

COUNTY AUDIT DEPARTMENT

REPORT # 354

An Audit of:

SOLE SOURCE PROCUREMENT PROCESS

NOVEMBER 13, 2018



Pat Frank INTEGRITY. TRANSPARENCY. ACCOUNTABILITY.

CLERK OF COURT & COMPTROLLER • HILLSBOROUGH COUNTY, FLORIDA



November 13, 2018

The Honorable Sandra L. Murman, Chairman
The Honorable Victor D. Crist
The Honorable Ken Hagan
The Honorable Al Higginbotham
The Honorable Pat Kemp
The Honorable Lesley "Les" Miller, Jr.
The Honorable Stacy R. White

Dear Chairman Murman and Commissioners:

The Audit Team performed an audit of the Sole Source Procurement Process (Audit Report #354, dated November 13, 2018). Responses to the Audit Team's recommendations were received from the Director of Procurement Services and have been included in the Report after each audit comment and recommendation.

The purpose of this Report is to furnish management independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. It is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors by the Director and personnel of Procurement Services during this audit.

Sincerely,

Heidi Pinner, CIA, CISA, CFE, CRMA
Director of County Audit

CC: Mike Merrill, County Administrator
Bonnie Wise, Chief Financial Administrator
Scott Stromer, Director of Procurement Services
Kevin Brickey, Management & Budget Office
Dan Klein, Chief of Staff, Clerk of Court and Comptroller
Rick VanArsdall, Chief Deputy, Clerk to the Board

TABLE OF CONTENTS

EXECUTIVE SUMMARY..... 1

 BACKGROUND INFORMATION 1

 OBJECTIVE 1

 SCOPE 1

 OVERALL EVALUATION 2

 OPINION 2

 AUDITED BY 2

AUDIT COMMENTS & RECOMMENDATIONS 3

EXECUTIVE SUMMARY

BACKGROUND INFORMATION

A sole source procurement is a purchasing method utilized when a commodity or service is available from only one source or when it is determined by the Director of Procurement Services that other methods of procurement are not feasible or not advantageous to the County. Purchases made by the County are traditionally procured on a competitive basis, where prices and/or proposals are solicited from multiple suppliers in an effort to get the best value for the County. There are times that a purchase can only be made from one supplier. This may include specialized goods and services that are patented or proprietary in nature or instances where there is only one available dealer or distributor.

Per Board Policy 03.06.00.00 section number 3-205, unless otherwise prohibited by law, a contract may be awarded for a supply, service, or construction item without competition when the Director of Procurement determines in writing that there is only one reasonable source for the required supply, service, or construction item. Other responsibilities include:

- The Director of Procurement shall conduct or authorize negotiations as to price, quantity, delivery and other pertinent terms.
- All negotiations shall be conducted in a manner that favors the public's best interest and maintains the County's integrity.
- A notice of intent to award a sole source or noncompetitive procurement shall be publicly posted.

County Ordinance 13-24 allows competing suppliers 5 business days to submit a protest to the County's intent to award a contract. Therefore, a notice of intent to award a sole source is publicly posted online on the County's website with an active status for 5 business days. The posting remains publicly viewable online after the 5 business days, but reverts to a closed status. This makes potential competing suppliers aware that a contract is about to be sole sourced and affords suppliers the opportunity to make inquiries or protests.

OBJECTIVE

The objective of the audit was to determine whether or not the sole source procurement process has adequate controls to ensure sole source procurements are appropriate.

SCOPE

The audit was conducted in conformance with the *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that County Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. County Audit believes that the evidence obtained provides this reasonable basis.

The Audit Team reviewed the current sole source procurement process to identify existing controls. The audit scope period includes sole source procurement events that occurred during Fiscal Years (FY) 2017 and 2018.

OVERALL EVALUATION

The employees of Procurement Services were responsive to the Audit Team's inquiries and provided the information requested in a timely manner. The Audit Team encountered knowledgeable and dedicated employees during the course of the audit. The testing methodology and results are detailed in the audit comment beginning on page 3 of this Report.

OPINION

The overall control environment relative to the sole source procurement process is at a repeatable maturity level. This means that there are controls established with some policy structure. Some audit exceptions were found regarding documentation completeness and the public posting of sole source procurement purchases. Additional formal process documentation may be helpful to ensure that sole source procurement documents are more complete and organized. Addressing the opportunities identified in this report will enhance the overall control structure and provide increased consistency and assurance.

The exit conference was held on November 2, 2018.

Other minor concerns not included in this Report were communicated to management and/or corrected during fieldwork.

AUDITED BY

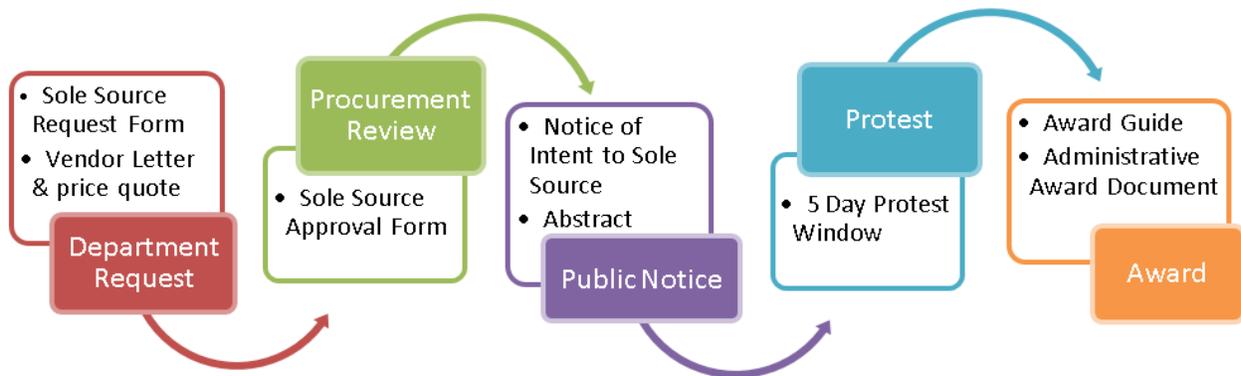
Heidi Pinner, CIA, CISA, CFE, CRMA, Director of County Audit
Ben Everett, CPA, CIA, CFE, Audit Manager
Emerly Henry, Internal Auditor II

AUDIT COMMENT & RECOMMENDATION

There is an opportunity to improve documentation and public posting of sole source procurement purchases.

The objective was to determine whether or not there are processes in place to ensure that sole source procurements, when needed, are in the County's best interest.

The Audit Team met with Procurement Services and identified the current steps in the sole source procurement process. Each step in the Sole Source process is documented by Procurement Services on standardized templates and checklists as depicted in the workflow diagram below.



Sole Source Procurement Request Form

- Must be completed by the County department requesting a sole source procurement.
- Must be signed by the department director and submitted to Procurement Services for review.
- The Department must justify their reasoning with a narrative explanation.

Vendor Letter

- A vendor price quote and letter or memo from the vendor regarding the purchase is required to be submitted to Procurement Services along with the Sole Source Procurement Request Form.
- The vendor letter or memo is typically a statement from the vendor about why a certain product or service is only available from that vendor.

Sole Source Procurement Approval Form

- Prepared and completed by Procurement Services.
- Checklist of research steps performed by a procurement analyst to review the sole source purchase being requested by the County department.
- Must be reviewed and signed by the Procurement Operations Coordinator, the Division Director of Procurement Operations, and the Director of Procurement Services, to approve the sole source request.

Notice of Intent to Sole Source

- Prepared by Procurement Services.
- Advertised to suppliers who are registered with the County via iSupplier.

Abstract

- A shorter description of the Notice of Intent to Sole Source that is posted publicly online on the County's website.

Protest

- Potential competing suppliers may submit a protest to the sole source procurement within 5 business days of the public notice.

Award Guide

- Checklist of tasks such as determining if suppliers are a valid corporation with proper licenses and insurance, if required.

Administrative Award

- Document with required approval signatures for purchases of over \$50,000.

TESTING AND RESULTS**Supporting Documentation**

The Audit Team obtained the population of all sole source procurements that occurred from October 1, 2016 through March 1, 2018. There were 127 sole source procurement instances in the population and a random sample of 25 instances (20%) was selected for audit testing. Each instance was reviewed to determine whether or not all steps in the sole source procurement process were completed and whether adequate documentation was maintained.

Per Procurement Services, all sole source related documentation should be scanned and saved to a shared network folder called Bid Master. During testing, the Audit Team could not locate all the sole source documents for the sample items within this folder. In many instances, the support had to be gathered manually from the individual files maintained by the original procurement staff member associated with the procurement.

Ultimately, for the sample of 25 sole source procurements tested:

- All 25 had sufficient supporting documentation for the Sole Source Procurement Request Form, vendor quote, Notice of Intent to Sole Source, and Administrative Award.
- Three (3) of the procurements (12%) did not have a vendor letter or memo document.
- Two (2) of the procurements (8%) did not have a Sole Source Procurement Approval Form.
- Two (2) of the procurements (8%) did not have an Award Guide document.

Public Notice of Intent to Sole Source

The Audit Team also compared the entire population of 127 procurements to the listing of sole source procurement announcements posted on the County's website to determine whether or not the sole source procurements were publicly posted.

The Audit Team confirmed that 97% of the sole source procurements in the population (123 out of 127) had been posted to the County's external website. The other 4 procurements were not posted online but were announced to suppliers registered on iSupplier.

Procurement Services also voluntarily initiated an internal review of the timing and length of sole source procurement announcements and identified an additional 3 sole source procurement exceptions. These procurements had announcements that were published online but were not shown in an active status for the full 5 business days. Procurement Services determined that this was a result of errors with the open and close dates entered in Oracle. Based on the open and close dates, two of the three sole source procurements would have shown as an active status for 4 business days. The third sole source procurement was published just prior to a holiday weekend and would have shown as an active status for 3 business days. Per Management, an inquiry or protest on these procurements would have been accepted within the 5 business days regardless of the closed or open status in the system.

RECOMMENDATION

Procurement Services should implement a process and develop procedures to ensure that all related sole source documents are completed and saved in a consistent and well-organized manner before a sole source contract is awarded. This could be helpful in the event that a public records request is received by the County or in case there is a protest submitted by a potential competing supplier.

Management should also implement a process to ensure all Intent to Sole Source announcements are publicly posted online to the County's website with an active status for at least 5 business days before reverting to a closed status.

CLIENT RESPONSE

The Procurement Services Department Concurs with both of the Auditor's recommendations as stated above.

CORRECTIVE ACTION PLAN

- 1. To ensure that all related sole source documents are completed and saved in a consistent and well-organized manner before a sole source contract is awarded, the Procurement Services Department will update the Bid Master Folder Structure and Award Guide. Within the Bid Master Folder Structure, three new naming conventions will be used when files are saved electronically. Using these conventions will provide consistency and allow quick identification of important information related to sole source procurements. Also, Question*

20 will be added to the Award Guide, which will prompt the Procurement Analysts to confirm that the folder structure and information are accurate prior to award.

- 2. To ensure that all Notices of Intent to Sole Source publicly posted for at least five (5) business days before automatically reverting to a closed status in Oracle, the Procurement Services Department will update the Sole Source Approval Form and Award Guide. The Sole Source Approval Form will be revised to consolidate the department director's review into one (1) step at the outset, rather than requiring an initial approval and a subsequent approval in Oracle for the same. This change will eliminate the need for Procurement Analysts to anticipate the timing of notices in Oracle and shortens the processing time by keeping the activity with the assigned Procurement Team. Also, Question 19 will be added to the Award Guide, which will prompt the Procurement Analysts to confirm the accuracy and proper timing of the Notices of Intent to Award.*

TARGET COMPLETION DATE

November 9, 2018.