit) should be established. Regardless of responsible party, insurance documentation should be centrally stored in the County's document management system. Once established, this guidance should be incorporated into policy #1079, Insurance and Bond Requirements.

Consideration should be given to set-up multiple vendors that are pre-approved for use based on insurance, contracts, prices, etc., so that the user departments can select them as needed. Services performed by a vendor on County property should not be allowed to be contracted for with a P-Card (though vendor invoices for said work could be paid via p-card). All contracts should be reviewed by the county attorney prior to execution.



Management Response:

2012- We agree with this recommendation and are currently working with Facilities Operations to achieve this goal. Other opportunities will be identified through the RSS system and P-card analysis.

2013- Our greatest opportunity for this recommendation is with Facilities Operations and they have agreed it would be a good idea to go forward with the process. We will work with facilities operations to have this completed by year end.

2014- Purchasing will meet with Facility Operations after the first of the year to establish a list of required services.

Current procedures will be reviewed and appropriate processes will be documented on how best to acquire and/or maintain the proper insurance certificates in the document management system.

Responsible Party:

Kim Roland, Purchasing Manager

Completion Date:

6/30/15