



DEPARTMENT OF INSPECTOR GENERAL
OKALOOSA COUNTY, FLORIDA
JD PEACOCK II, CLERK OF CIRCUIT COURT AND COMPTROLLER



May 06, 2019

Jeffrey Hyde, Purchasing Manager
Okaloosa County Purchasing Department
5479A Old Bethel Road
Crestview, FL 32536

Mr. Hyde,

Please find attached the report on our audit of the Okaloosa County Purchasing Department.

Our work served as a review of the department's compliance with laws and local policies as well as the effectiveness of department operations. This engagement arose from our office's annual plan based on a county-wide risk assessment.

I want to thank you and your staff for the cooperation and accommodation you afforded us. Should you have any questions in the interim please do not hesitate to call me. I can be reached at (850) 689-5000 Ext. 3424.

Respectfully,

Brad E. Embry, Inspector General

CC: John Hofstad, Okaloosa County Administrator
JD Peacock, Okaloosa County Clerk of Courts

OKALOOSA COUNTY CLERK OF CIRCUIT COURT



DEPARTMENT OF INSPECTOR GENERAL



REPORT ON THE AUDIT OF OKALOOSA COUNTY PURCHASING DEPARTMENT

REPORT NO. BCC-19-01

REPORT ISSUED MAY 6, 2019

ISSUED BY: BRAD E. EMBRY, INSPECTOR GENERAL

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Background

Based on the Department of Inspector General's 2017 Risk Assessment, our office's work plan for the current fiscal year included an audit of the Okaloosa County Purchasing Department.

Objective

The objective of our audit was to ensure that the Okaloosa County's purchasing manual ("PM") is sufficient to address the County's needs and is being complied with for all Board of County Commissioners (BCC) purchasing activities.

Scope & Methodology

The scope of our audit covered all BCC purchases, new contracts, and solicitations advertised between April 1, 2018 (the date of the last PM revision) and December 31, 2018. Audit methodology included interviews with purchasing department staff, identifying risk, process walkthroughs, and substantive tests of contracts and payments for accuracy, proper approval, and compliance.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, waste, or abuse. This includes the design, implementation, and maintenance of internal controls relevant to these objectives. This review was conducted in compliance with Government Auditing Standards issued by the Comptroller General of the United States and Principles & Standards for Offices of Inspector General issued by the Association of Inspectors General.

Purchasing Department Overview and Organization

The purchasing department is responsible for all aspects of procuring goods and services for Okaloosa County, to include managing the competitive procurement process, communicating with vendors, managing the purchasing card program, and coordinating contract formation. The purchasing department falls under the director of the Office of Management and Budget (OMB) and its operations are led by the Purchasing Manager. The department is currently staffed by two contract and lease coordinators, a grants coordinator, a purchasing services coordinator, a purchasing specialist, and a fixed assets coordinator.

The department is also responsible for maintaining and updating the County's purchasing manual. The PM contains all the policies and procedures for county purchases and details the processes for each category of purchases. Since changes to the manual require Board approval, the department has, so far, been updating the PM annually. The last approved update was April 1, 2018.

The three main categories of purchases, detailed in the following sections, are Competitive Procurements, Noncompetitive Procurements, and Purchasing Card transactions. Table 1 in the PM establishes dollar thresholds for what type of procurement must be used and what level of authority must approve the transaction. [See Below] *(note: Table 1 thresholds are accurate as of the date of this report. Proposed changes have been made to this table and will soon be submitted for BCC approval)*

Table 1 – Purchasing Process Thresholds

PROCUREMENT METHOD	THRESHOLD	Signature Authority
Petty Cash (See Section 11)	Not to exceed \$200.00	Department Director or designee
Verbal Quotes (See Section 12.01)	\$0 to \$3,500.00	Department Director or designee
Written Quotes (See Section 12.02).	\$3,500.01 to \$25,000.00	Purchasing Manager
Written Quotes (See Section 12.02) and Competitive Procurements (See Section 13; Section 16)	\$25,001.00 to \$50,000.00	OMB Director
Competitive Sealed Bids/Proposals (See Section 13; Section 16).	\$50,000.01 to \$100,000.00	County Administrator
Competitive Sealed Bids/Proposals (See Section 13; Section 16)	\$100,000.01 and over	Chairman of the Board of County Commissioners
Direct Payment (See Section 22)	N/A	Department Director or designee

Okalosa County Purchasing Manual Table 1, Page 17 – 4/1/18 Update

Competitive Procurements

When a county department determines that a need exists for a good or service and the expected cost exceeds the threshold in Table 1 for competitive sealed bids/proposals, they will contact the purchasing department to begin the competitive procurement process. The purchasing department works with the originating department to develop specifications for the desired good or service that will be publicly advertised in one of several ways:

- Request for Proposals (RFP) – Used when the scope of work or specifications cannot be well-defined, and price is not necessarily the most significant selection criteria.
- Invitation to Bid (ITB) – Used when the county can establish precise specifications and the vendors will compete on price for like items or services.

- Invitation to Negotiate (ITN) – Used when the scope of work or specifications cannot be well-defined, *and* the county has determined that negotiations may be necessary. Used often in the case of a good or service for which the market experiences constant change.
- Invitation to Quote (ITQ) – Used when the county can establish precise specifications, and the expected cost does not exceed the amounts specified in Table 1.

All the above are publicly advertised in the newspaper and on the state’s online portal. Responses can be received up until a specific date and time and are opened at that time. The opening is attended by members of the purchasing department and one of the clerks to the BCC. Individuals/firms who have submitted responses are able to attend but are not required to. At the opening, the clerk records the specifics of each response.

The county then evaluates the responses, making use of an examining committee as necessary, based on specific criteria, the needs of the originating department, and price. Once the county has made a selection, the purchasing department prepares and sends to all responding vendors a Notice of Intent to Award. Upon approval of the selection by the authorized individual from Table 1, the OMB director and the purchasing department develop a contract with the selected vendor.

The contract specifies the payment criteria for the vendor. Based on these criteria, the vendor submits an invoice or similar document to the originating department. The authorized individual approves the invoice and forwards it to the Okaloosa County Clerk of Court and Comptroller’s (Clerk) finance department. Finance ensures the documents contain the correct approvals and processes the payment to the vendor.

Special Circumstances

Emergency Procurements – The PM describes an emergency procurement as “a procurement necessitated by a sudden unexpected turn of events (e.g., including but not limited to acts of God, riots, fires, floods, hurricanes, accidents, terrorism, or any circumstances or cause beyond the control of the agency in the normal conduct of its business) where the delay incident to competitive procurement would be detrimental to the interest of the County.” After a purchase under an emergency procurement, the department director must prepare a report documenting the justification for the departure from standard purchasing procedures which is submitted to the county administrator along with all supporting documentation. If the emergency purchase amounts to \$100,000 or greater, it shall be submitted to the BCC for ratification.

Sole Source Procurements – A sole source procurement is when a good or service can legally only be purchased from one source. This most often arises when a vendor holds copyright/patent, or when the county enters into a service or licensing agreement. A contract may be awarded to a vendor without going through the standard competitive procurement process if, upon a review of available sources, the OMB director certifies in writing that there is only one available source for the required good or service.

Single Source Procurements – A single source procurement is when a good or service may be purchased from multiple sources, but there is only one economically feasible source. There are three criteria for certifying a single source procurement: The use is justified based on cost or interchangeability factors; the use is recommended by the project architect, engineer, or affected department director; and the rationale is approved by the OMB director. The factors most often used to determine feasibility are cost effectiveness and ease of transition.

Cooperative Procurements – The purchasing department is authorized to join other units of governments in cooperative purchasing ventures when it serves the best interest of the county. This is seen most frequently in the county’s purchase of goods or services through a state contract. The Florida Department of Management Services is a very large agency with significant bargaining power with vendors. The terms of contracts made with the state are often more favorable than those the county would be able to negotiate themselves, and the state will, in certain circumstances, allow the county to “piggyback” off of these contracts and make purchases under the more favorable terms if the original contract allows it.

Noncompetitive Procurements

When a department wishes to procure a good or service with an expected cost less than that which requires competitive procurement per Table 1, they must submit a requisition to the purchasing department. The purchasing department obtains verbal or written quotes depending on the dollar threshold from Table 1, and the requisition is approved by the authorized individual.

Upon vendor selection and approval, a purchase order is issued and sent to the vendor. As with contract payments, the vendor’s invoice is sent directly to the Clerk’s Finance department. Finance staff matches all supporting documentation, verifies approvals, and processes the invoice for payment.

Purchasing Cards

Per the PM, “The Okaloosa County Purchasing Card Program is designed to improve efficiency in processing low dollar purchases from vendors accepting the Purchasing Card.” The purchasing card (P-card) is essentially a credit card that can be used for smaller transactions.

Employees who have been issued P-cards can make purchases up to individual transaction limits and total monthly limits. An online portal provided by the bank that issues the cards is used by employees to document the public purpose of each transaction and upload receipts. Every month, each cardholder and their supervisor must sign an attestation that all purchases were for a public purpose.

Clerk Finance staff review the card reports every month to verify public purpose documentation and receipts are attached. They document any discrepancies and contact the individual department or cardholder when additional information is required. Because monthly card payments are processed before Finance staff does their review, an improper purchase would not be “stopped” but rather recovered from the employee who made the purchase.

Testing

During our audit, our objective was to ensure that the County was following the policies and procedures in the PM, and to determine if these policies and procedures were effective in meeting Okaloosa County’s needs.

We conducted testing of competitive procurements, noncompetitive procurements, purchasing card transactions and controls, use of grant and federal funds, and single/sole source contracts. We pulled samples of each of the above from our scope period and applied risk-based audit procedures.

Our testing identified no instances of noncompliance with the PM or any other county policy or ordinance.

Conclusion

The development and implementation of the purchasing manual has had an extremely positive effect on the county's purchasing process. The PM was developed from industry best practices, the policies of other government entities, and the experience and needs of purchasing department personnel. The PM ensures that one set of policies and procedures is being applied consistently county-wide.

Previous engagements with the purchasing department identified a lack of consistency in policies or procedures across the department. This presented significant risks to the county's ability to meet its procurement objectives as well as public perception of county procurement. Additionally, new staff were required to essentially develop their own procedures upon arrival. With the implementation of the PM, this lack of consistency has been eliminated.

The fact that we identified no instances of noncompliance with the PM speaks to the department's culture and sense of ownership over the process. Because the PM is still relatively new, and is constantly being reviewed and improved, all department staff are extremely knowledgeable about its contents. Additionally, the purchasing department has provided training about the process to other county departments.

While we found no instances of noncompliance, we have identified 3 recommendations to help ensure county purchasing is operating as efficiently and effectively as possible.

Recommendation 1: Purchasing Department staff should complete annual independence attestations

Independence is crucial for purchasing department personnel. Even the appearance of a conflict could cause the purchasing process to be contested and represents a significant risk to the County. The PM states the importance of independence in the Employee Ethics section, noting that department personnel must maintain independence and impartiality in dealings with vendors. However, employees are only required to disclose conflicts at the time they are hired. We recommend that all purchasing department employees complete an annual independence attestation that includes any changes to actual or potential conflicts.

Recommendation 2: The county should implement a contract monitoring process

Currently the county does not have a consistent method for contract monitoring. Typically, monitoring is completed by the department benefiting from the contract. This leads to contracts remaining active past their completion date and creates a risk that expenses can be charged to a closed contract, either mistakenly or fraudulently. We recognize that some contracts require more oversight than others and a "one size fits all" solution is not practical. The amount of contract oversight needed varies greatly depending on factors including monetary risk and complexity of the work being performed.

We recommend that the county develop contract monitoring guidelines for various types of contracts. At a minimum, checklists should be provided to individuals or departments tasked with monitoring a contract. The checklist should provide a breakdown of contract requirements, deadlines, or other information relative to the requirements outlined in the contract. The PM already requires that departments submit a close-out package to the purchasing department upon completion of a contract. A checklist or other monitoring mechanism would help ensure that this requirement is met and would reduce the risk of an incorrect payment.

Recommendation 3: The County should allocate an adequate portion of revenue from the local option sales tax to administrative costs

The local option sales tax passed by voters in 2018 presents an opportunity for the county to complete many much-needed projects in infrastructure and other areas. However, this also represents a significant increase in workload for the purchasing department, as they are responsible for managing all of the new procurements and contracts formed as a result of these funds. While we acknowledge that the County desires to maximize the amount of these funds that go towards projects benefitting the citizens of Okaloosa County, we believe that properly supporting the purchasing department will maximize the efficiency in how these additional funds are utilized.

At a recent meeting, the BCC approved the creation of a new Project Manager position within the public works department, but no action has yet been brought before the board regarding additional support or funding for the purchasing department. We understand that the purchasing department has included an allocation for an additional contract and lease coordinator in their FY 2020 budget request and has expressed concern over the impact the additional projects related to the local option sales tax revenue will have on their department.

We recommend the county allocate an appropriate portion of this additional revenue to administrative costs of the departments that will be supporting these new projects, including the purchasing department.

Management Response

Management elected not to provide a formal response to our audit. They did, however, indicate that they would comply with our recommendations.