



# OFFICE OF INTERNAL AUDIT

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## REPORT TO THE BOARD OF SUPERVISORS

### PINAL COUNTY FINANCE DEPARTMENT PURCHASING DIVISION AUDIT

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## **Executive Summary**

The Pinal County Office of Internal Audit has completed an audit of the Pinal County Finance Department Purchasing Division (Purchasing) as part of our FY 2010/2011 Annual Audit Plan approved by the Pinal County Board of Supervisors.

The audit was planned and conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). These standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusion based on our audit objectives.

The objectives of our audit were to:

- Obtain an understanding of the bid/contract process; the requisition process; and the Purchasing card (P-Card) process.
- Determine if procurement procedures are conducted in compliance with the Pinal County Procurement Code and all applicable Arizona state statutes.
- Compare Pinal County purchasing programs with other selected county purchasing programs and analyze for best practices and most efficient use of resources.

## **Overall Conclusion**

Our conclusion is the Purchasing Division has developed, and continues to develop, many positive changes to the procurement process. For example:

- The current Procurement Code was adopted by the Board of Supervisors on July 10, 2006
- The Finance department issued Accounting Policy and Procedure 9.20 *Procurement Cards* on October 10, 2007.
- The Purchasing Division has been developing written policies and procedures for procurement processes.
- Purchasing has implemented regularly scheduled training for County employees with purchasing responsibilities.
- Job descriptions for staff have been upgraded and currently all buyers have college degrees. The Division has also encouraged staff to become certified in the procurement field.
- Additionally, the Purchasing Division expanded the P-Card program last year to allow online purchases of office and janitorial supplies using contracted vendors.

During our review, we identified the following additional potential opportunities for increased efficiency and effectiveness within the Purchasing Division:

- P-Card use could be expanded to include numerous small dollar transactions currently processed by Purchasing Division personnel. Increased use of P-cards would reduce costs associated with creating and processing individual requisitions and purchase orders (P.O.s) for these items, and/or free up resources for activities providing greater value to the organization.

- The use of non-contracted vendors could also be allowed for low dollar P-card purchases, minimizing the related compliance review activities and additional documentation currently required.
- With the expanded use of P-Cards the County will also benefit from an increase in Purchase incentive rebates.
- The Division's current procurement procedures could be revised to allow buyers to obtain either written or oral quotes for purchases up to \$50,000, as recommended by the State Auditor's Uniform Accounting Manual for Arizona Counties. This could potentially free up resources for other more value-added activities.
- The evaluation tool currently used by the Division for reviewing vendor responses to Request for Proposals (RFP) could be revised to provide further transparency and documentation of contract award decisions.
- The time allowed for vendors to file an appeal to a contract award decision could be increased, to mirror the time allowed by other agencies we reviewed and potentially promote positive vendor relations.

We would like to thank the management and staff of the Pinal County Purchasing Division for their assistance and cooperation during the course of this audit. The following report provides additional details of our audit observations and recommendations.

Lori Stripling  
Internal Audit Officer

## **Background**

Procurement (Purchasing) is a division within the Pinal County Finance Department. The purpose of the Purchasing division is, “to provide contracting, acquisition, and support services to Pinal county departments, so they can receive in a timely manner the goods and services they request to complete their mission for their customers.”<sup>1</sup>

The Finance department has a staff of twenty-five and one-half<sup>2</sup> (25.5) full-time employees (FTE); including six (6) employees working in the Purchasing division. The Purchasing Division’s positions are paid from the General Fund, with the exception of one position funded from Highway User Revenue Funds (HURF) to assist the Public Works Department. Actual fiscal year 2010 expenditures for the Finance Department were \$1,357,433.78 with \$301,738 budgeted for Purchasing services.

The legal requirements governing county purchasing policies and procedures are found in Arizona Revised Statutes (A.R.S.). Statutes require counties to use formal sealed, competitive bidding procedures for purchases exceeding \$10,000 (A.R.S. 11-254.01), or may adopt the aggregate dollar amount provided for in A.R.S. 41-2535 (\$50,000). For informal purchases of less than \$50,000, counties must adopt purchasing procedures that comply with the Uniform Accounting Manual for Arizona Counties (UAMAC) issued by the Arizona State Auditor General.

In the Purchasing section of the UAMAC the Auditor General suggests, “Counties should design purchasing systems that promote efficient use of financial resources and minimize administrative time, cost, and effort. An effective purchasing system allows a county to identify the goods and services required for county operations and acquire them as economically as possible within acceptable standards of quality. The County Board of Supervisors adopted the Pinal County Procurement Code in 2006.

The Auditor General also recommends counties adopt a centralized purchasing system to, “help ensure efficient use of resources by eliminating multiple purchasing records.” The Pinal County Purchasing division is a centralized procurement system and provides services for all Pinal County departments with the exception of Procurement Code Article 5 construction materials and services procured by the Public Works department, and professional healthcare services procured by the Health & Human Services department.

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<sup>1</sup> Finance & Purchasing intranet

<sup>2</sup> This does not include an FTE on military leave

## **Audit Scope and Methodology**

The primary objectives of the audit were to:

- Review the bid/contract process and determine if Purchasing has implemented controls to ensure compliance with the Procurement Code
- Review the requisition process and determine if requisition purchases are made in accordance with the Pinal County Procurement Code and applicable policy
- Review the Purchasing card (P-Card) process and determine if P-Card purchases are made in accordance with County policy
- Compare Pinal County purchasing programs with other selected counties' purchasing programs and analyze for most efficient use of resources

To accomplish our objectives we:

- Examined written policies and procedures for all processes under review
- Interviewed various Finance Department and Purchasing Division employees.
- Identified and tested key internal controls over the Purchasing Division's bid, requisition, and P-card processes.
- Observed Division operations
- Tested contracts, purchase orders and P-card documents
- Surveyed other government entities' purchasing policies and procedures

## Audit Results

### A. Purchase Order Processing vs. Purchase Card Use

Purchasing is issuing thousands of purchase orders (P.O.'s) with dollar amounts less than the estimated cost of processing them. The following table, compiled by the Pinal County Purchasing division, shows the number of total requisitions processed by Purchasing over the past five years.

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Total Requisition/Purchase Orders Processed</b>	9,640	9,215	10,310	9,556	8,220

Internal Audit examined P.O.'s issued over an eighteen month period from July 1, 2009 through January 30, 2011 and found sixty-eight percent (68%) of the P.O.'s were issued for amounts less than \$1,000. One P.O. was issued for forty-one cents (\$0.41). The following table shows an incremental breakdown of P.O.'s analyzed under \$1,000.

Purchase Orders analyzed from 7/01/09 to 1/30/11	Total accumulated # of Purchase Orders processed	Total accumulated \$ amount of Purchase Orders
< \$ 100	2,276	\$108,961.77
< \$ 200	3,792	\$328,400.43
< \$ 300	4,772	\$570,005.42
< \$ 400	5,520	\$827,624.11
< \$ 500	6,041	\$1,061,972.72
< \$ 600	6,447	\$1,283,972.02
< \$ 700	6,796	\$1,509,913.44
< \$ 800	7,074	\$1,717,672.45
< \$ 900	7,302	\$1,911,290.88
< \$1000	7,506	\$2,104,624.24

Estimating the exact cost to process an 'average' purchase order is difficult, due to the many variables involved. The Center for Advanced Purchasing Studies (CAPS), an organization jointly established by Arizona State University W.P. Carey School of Business and the Institute of Supply Management, indicated the cost to process a purchase order varied by industry (from \$59 to \$741) with an average being \$217.<sup>3</sup> For this report we estimated the cost to process a P.O. in Pinal County, not including delivery charges, was \$97.61. The table on the following page shows our assumptions and calculations.

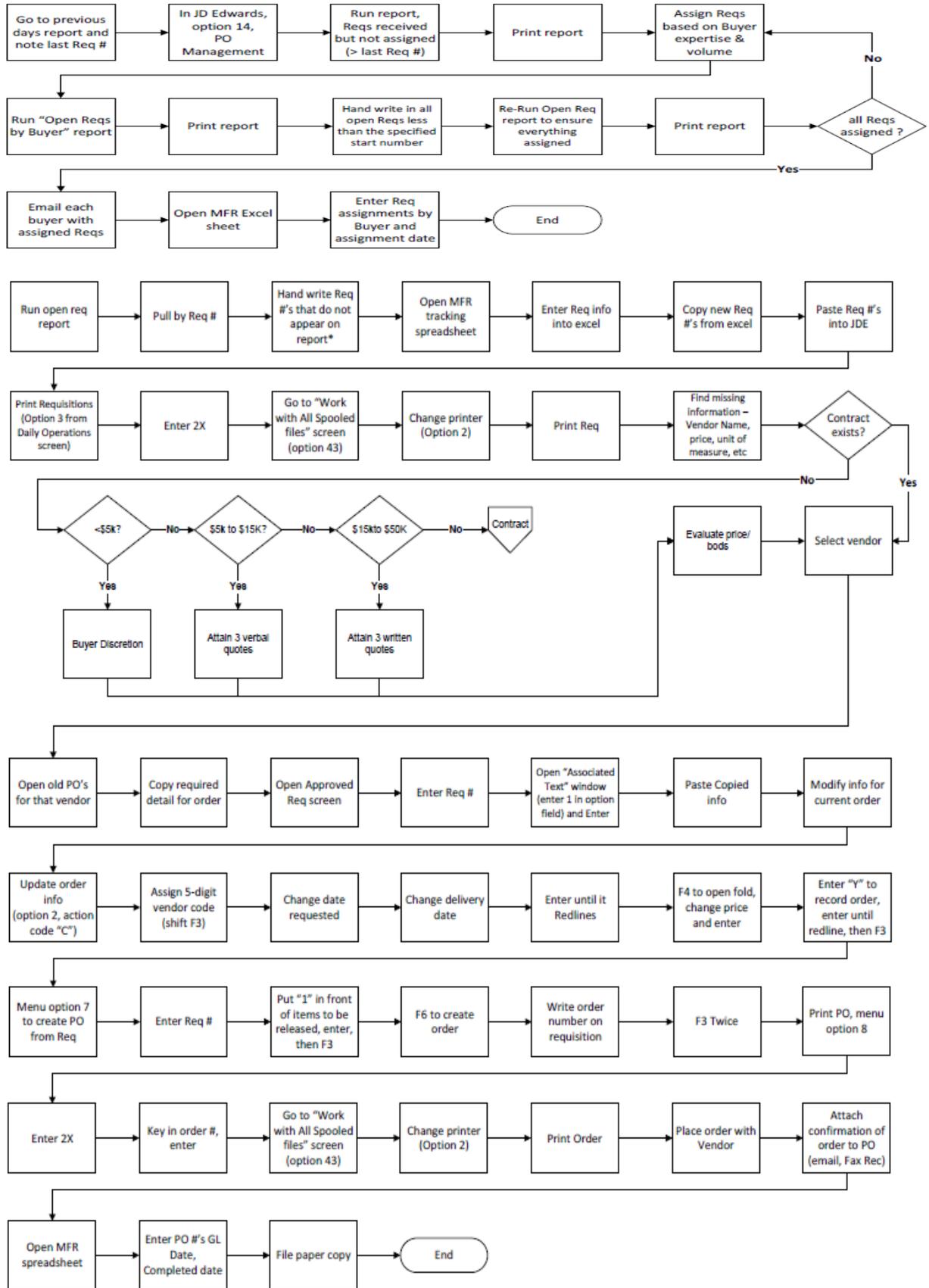
<sup>3</sup> <http://blog.purchasingcourses.com/2009/09/cost-of-purchase-order-great-mystery-of.html>

ACTIVITY	TIME	COST	POSITION
Requesting County department employee prepares a requisition for needed goods and forwards to their Supervisor for approval	30 min	\$ 9.61	Admin Clerk III \$40,000/yr
Requisition is approved by the requesting department Supervisor and sent to Purchasing	15 min	\$ 7.21	Office Manager \$60,000/yr
Requisition is received by the Purchasing Manager and assigned to a Buyer	1 hr	\$33.65	Purchasing Manager \$70,000/yr
Buyer receives requisition; checks for current contract vendor and price; and issues Purchase Order to Vendor	30 min	\$10.81	Buyer II \$45,000/yr
Requesting department employee receives needed goods and enters notification to Purchasing. Necessary adjustments to the P.O. (partial shipment, etc.) may be made	30 min	\$ 9.61	Admin Clerk III \$40,000/yr
Accounts Payable receives invoice request for payment and processes payment to vendor	15 min	\$ 4.20	Acct. Clerk II \$35,000/yr
<b>Total direct labor (salary) costs expended for all departments included in the process</b>		<b>\$75.09</b>	
Average overhead cost for 4.25 hours	Add 30%	\$22.52	
<b>Total Estimated Cost for processing a P.O.</b>		<b>\$97.61</b>	

**Using an estimated cost of \$97.61 to process a P.O., we determined between July 1, 2009 and January 30, 2011, Pinal County Purchasing processed over 2,000 P.O.'s with a dollar amount lower than the processing cost**

The procedure to process a requisition/purchase order may take several weeks and involves numerous employees. The flowcharts<sup>4</sup> on the following pages detail the entire process.

<sup>4</sup> Compiled by TruePoint Solutions for Pinal County Government-2010



Of course, using an alternative payment method for lower dollar goods has a cost, as well. A 1994 government-wide study conducted by the Government Purchase Card Council concluded, “The estimated cost to issue a purchase order is \$94.30...the estimated cost to use a bankcard is \$40.43...there is a cost savings of \$53.87 per transaction when a bankcard is used rather than the purchase order method.” In 1996, the Federal government adopted regulations<sup>5</sup> making a purchasing card the preferred method for acquisition of supplies or services under \$3,000 and concluded<sup>6</sup> purchase card use reduced payment processing and labor costs. Further, a Federal Government Accounting office (GAO) report released in August, 1996 concluded, “Although purchase card use has greatly increased, we found no evidence that this has led to increased abuse. In fact, with the electronic data maintained on all purchase card transactions, card use can be closely monitored.”

As noted in the table on page 7 of this report, the County processed over 7,500 P.O.’s with dollar amounts of \$1,000 or less during the period from July 1, 2009 to January 30, 2011. Comparing the Government Purchase Card Council’s 1994 estimated cost to use a P-Card (\$40.43) with the estimated cost to process a P.O. in Pinal County (\$97.61), we determined Pinal County could achieve substantial county-wide efficiency savings with the adoption of a policy requiring use of P-Cards for all purchases less than \$1,000.

Also, according to a 2005 study by RPMG Research Group<sup>7</sup>, there is a significant time savings to consider when using a P-card. This study cited a time savings of 6.3 days and a cost savings of (\$67.38) per transaction when using a P-card. Efficiency savings from the expanded use of P-Cards would allow the Purchasing Division to reallocate current resources to more value-added activities for the organization, such as strategic procurement planning and contract development. Additionally, many departments county-wide would achieve some time savings through the efficiency of using P-Cards.

### **Recommendation**

- 1. The Chief Financial Officer should present to the Pinal County Board of Supervisors, for approval, a revision to the Pinal County P-Card Policy mandating required use of a P-Card for all purchases of \$1,000 or less, unless a vendor does not accept purchasing card payment.***
  - If Pinal County adopts mandatory use of a P-Card for all purchases of \$1,000 or less, the Purchasing Division P-Card Administrator should provide training and guidance to all departments so that proper controls are in place to monitor increased P-card transactions.***
  - The Chief Financial Officer should monitor the impact of this change and determine if further expansion of required P-Card use (>\$1,000) would offer additional savings, while still maintaining reasonable control of the process. This aligns with the County strategic priority to process 100% of vendor payments electronically by 2012.***

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<sup>5</sup> [https://www.acquisition.gov/far/html/Subpart%2013\\_2.html](https://www.acquisition.gov/far/html/Subpart%2013_2.html)

<sup>6</sup> <http://govinfo.library.unt.edu/npr/library/gao/ns96138.pdf>

<sup>7</sup> file:///fs-users2/data-2/1A/AUDIT%20PROJECT%20FILES/FY%2010-11%20Audits/Major%20Audits/11-10%20Purchasing/F-%20P-Card%20Process/Georgia%20Purchasing\_Card\_Principles1-9-200851.ppt#374,8,Consider the Benefits of Purchasing Cards

## **B. Use of Contracted Vendors**

The requirement for P-card users to use only contracted vendors for all purchases may not be practical and is not necessary to comply with the State Procurement Code. The requirement to use contracted vendors for low dollar purchases may cause a higher volume of requisition submissions.

Pinal County P-card policy Section II (3) states, “Cardholders must comply with the Pinal County Procurement Code. Purchases must be made from a contracted vendor (with the exception of purchases made using Attachment C, Waiver for Procurement Card Program) to guarantee compliance with the Procurement Code and established policies and procedures to ensure prudent use of public funds. **If the product is not available from a contracted vendor, then Pinal County policies and procedures must be followed by entering a requisition into the system which means the P-Card may not be used.**”

Internal Audit inquired about the reason for use of a Waiver C form when purchasing from a non-contracted vendor. The Chief Financial Officer replied<sup>8</sup> there was a concern about violating procurement code requirements regarding aggregate county-wide purchases of a commodity (>\$5,000) within a rolling year that would trigger the need to obtain quotes.

It appears the requirement for all P-Card users to submit a Waiver C for non-contract purchases (limited to emergency purchases <\$500) was implemented to allow Purchasing to monitor, and aggregate, non-contract expenditures county-wide to determine when total spending on a commodity reached the \$5,000 threshold (during a rolling year) and quotes are required.

Internal Audit reviewed the Pinal County Procurement Code for quote requirements and found:

- Section PC1-339 PROCUREMENT NOT EXCEEDING AN AGGREGATE AMOUNT OF FIFTY THOUSAND DOLLARS; sub-section C states; “If practical, purchases estimated to cost \$5,000 or more, but less than \$15,000, shall be made in accordance with the following procedures; (1) The procurement officer shall solicit oral quotations from at least three vendors, if possible. Applying this section to aggregated P-Card purchases made by separate county departments does not appear to be a practical application of this provision.
- PC1-101 defines “Aggregate” as “amount spent in a rolling year.” Applying this definition of “aggregate” to P-Card purchases would necessitate continuous monitoring of all expenditures to recognize when a quote threshold is reached. This definition of “aggregate” was not found in other procurement codes we reviewed, including the State Procurement Code.

Internal Audit reviewed the documents prepared by the employee assigned to review every P-Card transactions from January 1, 2010 to December 31, 2010 and found:

- The employee recorded every instance when a Waiver C form was missing from documents and notified the employee the form was missing.
- In 2010, there were 152 non-contracted vendor purchases made with no Waiver C form submitted.

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<sup>8</sup> February 1, 2011 email from Pinal County Procurement Officer

- Non-contracted purchases, including purchases made with no Waiver C, totaled \$117,625 and 89% of these purchases were under \$300.
- The employee was not aggregating purchases for quote requirements.

Since it appears Waiver C form information is used only to document use of non-contracted vendors, allowing employees to use non-contracted vendors for P-Card purchases under \$1,000 would eliminate the need for the Waiver C form and reduce the time expended for this monthly review.

We discussed recommended guidelines for purchases below \$50,000 in the Uniform Accounting Manual for Arizona Counties (UAMAC) published by the Auditor General with the Arizona State Auditor General's staff and confirmed:

- The UAMAC does not include a requirement to aggregate P-Card purchases in a rolling year for qualifying purchasing thresholds.
- Compliance auditing for UAMAC purchasing guidelines is conducted retrospectively for purchases by fiscal year.

Internal Audit also contacted the Arizona State Procurement Office (SPO) and discussed these issues with a Compliance Officer and learned:

- The State P-Card policy (Section I-12) allows non-contracted vendor purchases up to \$5,000 and states, "Whenever practicable, cardholders shall purchase from state-contracted vendors."
- The State Procurement Office does not require any paperwork (Waiver C) to document compliance with this provision.
- There is no reference to a rolling year in the State Procurement Code, and SPO does not aggregate (combine) the cost of commodities purchased from non-contracted vendors using State P-Card's and apply these expenditures to quote requirements.

While we agree negotiating a lower contracted price for large volume purchases of commodities is a prudent use of public funds, we concluded attempting to apply commodity volume purchasing bid thresholds to separate low dollar vendor P-Card purchases is not practical. It also may be deterring the use of P-Cards and causing a higher volume of requisition submissions.

**Recommendations**

- 2. The Chief Financial Officer should revise the P-Card policy to allow employees to use non-contracted vendors for P-Card purchases under \$1,000 and discontinue the requirement to use a Waiver C form. For P-Card purchases over \$1,000, the policy should mirror state code and state "Whenever practicable, use contract vendors."***
- 3. The Chief Financial Officer should regularly review, and if necessary update, the Procurement Code to reflect all current State Procurement Code requirements and procurement best practices.***

### **C. Incentive Rebate Optimization**

Pinal County could develop a strategy to optimize P-Card purchase incentive rebates. On January 6, 2010 Pinal County joined a cooperative contract with several other political subdivisions for P-Card services. The Pinal County Finance department stated the reason to cooperatively contract was to “...combine purchasing volume to obtain more favorable financing agreements including an annual cash rebate of a percentage of Pinal County’s purchases during the previous year.”<sup>9</sup>

Purchasing card rebates are the only form of purchase payment that offers an opportunity for “cash back.”

Internal Audit reviewed the cooperative contract and found:

- Bank of America offers customers a full review of the procure-to-pay process to help clients outline expansion opportunities. Tools used include an Accounts Payable analysis and a comparison to best practices, including negotiating with some vendors to offer savings for prompt payment (2% of purchase). (page 89)
- Bank of America will work with Pinal County to develop a disaster recovery plan outline, including setting up an emergency card that can be activated with spending profile limits in place. (page 113)
- Pinal County could interface the P-card program with a new ERP system and create additional tracking and reporting functionalities.(page 113)
- Bank of America provides departments with on-line access to perform monthly statement review (page 120). On February 10, 2011 Purchasing adopted on-line review of monthly statements.
- Currently Pinal County prohibits P-card payment for services because of the need to record this data in the JDE System for IRS 1099 reporting. Bank of America can activate Merchant codes (MCC) and commodity codes (NIGP) to monitor and report services or commodity purchased, and IRS 1099 payments. (page 139)
- Pinal County could initiate a “Program Optimization” review. Deliverables include (1) a detailed spending analysis; (2) qualitative program review; (3) industry benchmarking; (4) customized business plan with cost saving projections; (5) merchant services review; and (6) ongoing support. (page 142)

To determine how Pinal County purchasing card spending and rebates compared to other government entities in the cooperative contract, Internal Audit used the estimated “average annual spend volume by agency” and “number of p-cards in use” provided in the cooperative contract, and calculated rebates based on the current 1.1% rebate of purchases received by Pinal County.

Our calculations, and population information for these entities, is provided in the table on the following page.

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<sup>9</sup> BOS agenda item January 6, 2010

Contract Agencies	2009 Population	Est. # of Cards in use	% of employee s issued cards	Estimated average annual spend volume by agency	Rebate based on current 1.1% of purchases	Pro rata share of rebate based on % of total spending
<b>Tempe</b>	174,255	350	19.34%	\$7,000,000	77,000.00	33.08%
<b>Scottsdale</b>	238,715	352	13.83%	\$3,200,000	35,200.00	15.12%
<b>Chandler</b>	255,230	640	37.30%	\$2,600,000	28,600.00	12.29%
<b>Cochise County</b>	117,755	271	26.08%	\$1,800,000	19,800.00	8.51%
<b>Surprise</b>	94,899	253	32.86%	\$1,600,000	17,600.00	7.56%
<b>Mesa</b>	462,486	305	8.48%	\$1,500,000	16,500.00	7.09%
<b>Yuma</b>	91,105	538	53.11%	\$1,500,000	16,500.00	7.09%
<b>Gilbert</b>	217,285	324	27.60%	\$1,300,000	14,300.00	6.14%
<b>Pinal County</b>	340,962	325	12.80%	\$550,000	6,050.00 <sup>10</sup>	2.60%
<b>Town of Maricopa</b>	44,691	35	16.28%	\$110,000	1,210.00	0.52%

According to our analysis, Pinal County is the second largest by population of the ten political subdivisions in the cooperative contract; and ninth in P-card spending and correlated rebates. This comparison indicates Pinal County has not optimized P-card spending to increase rebate incentives as well as other entities.

**Recommendation**

***4. The Chief Financial Officer should consider developing a strategy to optimize P-Card rebate incentives including:***

- ***Initiating a Program Optimization review of the entire procurement-to-pay process by the contracted purchasing card merchant.***
- ***Researching the possibility of using the purchase card merchant P-card system (Works) to track IRS 1099 vendors for filing purposes and allowing P-Card payment at established service vendors.***

<sup>10</sup> Due to higher spending volumes than anticipated the actual rebate for Pinal County was \$ 10,295.48

#### **D. Requirements for Written Quotes from Vendors**

Pinal County's purchasing guidelines for written quote requirements are more stringent than those recommended by the Arizona State Auditor General and *may* contribute to unnecessary work. The legal requirements governing county purchasing policies and procedures are found in Arizona state statutes. These statutes require the County to use formal sealed, competitive bidding procedures for purchases exceeding \$50,000 (A.R.S. 11.254.01). For informal purchases of less than \$50,000, counties must adopt purchasing procedures that comply with the Uniform Accounting Manual for Arizona Counties (UAMAC) issued by the Arizona State Auditor General. The UAMAC (V1-F-8) recommends the following competitive purchasing guidelines for these purchases of less than \$50,000:

- For purchases costing less than \$5,000, counties should use procedures providing for adequate and reasonable competition.
- For purchases costing at least \$5,000 but less than \$35,000 counties should obtain at least three oral price quotes.
- For purchases costing at least \$35,000 but not more than \$50,000, counties should obtain at least three written price quotations.

Pinal County adopted the following, more stringent, purchasing guidelines:

- For purchase costing less than \$5,000 the procurement officer shall use procedures established by the Director providing for adequate and reasonable competition.
- For purchases costing at least \$5,000 but less than \$15,000 the procurement officer shall solicit oral quotes from at least three vendors.
- For purchases costing at least \$15,000 but less than \$50,000 the procurement officer shall solicit written quotes by issuing a Request for Quotations to at least three vendors.

Internal Audit analyzed requisitions processed from July 1, 2009 to January 30, 2011 and determined guidelines used by Pinal County required procurement officers to use the potentially more time consuming *written quote* process for 342 requisitions that would not have been required using the State Auditor's guidelines.

#### **Recommendation**

- 5. The Chief Financial Officer should review requirements for written price quotes and determine if the current process is the most efficient and effective way to process these requisitions, or if guidelines should be adjusted to levels recommended by the State of Arizona Auditor General.***

#### **E. Contract Documentation and Monitoring Process**

The Purchasing Division's contract documentation and monitoring processes could be improved. The contract documentation and review process has not always been effective in ensuring appropriate monitoring of contract expiration and adequate communication with user departments. The Purchasing Manager, however, has recently designated a Contract Coordinator position within

the division and assigned contract monitoring duties. The Contract Coordinator also supervises the loading of contract documents into the enterprise content management (ECM) system; <sup>11</sup> and has developed contract process forms and a central contract database. The database is functional; however, some other area governments have more developed contract databases and post them on their websites. The following spreadsheet is an example of term contract information available on the City of Chandler, AZ website.<sup>12</sup>

PROC. OFCR	V P R	CONTRACT #	CPO #	ELIGIBLE USERS	CONTRACT TITLE	CONTRACTOR	START DATE	EXP. DATE	EXT. DATE	COUNCIL	ANNUAL AMOUNT
Kristy		CS8-0895-1478	1478	Community Services	Golf Course	Las Corrientes	4/1/09	12/31/29	12/31/29	4/22/09	
Mike		SW8-0485-1557	1557	Solid Waste	Refuse Disposal	Waste Management	10/1/05	9/30/25	9/30/35	10/14/09	\$ 2,370,000.00
Kristy		MG8-0807-1563	1563	Magistrate	Alcohol Screening	Arizona Behavioral	7/1/03	6/30/11	unlimited	n/a	n/a
Carolee		Sole Source	1935	Police	Maint./Support field report writing software	SunGard HTE, Inc.	8/1/06	7/31/11	7/31/11	8/19/10	\$137,567.00

Prior to recent changes, each Buyer was responsible to separately monitor contracts procured for the commodity groups they were assigned.<sup>13</sup> This information was maintained by the Buyers in folders on the Purchasing computer share drive and, at the appropriate time, follow-up was performed by the Buyer. There were no written contract monitoring policies or uniform procedures for this process and, when a gap in service occurred after a Buyer terminated employment, expiration of a contract was not identified and communicated to the user department timely. Although the incident resulted in a misunderstanding with the affected department, no violations of procurement code(s) occurred.

### **Recommendation**

***6. To promote good customer relations and prevent potential contract lapses, the Chief Financial Officer should develop comprehensive written policies and procedures for all Purchasing Division service areas including:***

- ***A required centralized contract database; and consider posting the database on the Pinal County website.***
- ***Uniform practices for required communication with departments; for example, when and how departments will be notified of vendor or product changes.***
- ***Required regular reviews of cooperative contracts to ensure best volume pricing and most effective service.***

### **F. Request for Proposal (RFP) response evaluation**

The Purchasing Division’s evaluation tool for reviewing responses to Request for Proposals (RFP) could be improved. Arizona law A.R.S. § 11-254.01 requires, “All purchases of supplies, materials,

<sup>11</sup> [http://www.hyland.com/news/newsitemdetails/09-06-01/pinal\\_county\\_completes\\_integrated\\_system.aspx](http://www.hyland.com/news/newsitemdetails/09-06-01/pinal_county_completes_integrated_system.aspx)

<sup>12</sup> <http://www.chandleraz.gov/default.aspx?pageid=357>

<sup>13</sup> <http://www.pinalcountyz.gov/Departments/Finance/Documents/Downloads/commodity.pdf>

equipment, and contractual services except professional services, made by the county having an estimated cost exceeding \$50,000 per transaction<sup>14</sup> must be based on sealed, competitive bids.” Pinal County Purchasing refers to bids over \$50,000 as “formal bids.” The following table shows the number of formal bids processed by Purchasing for the past five years.

Fiscal Year	2009/10	2008/09	2007/08	2006/07	2005/06
Total Formal Solicitations processed by Finance = (F) or Public Works= (PW)	15 (F) 6 (PW)	22 (F) 12 (PW)	33 (F) (9) PW	41 (F) 9 (PW)	54 (F) All solicitations issued by Finance

The **competitive sealed bid** process is referred to as an Invitation for Bids (IFB). The Purchasing/Finance department issues a public invitation for bids. Bids are evaluated based on the evaluation criteria in the IFB, and a contract is awarded to the lowest responsive and responsible bidder. This process does not allow Purchasing to determine whether one bidder’s product is superior to another bidder’s product, and a higher quality item cannot be chosen unless the bidder is also the lowest bidder.

To award a contract based on **quality**, the Director and procurement officer determine, in writing, that the use of competitive sealed bidding (IFB) is either not practicable or not advantageous to Pinal County, and issue a **competitive request for sealed proposal** (RFP).<sup>15</sup> Before a contract is awarded, proposals are only shared with Pinal County personnel having a legitimate interest in the proposal and persons assisting Pinal County on the proposal evaluation team.

PC1-334 states, “Evaluations of proposals shall be based on the factors set forth in the RFP.” A valid scoring tool is aligned to the stated factors, or work statement, in the RFP. Evaluators should have sufficient expertise to assess whether each proposer meets these factors. A reliable scoring tool means that if you put the proposals in front of two or more people for scoring, the scores will be similar.

Internal Audit examined RFP/IFB contract information available on the county-wide content management system, OnBase. Projects from 2007 through 2010 were randomly chosen and reviewed at various stages of the process.

As a result of our review we noted:

- Evaluators’ names were not disclosed for projects after 2007. We discussed this issue with the Purchasing Manager and confirmed the current practice is not to disclose evaluators’ names. This practice precludes any opportunity to determine if evaluation team members possess appropriate technical expertise or impartiality.

<sup>14</sup> Competitive sealed bid adopted by the Pinal County Board of Supervisors in the Pinal County Procurement Code per A.R.S. 41-2535

<sup>15</sup> This process cannot be used for construction contracts.

- After 2007 scores are presented in the aggregate as a “group score.” There were no individual scoring sheets included in the files. This practice precludes any evaluation of individual scores to evaluate variances or inconsistencies.
- Conflict of interest statements for evaluators were not included in files.
- Cost comments appeared to be subjective; for example, “fair” or “reasonable.” We did not find detailed evaluation criteria, such as points available, point values and meaning, or weighting to support comments.

Based on these results we concluded the evaluation process in Pinal County could be further improved to ensure it is both valid and reliable.

**Recommendation**

***7. The Chief Financial officer should consider revisions to the vendor evaluation process to improve its validity and reliability:***

- ***Maintain separate scoring for each evaluator. If anonymity is determined to be appropriate, identify them with only generic labels such as A, B, C. This would preserve process validity; while disclosing the team’s technical expertise and maintaining separate scores***
- ***Develop a comprehensive evaluation matrix with detailed criteria aligning with the RFP, to include available points, point values and meaning, weighting, and side-by-side comparisons of both technical, and cost, proposals of each vendor to provide a valid basis for award decisions.***

**G. Contract Decision Appeal Process**

The time allotted to file an appeal to a contract award decision is less than that allowed by other organizations we reviewed, and may not allow sufficient time for vendors to submit timely appeals. Ensuring a competitive procurement process includes providing a fair and effective appeals procedure. During our examination of contract files we reviewed a post-award challenge for contract #09-03-14. The contract was approved by the Board of Supervisors on March 17, 2010. The challenge was received within the required ten (10) days and the procurement officer’s decision denying the challenge was emailed (and mailed) to the challenger on Friday, April 9, 2010.

According to the Pinal County Procurement Code definitions section (PC1-101) “Days” means calendar days and are computed according to A.R.S. § 1-243. This statute states, “...time shall be computed starting with the day after the day during which the notice of decision is received by the petitioner by personal service or registered or certified mail.”

The challenger claims they received the decision by mail on April 13, 2010, and submitted an appeal on Monday, April 19, 2010; one day later than the five (5) days allowed to file an appeal. In this instance, due to the five day appeal limit, the last day to file an appeal within the limit was on Sunday, April 18, 2010; a non-working day.

On Wednesday, April 21, 2010, the Chief Financial Officer sent a letter to the appellant stating the appeal would not be considered since it was submitted later than the required five (5) days after receiving notice of the decision.

Internal Audit compared appeal time allowed in other Procurement Codes and found the State and other counties allowed from 7 to 30 days for an appeal.

	Arizona (State)	Maricopa County	Mohave County	Pinal County
Initial Protest Appeal to procurement officer	Within 10 days after procurement file available for public inspection	Within 10 days after contract award	Within 10 days after contract award	Within 10 days after contract award
Written decision by procurement officer	Within 14 days after a protest is filed	Within 14 days after protest is filed	Within 14 days after protest is filed	Within 14 days after protest is filed
Appeal to Director	Within <b>30</b> days from receipt of decision	Within <b>7</b> days from receipt of decision	Within <b>7</b> days from date decision is issued	Within <b>5</b> days from receipt of decision

**Recommendation**

8. *The Chief Financial Officer should consider revising Procurement Code section PC1-905 (D1 and E1) to allow appeal filings within seven (7) days of a decision to mirror policies of other organizations and prevent weekend deadlines.*



Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible
<p><i>2. The Chief Financial Officer should revise the P-Card policy to allow employees to use non-contracted vendors for P-Card purchases under \$1,000 and discontinue the requirement to use a Waiver C form. For P-Card purchases over \$1,000, the policy should mirror state code and state <u>"Whenever practicable, use contract vendors."</u></i></p>	<p>Yes and No</p>	<p>The revised P-Card policy encourages but does not require the use of contracted vendors and the requirement to use a Waiver C form (to explain why a non-contract vendor was used) has been eliminated.</p> <p>The revised P-Card policy states that purchases from non-contract vendors shall not exceed \$1,000 without advance authorization from the Program Administrator.</p>	<p>6/30/11</p>	<p>Victoria Prins</p>
<p><i>3. The Chief Financial Officer should regularly review, and if necessary update, the Procurement Code to reflect all current State Procurement Code requirements and procurement best practices.</i></p>	<p>Yes</p>	<p>Pinal County's Code largely mirrored the State's Code when it was adopted in 2006. The State Legislature reviews and updates the State Procurement Code annually, but this is not necessary or practical for Pinal County. When the Code is revised, it should be based on a thorough analysis and not performed in a piecemeal fashion. The new Purchasing Manager will have a major role in this process and for that reason, I recommend waiting until he is more familiar with County practices before starting a Code revision.</p>	<p>12/31/12</p>	<p>John Red Horse / Victoria Prins</p>

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible
<p><i>4. The Chief Financial Officer should consider developing a strategy to optimize P-Card rebate incentives including:</i></p> <ul style="list-style-type: none"> <li>▪ <i>Initiating a Program Optimization review of the entire procurement-to-pay process by the contracted purchasing card merchant.</i></li> <li>▪ <i>Researching the possibility of using the purchase card merchant p-card system (Works) to track IRS 1099 vendors for filing purposes and allowing P-Card payment at established service vendors.</i></li> </ul>	Yes and No	<p>Staff is researching whether it would be feasible to use the e-payables options offered by our P-Card provider for certain reoccurring expenses. Once more information is available any modifications that are cost effective will be made.</p> <p>While it is true that the P-Card system can track IRS 1099 vendors, the system does not actually produce 1099 forms like the County's financial system does. In order to produce any required 1099 forms for P-Card service purchases, we would have to aggregate the information from the P-Card system with the current Accounts Payable financial system. This would be time consuming and inefficient and therefore service purchases will not be considered at this time. This will be revisited when the County's financial system is upgraded or replaced.</p>	<p>6/30/12</p> <p>6/30/14</p>	<p>April Wilkerson / Victoria Prins</p> <p>April Wilkerson / Victoria Prins</p>

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible
<p><i>5. The Chief Financial Officer should review requirements for written price quotes and determine if the current process is the most efficient and effective way to process these requisitions.</i></p>	<p>Yes</p>	<p>The Buyers already use e-mail and other electronic distribution methods for many quotation requests. Purchasing is also working with IT to install software on all of the Buyers' computers to enable them to create and attach pdf files to out-bound quote requests.</p> <p>The Chief Financial Officer will review the efficiency of the current practice of written price quotes when the Procurement Code is next revised</p>	<p>12/31/12</p>	<p>John Red Horse / Victoria Prins</p>

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible
<p><i>6. To promote good customer relations and prevent potential contract lapses, Purchasing should develop comprehensive written policies and procedures for all service areas including;</i></p> <ul style="list-style-type: none"> <li>• <i>A required centralized contract database; and consider posting the database on the Pinal County website</i></li> <li>• <i>Uniform practices for required communication with departments; for example, when and how departments will be notified of vendor or product changes</i></li> <li>• <i>Required regular reviews of cooperative contracts to ensure best volume pricing and most effective service</i></li> </ul>	Yes	<p>Although many desk procedures have been created, more are needed. The Purchasing staff continues to work on this project. The Finance Department FY 11-12 Strategic Plan includes a goal to expand contract information on the website by adding contract award information and if practicable, a contract bidding schedule.</p> <p>It is already our practice to notify a department whenever an order is placed with a vendor other than one they may have recommended.</p> <p>Purchasing reviews cooperative contracts that are in use, but agree that the documentation of these reviews should be improved.</p>	Ongoing	John Red Horse / Buyers

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible
<p><i>7. The Chief Financial officer should consider revisions to the vendor evaluation process to improve its validity and reliability.</i></p> <ul style="list-style-type: none"> <li>• <i>Maintain separate scoring for each evaluator. If anonymity is determined to be appropriate, identify them with only generic labels such as A, B, C. This would preserve process validity; while disclosing the team's technical expertise and maintaining separate scores</i></li> <li>• <i>Develop a comprehensive evaluation matrix with detailed criteria aligning with the RFP, to include available points, point values and meaning, weighting, and side-by-side comparisons of both technical, and cost, proposals of each vendor to provide a valid basis for award decisions.</i></li> </ul>	Yes	<p>Although evaluators' names are not currently included on the evaluation report, these names are part of the contract file. In addition, the Buyers are charged with ensuring that evaluators have appropriate expertise and are instructed on how to perform proposal evaluations.</p> <p>The RFP evaluation process should include standardized evaluation reports and tools; the new Purchasing Manager will be charged with the responsibility to develop these to ensure greater consistency.</p>	6/30/12	John Red Horse / Victoria Prins

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible
<p><i>8. The Chief Financial Officer should consider revising Procurement Code section PC1-905 D1 and E1 to allow appeal filings within seven (7) days of a decision to mirror policies of other organizations and prevent weekend deadlines.</i></p>	<p>Yes</p>	<p>Pinal County historically has not received very many protests to contract awards and has received no complaints on the amount of time given for appeal filings.</p> <p>The Chief Financial Officer will consider expanding the time for filing appeals when the Procurement Code is next revised.</p> <p>Due to the recent management change in Purchasing the first priority will be to allow the new manager to become more familiar with the County's practices before tackling a major revision to the Code.</p>	<p>12/31/12</p>	<p>John Red Horse / Victoria Prins</p>