




**DALLAS COUNTY
COUNTY AUDITOR**

REPORT ON INTERNAL CONTROL & COMPLIANCE

TO: Daniel R. Garza
Purchasing Agent

FROM: Darryl D. Thomas 
County Auditor

SUBJECT: Purchasing Department – FY2013 thru Partial FY2014

ISSUE DATE: September 28, 2015
RELEASE DATE: December 29, 2015

SCOPE

As part of ongoing reviews of county offices and compliance with statutory regulations, we have performed a limited review of the Dallas County Purchasing Department for the period of October 1, 2012 through March 31, 2014 during which Shannon Brown served as Purchasing Agent.

PROCEDURE

Standard review processes were applied to data from the department in order to evaluate internal controls and compliance within the department. Various types of purchases of goods and services were evaluated based on risk, volume of transactions, and noted internal control weaknesses. A random sampling of vendors was selected to test. Review steps included, but were not limited to, the following:

- Review of policies/procedures and statutes for bids/awards/contracts, requisitions/purchase orders, and pricing/negotiations for professional service contracts, state contract purchases, maintenance service agreements, cooperative purchase agreements, sole source purchases, emergency purchases, purchases or contracts below and above \$50,000, and contract renewals.
- Review of internal controls and weaknesses.
- Review of vendor insurance requirements.
- Review of property inventory controls including surplus and auction activity.
- Testing to determine compliance with County policy/procedures and statutes for purchases or contracts below and above \$50,000, sole source awards, pricing/negotiations, requisitions/purchase orders, and pickup purchase orders.
- Testing of Oracle authorizations matrix for approval of requisitions and purchase orders.
- Testing of purchases as relate to award/administration, vendor insurance and budgetary controls.

FINDINGS/OBSERVATIONS

Pickup Purchase Orders – A sample review of 2387 Pickup Purchase Orders issued by departments: revealed: eight (.03%) Pickup Purchase Orders for amounts exceeding the \$500 limit; instances of Pickup Purchase Orders used to purchase non-emergency or non-bid items; and, Pickup Purchase Orders designated for used by Road & Bridge No. 3 used by the Public Service Program.

Purchases \$50,000 or More – A sample review of Purchasing documentation and 25 bid folders revealed: two (8%) bid folders without retention of all bid proposals; two bid envelopes not time stamped; instances of awarded bids without documentation in the bid file to support best negotiated price received; and, a monitoring tool does not exist to verify ongoing best price received prior to renewal of bid award (extension).

Responses to the Internal Control Questionnaire (ICQ) included: bids are not always opened in the presence of two Purchasing employees; no monitoring of market prices after award (Purchasing defaults this responsibility to the user department); and, no county policy on the maximum number annual renewal periods.

Purchases Below \$50,000 – A sample review of Purchasing documentation for purchases below \$50,000 revealed: twelve (30%) of 40 purchases with missing phone quotation documentation or not attached within Oracle; twelve (30%) of 40 purchases with missing written quotation documentation or not attached within Oracle; instances of evidence to support MBE/WBE vendor participation not retained or not attached within Oracle; and, instances of purchases reflected as sole source without recent briefing/court order including several without specificity to justify as sole source as similar products/services available from other vendors.

Responses to the ICQ included: vendor designation as a sole source is not for a defined period; and, buyers do not rotate responsibilities.

Price Analysis – A sample review of prices charged for items purchased via open Purchase Orders from two vendors contracted through cooperative commodity agreements revealed instances of items invoiced at higher prices than offered to the general public (**Disclosure:** public prices were checked by audit staff on the date of review and may vary from the price offered to the public on the original date of purchase).

A sample review of prices charged for items purchased from various vendors previously awarded bids/contracts revealed instances of items invoiced at higher prices than offered to the general public (**Disclosure:** public prices were checked by audit staff on the date of review and may vary from the price offered to the public on the original date of purchase).

Property Controls – A review of property controls and procedures revealed: incomplete controls over property transferred to surplus and subsequently included for auction; and, inventory of items held in Surplus not completed for comparison to listing of property items assigned to department 9915.

Responses to the ICQ included: an inventory report consisting of all property on hand and owned by the County is not filed by Purchasing on July 1st of each year as required by statute; and Purchasing relies on departments to obtain grantor permission to dispose, sale, or salvage equipment purchased with grant funds.

Miscellaneous – A sample review of payment holds and a discussion with Accounts Payable revealed: 356 Insurance exception first notices issued to vendors for missing or lapsed insurance; and, 131 Procurement exception letters issued to departments for purchases lacking evidence made consistent with state statute or Dallas County Code, non-bid items ordered on open Purchase Orders; bid items ordered from non-awarded vendors, and items ordered after bid expiration.

Responses to the ICQ included: departmental written procurement policies not updated timely; and, Dallas County Code not updated to reflect the existing automated requisition process.

RECOMMENDATIONS

Pickup Purchase Orders – Pickup purchase orders should be monitored to ensure compliance with Dallas County Codes and statutes. Elected officials/departments should be notified of non-compliance.

Purchases \$50,000 or More – Purchasing Agent should supervise all purchases in accordance with statutes including Local Government Code, § 262.011 and the Dallas County Code. The Purchasing Department should expand written policies and procedures for all Dallas County procurement actions. All bid documentation should be retained in accordance with Records Retention Schedules and grantor requirements. No less than two Purchasing employees should observe and document the opening of bids. Market prices should be reviewed to determine whether the County is receiving the lowest price offered prior to renewing/extending contracts. Purchasing should independently research product pricing on a sample basis for the lowest/best available price prior to use of available procurement programs with the State and other governmental entities.

Purchases Below \$50,000 – Purchasing Department should maintain all documentation (phone quote sheet, written quotes, M/WBE documentations, and written justifications when minimum requirements are not met with documents electronically attached to Purchase Orders in Oracle) related to procurement actions in accordance with County Code, Record Retention Schedules, and grantor requirements. Sole source awards should be evaluated to affirm items continue to be obtainable from only one source with bi-annual briefing and court order. Purchasing should develop a plan to rotate buyer responsibilities.

Price Analysis – Market prices should be monitored / analyzed periodically to determine whether the County is receiving the lowest price offered from available procurement programs.

Property Controls – Detailed written purchasing procedures should be developed and implemented for the proper handling and disposition of property including auction procedures to ensure compliance with statutes, County code, and grantor requirements. An annual property inventory should be completed with a report filed on July 1st of each year with the County Auditor and Commissioners Court.

Miscellaneous – All purchases should comply with statutes and Dallas County Code including insurance requirements. Departmental written policies and procedures should be expanded for all Dallas County procurement actions.

RESPONSES

Finding/observation templates 14-Pur-01-01 through 14-Pur-01-06 are attached. Departmental responses are incorporated within the templates.

SUMMARY

This report is intended for the information and use of the department. While we have reviewed internal controls and documentation, this review will not necessarily disclose all matters of material weakness. It is the responsibility of the department to establish and maintain effective internal control over compliance with the requirements of laws, regulations, and contracts applicable to the department.

Highest areas of risk which need to be addressed include: Pickup Purchase Orders used for non-emergency items; Purchase Orders flagged with sole source exemption; inconsistent retention of documentation including bid documents, phone quotes, written quotes, and M/WBE vendor participation; items purchased through various government programs without research and analysis on a sample basis for lower (best) available price; incomplete verification of all insurance requirements prior to issuing purchase orders; and, incomplete controls over surplus property and lack of annual property inventory report.

Emphasis on outlined procedures should provide for improved departmental processes. Adherence to and follow-through with recommendations should strengthen internal controls and compliance with Dallas County's policies and procedures and state statutes.

cc: Darryl Martin, Commissioners Court Administrator



Finding Number: 14-Pur-01-01
Date: October 21, 2014
Audit: Purchasing Department - FY13 thru FY14 Partial
Auditor(s) Assigned: TB

<p>Finding:</p>	<p>Pickup Purchase Orders A sample review of 2387 Pickup Purchase Orders (PO's) issued during FY13 through March 31, 2014 revealed:</p> <ul style="list-style-type: none"> • Eight (0.3%) out of 2387 Pickup PO's issued by departments for amounts exceeding the \$500 limit • 31 (77.5%) out of 40 Pickup PO's not forwarded to Purchasing for approval within five days after issuance with an invoice and/or packing slip • One (2.5%) out of 40 Pickup PO's without the required Purchasing Agent's signature • Three (7.5%) out of 40 Pickup PO's without Purchasing received date time stamp • Instances of purchases for non-bid or non-emergency items including 15 Road & Bridge District No. 3 Pickup PO's used by the Public Service Program to acquire paint and/or painting supplies and three Pickup PO's used by ASC for external inspections
<p>Work paper Reference: (or other method by which finding was identified)</p>	<p>Work paper 5.A, 5.B, and 5. Additional Testing</p>
<p>Condition: (Describe the current condition)</p>	<p>Pickup PO's are defined as urgent need purchases and are limited with a cap of \$500 per order for suppliers who maintain an agreement or contract. Purchasing has approved a form for authorized departments to use. Due to the emergency nature of purchase, the vendor utilized is not always pre-approved. The Pickup PO's are signed by an authorized employee picking up the order, the vendor releasing the order, and an authorized supervisor for the department. A copy of the signed Pickup PO's and invoice and/or packing slip are forwarded to Purchasing for approval prior to final payment through the Auditor's office.</p>
<p>Criteria: (Describe the optimal condition)</p>	<p>County Code, Sec. 94-95. Pickup.</p> <p>(a) Pickup purchase orders are issued to specifically authorize departments, and may only be used for specific categories of supplies from those suppliers which maintain an agreement or contract with the county through the purchasing department. The following departments are authorized to use pickup purchase orders:</p> <ol style="list-style-type: none"> (1) Juvenile department: juvenile clothing; (2) Road and bridge districts: repair or replacement parts; (3) Automotive repair center: repair or replacement parts; (4) Building/maintenance department: miscellaneous hardware and building materials; (5) Child welfare department: clothing for foster children. <p>(b) Pickup purchase orders are not to be used in order to avoid the requisitioning process. The purchasing agent may suspend the use of the pickup purchase order to any department that is found to be in violation of this section. Furthermore, the purchasing agent discourages the use of the pickup purchase order except for emergency situations.</p> <p>(c) The vendor must sign the pickup purchase order and issue an invoice when the merchandise is obtained. The original (white copy) of the requisition-purchase order (exhibit DF) is left with the vendor.</p> <p>(d) The signed requisition-purchase order and the invoice or packing slip must be sent to the purchasing department. The purchasing department will verify that the two documents are for the same merchandise and price, approve the purchase, and forward to the auditor's office for payment.</p>



	<p>Sec. 94-96. Ceiling for single purchase. A ceiling of \$500.00 will serve as the maximum dollar amount for any one single purchase.</p> <p>Sec. 94-97. Permitted use. Pickup purchase orders can be used on the following: (1) Emergency repair parts for down-line equipment; (2) Materials/supplies that are covered under contract; (3) Miscellaneous shop supplies; (4) Emergency construction materials (department heads will be responsible for justifying emergencies for their departments); (5) Juvenile clothing.</p>					
<p>Cause: (Describe the cause of the condition if possible)</p>	<p>N/A</p>					
<p>Effect: (Describe or quantify any adverse effects)</p>	<p>N/A</p>					
<p>Recommendation: (Describe corrective action)</p>	<p>Pickup PO procedures should include:</p> <ul style="list-style-type: none"> • Monitoring Pickup purchase orders for compliance with County code. • Notifying elected officials/department head of non-compliance or delays in receipt of Pickup purchase orders. • Training to all County employees involved in the Pickup PO process. 					
<p>Responsible Department or Organization:</p>	<p>Purchasing Department</p>					
<p>Management's Response:</p>	<input type="checkbox"/> Agree	<input type="checkbox"/> Disagree	<p>Respondent:</p>	<p>Daniel R. Garza, Purchasing Director</p>	<p>Date:</p>	<p>12/21/2015</p>
<p>Comments:</p>	<p><i>The Purchasing Department, in collaboration with the Auditor's Office, conducted a cost analysis for creating and processing a Pick-up Purchase Order Form. The approximate cost to process a Pick-up Purchase Order Form is \$167.00. The Purchasing Department is in the process of communicating with Commissioners Court regarding the Procurement Card Program. An analysis concluded it costs approximately \$99.00 to process a Procurement Card transaction. Utilization of a Procurement Card will avoid the need for a Pick-up Purchase Order Form. The Procurement Card will capture real-time electronic utilization of what was procured, vendor name, and by cardholder name/department. The County will observe an annual rebate from the financial institution.</i></p>					
<p>Disposition:</p>	<input checked="" type="checkbox"/> Audit Report		<input type="checkbox"/> Oral Comment		<input type="checkbox"/> Deleted From Consideration	



Finding Number: 14-Pur-01-02
Date: March 26, 2015
Audit: Purchasing Department – FY13 thru FY14 Partial
Auditor(s) Assigned: TB

<p>Finding:</p>	<p>Purchases of \$50,000 or more: Review of Purchasing documentation (sealed bid folders) for twenty five (25) vendors with procurements totaling \$50,000 or more from FY2013 to partial FY2014 (March 31, 2014) revealed:</p> <ul style="list-style-type: none"> • Two (8%) out of 25 bid folders without retention of all bid proposals • Two instances of bid envelopes not time stamped to indicate date/time of receipt • Three (12%) out of 25 bid folders without bid tabulation sheets in the bid file • One (4%) out of 25 bid folders without the award notice in the bid file • Instances of awarded bids without documentation in the bid file to support best negotiated price received <p><u>Other Controls</u></p> <ul style="list-style-type: none"> • A monitoring tool does not exist to verify ongoing best price received prior to renewal of bid award (extension) • Purchasing does not track contract discounts and/or rebates. Written policies and procedures do not exist related to tracking of contract discounts and/or rebates. <p><i>Response: Discounts are taken by Accounts Payable as invoices are processed.</i></p> <p>Departmental responses to the Internal Control Questionnaire (ICQ) and inquiry of Purchasing department staff revealed:</p> <ul style="list-style-type: none"> • Vendors are not assessed for capacity to supply goods or services. • No monitoring of market prices after award. Purchasing defaults this responsibility to the user department. • No County policy on the maximum number of annual renewal periods - varies by bid/proposal. • Bids are not always opened in the presence of two parties. • Any Purchasing employee can time-stamp a formal solicitation and record the time and date received.
<p>Work paper Reference: (or other method by which finding was identified)</p>	<p>Work Paper #:1.B.2, 3.C, 4.A.1-5, and 4.A.6-7 Documentation and responses from Purchasing Department Review of Bid folders Purchasing Responses to Internal Control Questionnaire dated 9/03/14</p>
<p>Condition: (Describe the current condition)</p>	<p>Competitive Bids Purchasing in collaboration with the user departments prepare bid specifications for various goods or services to be procured. Depending on eligibility for bid exemption, Commissioners Court is briefed and the bid is let. Bids are advertised in accordance with County policy and statute. Purchasing actively seeks vendors by sending a copy of the proposal to known vendors that can supply the goods or services, to other vendors that have requested to receive a copy, and to M/WBE vendors on file or to those provided by the Minority Business Officer. Development of bid normally accomplished in 2 month period, and address operations, financial and legal issues. Bid proposals are time stamped as received to denote receipt prior to the cut-off time on the closing date. Commissioners Court approves opening the bids. The bids are opened by Purchasing. A master tabulation sheet is prepared to record scores for the various responses. For bids that require scoring by an evaluation committee, Purchasing is the central point of gathering the scores and combining together. A separate M/WBE vendor score is submitted by the Minority Business Officer. Commissioners Court is briefed on the proposals received and an award of the bid is</p>



	<p>approved and court ordered. For each sealed bid let, all bid related supporting documentation including one proposal submitted by each responding vendor should be retained in a master bid folder. Purchasing moderates all discussions during the contract negotiation phase and affirms that requisite county specific language is incorporated before submitting the contract for Commissioners Court approval.</p> <p>Requisition: Departments submit requisitions electronically for bid and non-bid goods or services to Purchasing. Departments may identify providers of the goods or services, but the individual buyer is responsible (However, Purchasing relies <u>solely</u> on other department to maintain records related to purchases without Purchasing involvement) for compliance with County code and state statutes prior to the issuance of a Purchase Order (PO). The buyer consults with the Minority Business Officer (MBO) for the names of MBE/WBE firms. The buyer contacts a requisite number of vendors in accordance with the County code based on the dollar value of the goods or service. On occasion the buyer is not able to contact the number of vendors stipulated in the County code due to a limited number of vendors offering the product or service.</p> <p>Exceptions to Competitive Bids Departments may brief Commissioners Court on professional service contracts without involvement of Purchasing. Practice considered consistent with laws because it does not involve the purchase of supplies, materials, and equipment or contracts for repairs to county property and legal review of ensuing contracts is completed.</p> <p>Annual renewal of Sole Source court orders is not completed for submission to Commissioners Court.</p> <p>Select DIR, Cooperative Programs, Interlocal Agreements Items are purchased through various government procurement programs without separate research and analysis by Purchasing for lower available prices by briefing Commissioners Court. Purchases are considered consistent with laws regarding cooperative purchasing program participation and other statutes allowing purchases to be made through Interlocal agreements. Interlocal agreements are subject to legal review of ensuing contracts.</p>
<p>Criteria: (Describe the optimal condition)</p>	<p>Management judgment in designing, implementing and conducting internal control, and in assessing its effectiveness is emphasized in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Internal control requires that five core components be present: Control Environment; Risk Assessment; Control Activities, Information and Communication; and Monitoring Activities. Specific controls related to procurement control procedures include:</p> <ul style="list-style-type: none"> • Bi-annual recertification of sole source awards • Periodic comparison of federal government suspended or debarred vendors to a list of current or potential County vendors, • Retention of procurement documents related to Grant funding in accordance with applicable OMB Circulars. <p>Dallas County Purchasing operates a centralized purchasing system where the purchasing agent performs or supervises the following:</p> <ul style="list-style-type: none"> - Acquisition of all goods and services - Prepare and issue solicitations and ensure that the selection process is in compliance with the Local Government Code and Dallas County Code - Issue purchase orders for goods and services



Local Government Code, § 262.011:

- (d) The county purchasing agent shall purchase all supplies, materials, and equipment required or used, and contract for all repairs to property used, by the county or a subdivision, officer, or employee of the county, except purchases and contracts required by law to be made on competitive bid. A person other than the county purchasing agent may not make the purchase of the supplies, materials, or equipment or make the contract for repairs.
- (e) The county purchasing agent shall supervise all purchases made on competitive bid and shall see that all purchased supplies, materials, and equipment are delivered to the proper county officer or department in accordance with the purchase contract.

Dallas County Code, Sec. 94-123. Procurement sealed bid process. (Court Order 2011-1858)

- (a) Specific procedures as required by law and reflected in Vernon's Ann. Civ. St. and V.T.C.A., Local Government Code ch. 262 are followed by the county in the procurement of goods and services where the cost exceeds **\$50,000.00**.
- (b) The majority of the county bids are firm fixed price bids with the exception of certain contracts for the purchase of highly volatile material such as petroleum and oil products (POL) where various rates are controlled by state regulatory agencies.
- (c) The county solicits bids for basically two different types of contracts: definite delivery/quantity contracts, and indefinite quantity contracts (annual requirements for goods and services).
- (d) Advertisements for bids according to specifications given in detail as to what is needed is made by the county purchasing agent once each week for two successive weeks in local newspapers published and circulated in the county. Circulation must be adequate to cover general and minority business communities. Information that is required in the advertisement is outlined in V.T.C.A., Local Government Code § 262.025.

Local Government Code, § 262.023. COMPETITIVE REQUIREMENTS FOR CERTAIN PURCHASES. (a) Before a county may purchase one or more items under a contract that will require an expenditure exceeding

\$50,000, the commissioners court of the county must:

- (1) comply with the competitive bidding or competitive proposal procedures prescribed by this subchapter;
- (2) use the reverse auction procedure, as defined by Section 2155.062(d), Government Code, for purchasing; or
- (3) comply with a method described by Chapter 2267, Government Code.

(c) In applying the requirements established by Subsection (a), all separate, sequential, or component purchases of items ordered or purchased, with the intent of avoiding the requirements of this subchapter, from the same supplier by the same county officer, department, or institution are treated as if they are part of a single purchase and of a single contract. In applying this provision to the purchase of office supplies, separate purchases of supplies by an individual department are not considered to be part of a single purchase and single contract by the county if a specific intent to avoid the requirements of this subchapter is not present.

Local Government Code, § 262.024. DISCRETIONARY EXEMPTIONS. (a) A contract for the purchase of any of the following items is exempt from the requirement established by Section 262.023 if the commissioners court by order grants the exemption:

- (1) an item that must be purchased in a case of public calamity if it is necessary to make the purchase promptly to relieve the necessity of the citizens or to preserve the property of the county;
- (2) an item necessary to preserve or protect the public health or safety of the residents of the county;
- (3) an item necessary because of unforeseen damage to public property;



- (4) a personal or professional service;
 - (5) any individual work performed and paid for by the day, as the work progresses, provided that no individual is compensated under this subsection for more than 20 working days in any three month period;
 - (6) any land or right-of-way;
 - (7) an item that can be obtained from only one source, including:
 - (A) items for which competition is precluded because of the existence of patents, copyrights, secret processes, or monopolies;
 - (B) films, manuscripts, or books;
 - (C) electric power, gas, water, and other utility services; and
 - (D) captive replacement parts or components for equipment;
 - (8) an item of food;
 - (9) personal property sold:
 - (A) at an auction by a state licensed auctioneer;
 - (B) at a going out of business sale held in compliance with Subchapter F, Chapter 17, Business & Commerce Code; or
 - (C) by a political subdivision of this state, a state agency of this state, or an entity of the federal government;
 - (10) any work performed under a contract for community and economic development made by a county under Section 381.004; or
 - (11) vehicle and equipment repairs.
- (b) The renewal or extension of a lease or of an equipment maintenance agreement is exempt from the requirement established by Section 262.023 if the commissioners court by order grants the exemption and if:
- (1) the lease or agreement has gone through the competitive bidding procedure within the preceding year;
 - (2) the renewal or extension does not exceed one year; and
 - (3) the renewal or extension is the first renewal or extension of the lease or agreement.
- (c) if an item exempted under Subsection (a)(7) is purchased, the commissioners court, after accepting a signed statement from the county official who makes purchases for the county as to the existence of only one source, must enter in its minutes a statement to that effect.
- (d) The exemption granted under Subsection (a)(8) of this section shall apply only to the sealed competitive bidding requirements on food purchases. Counties shall solicit at least three bids for purchases of food items by telephone or written quotation at intervals specified by the commissioners court. Counties shall award food purchase contracts to the responsible bidder who submits the lowest and best bid or shall reject all bids and repeat the bidding process, as provided by this subsection. The purchasing officer taking telephone or written bids under this subsection shall maintain, on a form approved by the commissioners court, a record of all bids solicited and the vendors contacted. This record shall be kept in the purchasing office for a period of at least one year or until audited by the county auditor.

Local Government Code, § 262.003. SMALL, SOLE-SOURCE PURCHASE EXEMPT FROM COMPETITIVE BIDDING.

- (a) Any law that requires a county to follow a competitive procurement procedure in making a purchase requiring the expenditure of \$50,000 or less does not apply to the purchase of an item available for purchase from only one supplier.
- (b) If a county makes a purchase covered by Subsection (a), the county auditor or other appropriate county officer or employee may not refuse payment for the purchase because a competitive bidding procedure was not followed.

Dallas County Code, Sec. 94-157. Sole source awards.

- (a) Sole source contracts may be awarded pursuant to V.T.C.A., Local Government Code §



262.024.

(b) All recommendations for award to sole source supplies must first be briefed to the commissioners court. The briefing should include a three-year history of the county's experience with the company and product, cost considerations including increase/decrease in demand, etc.

(c) If the commissioners court approves the recommendation, a sole source court order must be presented for award. The court order must include the following:

- (1) Name of company;
- (2) Product of service;
- (3) Cost;
- (4) Contract period.

Local Government Code, § 271.102. COOPERATIVE PURCHASING PROGRAM PARTICIPATION. (a) A local government may participate in a cooperative purchasing program with another local government or a local cooperative organization.

Government Code, 791.001. PURPOSE. The purpose of this chapter is to increase the efficiency and effectiveness of local governments by authorizing them to contract, to the greatest possible extent, with one another and with agencies of the state.

Dallas County Code, Sec. 94-214. Intergovernmental contracts.

All of the county intergovernmental contracts and agreements shall be governed by the InterLocal Cooperation ACT, V.T.C.A., Government Code § 791.001 et seq.

Dallas County Code, Sec. 74-395. Negotiation of lease.

After departmental review, facilities maintenance will negotiate a lease for the space, making certain that all necessary clauses are include and that costs are appropriate.

Dallas County Code, Sec. 74-396. Community assessment.

For community supervision and correction leases, or like agencies, facilities maintenance will perform a community assessment based on approved guidelines and prepare a report.

Dallas County Code, Sec. 94-121. - Requirements.

(a) *Adherence to state law.* The purchasing department will adhere to the state purchasing laws and limits as governed by the County Purchasing Act pursuant to Vernon's Ann. Civ. St. or V.T.C.A., Local Government Code ch. 262.

DIVISION 3. - TECHNOLOGY THROUGH THE STATE QUALIFIED INFORMATION SYSTEM VENDOR (QISV) PROGRAM

Dallas County Code, Sec. 94-465. - Proposals to be approved by commissioners court.

All requests for offer (RFO) to be purchased through the state QISV program with an anticipated cost exceeding \$25,000.00 shall be approved by the commissioners court prior to placement on the QISV system. The RFO must include detailed specifications of the item(s) to be purchased.

Dallas County Code, Sec. 94-466. - Posting.

The purchasing department must electronically post information on the state's Electronic business daily website about the procurement for all purchases exceeding \$25,000.00 in compliance with the state requirements of 14 days if the entire RFO is posted on the site, or if notice only is posted, 21 days. The RFO may also be posted on the county's procurement website or otherwise advertised. The posting time may be extended by order of commissioners court.

Dallas County Code, Sec. 94-467. - Minimum number of offers.

In order to make a purchase exceeding \$2,000.00, the purchasing department must first seek and



	<p>obtain offers from at least three certified qualified information system vendors. The number of vendors may be increased by commissioners court based on the specific purchase/RFO.</p> <p>CSCD lease agreements are initiated by Facilities Management department in accordance with Dallas County Code.</p>					
<p>Cause: (Describe the cause of the condition if possible)</p>	<p>Incomplete training and supervisory review</p>					
<p>Effect: (Describe or quantify any adverse effects)</p>	<p>Risk that documentation requested by third parties cannot be provided. Non-compliance with records retention requirements, state statutes, and county policy. Potential for payment of higher cost if bid/contract is extended/renewed without research and analysis of current market prices.</p>					
<p>Recommendation: (Describe corrective action)</p>	<ul style="list-style-type: none"> • Purchasing Agent should supervise all purchases in accordance to Local Government Code, § 262.011 and Dallas County Code including: <ul style="list-style-type: none"> - Independently research product pricing on a sample basis for the lowest/best available price prior to the use of available procurement programs with the State and other governmental entities. - Discourage user departments from buying items not on bid by not approving the requisitions, and in case of items already procured, items should be returned. - Create a check list of all bid components and retain in the bid file - Make a copy of all bid documentation and provide to Accounts Payable - Stamp all bid proposals upon receipt with the time - Complete a review of bid folders by supervisory personnel on a periodic basis • All bid documentation should be retained the later of records retention schedules or audit completion date. • All bids scheduled to be opened on a particular day must be listed on the Commissioners Court agenda in accordance with Dallas County Code Section 94-154. Bids should be opened in the presence of at least two Purchasing Department employees. • Expand written policies and procedures for all Dallas County purchasing procurement actions, including pricing and negotiations including: <ul style="list-style-type: none"> - Verifying compliance with cooperative base contracts - Renewal of sole source court orders - Pricing / negotiation - Standard specifications • Policies and procedures should be updated to reflect changes due to automation and/or statutory changes and incorporate into the Dallas County Code as applicable upon approval by Commissioners Court. 					
<p>Responsible Department or Organization:</p>	<p>Purchasing Department</p>					
<p>Management's Response:</p>	<input type="checkbox"/> Agree	<input type="checkbox"/> Disagree	<p>Respondent:</p>	<p>Daniel R. Garza, Purchasing Director</p>	<p>Date:</p>	<p>12/21/2015</p>
<p>Comments:</p>	<p><i>All formal solicitations are forwarded to Commissioners Court requesting the Authority to Advertise. The requesting department is required to sign-off/approve the solicitation before it is released to the public. The Purchasing Department advertises the notice in the local newspaper circulation, prepares bid list(s), schedules site visits, pre-bid/proposal conference and issues addendums as needed.</i></p> <p><i>The Purchasing Department will additionally advertise the Formal Solicitation utilizing the Commissioners Court approved BidNet System. The system will maximize competition and allows the Purchasing Department to up-load award and bid tabulation information.</i></p>					



	<p><i>RFP Process: The Purchasing Department staff will provide the Evaluation Team with Proposal Score Sheets and present a training session discussing "roles and responsibilities." The Evaluators pick-up the proposals and sign a confidentiality statement. All Evaluation Team Members provide the Purchasing Department with their "individual" score sheets in order for Purchasing to determine the highest ranked vendor. The M/WBE Program Office verifies and scores the M/WBE portion of the RFP responses, which is captured in the overall score sheet matrix. When the highest ranked vendor is determined based on the evaluation criteria, Commissioners Court is briefed requesting the Authority to Negotiate. The District Attorney's Office is contacted to assist with developing the Agreement. Negotiations commence involving the User Department, Purchasing, and the Vendor. When successful negotiations are reached, a Commissioner Court agenda item is submitted requesting the Authority to Execute the Agreement.</i></p> <p><i>The B2GNow System will be utilized as a Contract Management Resource to track the active Agreement in areas of the term, sub-vendor information, payments, diversity and commodity codes to include insurance requirements.</i></p> <p><i>The Invitation for Bid (IFB) process requires the same requirements as the RFP process except award recommendation is made to the Lowest and Best Responsible Bid.</i></p>
Disposition:	<input checked="" type="checkbox"/> Audit Report <input type="checkbox"/> Oral Comment <input type="checkbox"/> Deleted From Consideration



Finding Number: 14-Pur-01-03
Date: March 26, 2015
Audit: Purchasing Department – Purchases below \$50,000
Auditor(s) Assigned: TB

<p>Finding:</p>	<p>Purchases below \$50,000: A sample review of Purchasing documentation for purchases below \$50,000 from FY2013 to partial FY2014 (March 31, 2014) revealed:</p> <ul style="list-style-type: none"> • Twelve (30%) of 40 vendors with purchases missing quotation phone documentation. Phone quote documentation is not consistently retained by the buyers (and/or attached as a document within Oracle). • Sixteen (40%) of 40 vendors with purchases not reflecting M/WBE firms contacted or whether goods or services were not available from M/WBE firms. No written documentation (and/or attached as a document within Oracle) exists from M/WBE section to indicate the vendors that are M/WBE firms for purchases requiring quotes from M/WBE firm. • Twelve (30%) of 40 vendors with purchases missing quotation written documentation. Written quote documentation is not consistently retained by the buyers (and/or attached as a document within Oracle). • Six (40%) of 15 vendors with purchases reflected as sole source or with only one quote without reference to a recent briefing/court order. Three of the six without sufficient specificity to justify sole source as similar product/service vendors available. <p>Departmental responses to the Internal Control Questionnaire (ICQ) and inquiry of Purchasing department staff revealed:</p> <ul style="list-style-type: none"> • Purchasing relies solely on other departments to maintain records related to the purchases without Purchasing involvement. • Vendor designation as sole source is not for a defined period. • Purchasing department buyers do not rotate responsibilities.
<p>Work paper Reference: (or other method by which finding was identified)</p>	<p>Work Paper # 1.B.2, 4.B, 4.D Purchasing Responses to Internal Control Questionnaire dated 9/03/14</p>
<p>Condition: (Describe the current condition)</p>	<p>Departments submit requisitions electronically for non-bid goods or services to Purchasing. Departments may identify providers of the goods or services, but the individual buyer is responsible for compliance with County code on the number of phone or written solicitations required prior to the issuance of a Purchase Order (PO). Reliance is placed on documentation provided by user department. The buyer consults with the Minority Business Officer (MBO) for the names of MBE/WBE firms. The buyer contacts a requisite number of vendors in accordance with the County code based on the dollar value of the goods or service. On occasion the buyer is not able to contact the number of vendors stipulated in the County code due to a limited number of vendors offering the product or service. The buyers document the phone quotes on a phone quotation sheet form, but does not consistently retain the form or append as an attachment to the Purchase Order in Oracle. The buyer will issue a PO to the vendor with the lowest noted quote and involves legal as needed to draft/approve any contract. Vendor retains the right to refuse delivery or performance if they do not agree with the PO terms including the price.</p> <p>For items costing between \$10,000.00 and \$49,999.99, the buyer contacts a requisite number of vendors for written solicitation (or uses State procurement programs and interlocal cooperative purchasing agreements). Written quotes received are evaluated by the buyer with a PO issued to the selected vendor. For instances where requisite number of bids are not obtained, a Commissioners Court briefing is not consistently submitted.</p> <p>For items costing between \$0.01 and \$9,999.99, the buyer contacts a requisite number of vendors for phone solicitation (or uses State procurement programs and interlocal cooperative purchasing agreements).</p> <p>Items are purchased through various government procurement programs without confirming research and analysis by Purchasing for lower available prices. Purchasing depends solely on the respective entity that solicited or executed the agreement; and does not individually validate that the price is the best value for the</p>



	<p>county.</p> <p>Quote documentation sheets are inconsistently retained and do not evidence the vendor's minority status.</p>
<p>Criteria: (Describe the optimal condition)</p>	<p>Management judgment in designing, implementing and conducting internal control, and in assessing its effectiveness is emphasized in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Internal control requires that five core components be present: Control Environment; Risk Assessment; Control Activities, Information and Communication; and Monitoring Activities. Specific controls related to procurement control procedures require that:</p> <ul style="list-style-type: none"> • All written quotes, phone quotes, and documentation related to minority businesses should be affirmed and documented prior to PO issuance. • All documentations should be retained according to State retention policy, Dallas County Code, and OMB Circulars for goods/services purchased with Grant funding. • Bi-annual recertification of sole source awards <p>Dallas County Code Sec. 94-121 (d) Participation of minority businesses. Minority businesses will be encouraged to participate in the bid process. (e)quotations will be based on established standards and specifications whenever possible.</p> <p>Dallas County Code Sec. 94-122 Procedures for less than \$50,000 as updated by Court Order No. 2011-1858 (unless exempted by order of Commissioners Court under LGC 262):</p> <ol style="list-style-type: none"> (1) MBE/WBE bidding requirements. Refer to minority business policy, article III, division 3 of this chapter, for specific requirements. (2) <i>\$0.01--\$2,499.99.</i> If an M/WBE firm is available, 2 phone quotes will be obtained (1 of which must be an M/WBE firm) and documented on a phone quote sheet form; otherwise 1 phone quote is acceptable. The MBO officer will furnish the buyers with the names of the M/WBE firms. (3) <i>\$2,500.00--\$9,999.99.</i> A minimum of three phone quotes will be obtained (1 of which must be an M/WBE firm) and documented on the phone quotation sheet form. The MBO officer will furnish the buyers with the names of the M/WBE firms. If the above requirements cannot be satisfied, the buyer must provide written justification as to why three phone quotes could not be obtained. Written quotations may also be used in lieu of the phone quotations at the discretion of the buyer. (4) <i>\$10,000.00--\$24,999.99.</i> A minimum of four written quotes will be required and documented including a minimum of two M/WBE firms. The MBO officer will furnish the buyers with the names of MBE/WBE firms. A written quotation will be required verifying the price quoted, quantity, description, delivery, terms, etc. If the minimum number of written quotes cannot be obtained, an explanation must be furnished and kept on file with the purchase order. (5) <i>\$25,000.00--\$49,999.99.</i> A minimum of five written quotes will be required and documented, including a minimum of three M/WBE firms. The MBO officer will furnish the buyers with the names of M/WBE firms. If the minimum number of written quotes cannot be obtained, an explanation must be furnished and kept on file with the purchase order. (6) Regardless of the value of items requested, all requisitions and purchase orders must have supporting pricing documentation. Documentation can include but not be limited to: price lists, catalog pricing, telephone documentation, vendor quote sheet, etc. However, a price list or catalog price does not exclude the requirement for obtaining more than one quote. <p>Dallas County Code Sec. 94-274. Documentation of rotation of bidder solicitations. The purchasing department should document the rotation of bidder solicitations (under \$5,000.00), to ensure that disadvantaged vendors, suppliers and contractors are given an ample opportunity to profit from the process, and provide periodic reports to the Commissioners Court.</p> <p>Local Government Code, § 262.003. SMALL, SOLE-SOURCE PURCHASE EXEMPT FROM COMPETITIVE BIDDING.</p> <ol style="list-style-type: none"> (a) Any law that requires a county to follow a competitive procurement procedure in making a purchase requiring the expenditure of \$50,000 or less does not apply to the purchase of an item available for purchase from only one supplier. (b) If a county makes a purchase covered by Subsection (a), the county auditor or other appropriate county officer or employee may not refuse payment for the purchase because a competitive bidding procedure was



	<p>not followed.</p> <p>Dallas County Code, Sec. 94-157. Sole source awards. (a) Sole source contracts may be awarded pursuant to V.T.C.A., Local Government Code § 262.024. (b) All recommendations for award to sole source supplies must first be briefed to the commissioners court. The briefing should include a three-year history of the county’s experience with the company and product, cost considerations including increase/decrease in demand, etc. (c) If the commissioners court approves the recommendation, a sole source court order must be presented for award. The court order must include the following: (1) Name of company; (2) Product of service; (3) Cost; (4) Contract period.</p> <p>Local Government Code Sec. 262.011: (d) The county purchasing agent shall purchase all supplies, materials, and equipment required or used, and contract for all repairs to property used, by the county or a subdivision, officer, or employee of the county, except purchases and contracts required by law to be made on competitive bid. A person other than the county purchasing agent may not make the purchase of the supplies, materials, or equipment or make the contract for repairs. (e) The county purchasing agent shall supervise all purchases made on competitive bid and shall see that all purchased supplies, materials, and equipment are delivered to the proper county officer or department in accordance with the purchase contract.</p> <p>V.T.C.A., L.G.C., § 271.102. COOPERATIVE PURCHASING PROGRAM PARTICIPATION. (a) A local government may participate in a cooperative purchasing program with another local government or a local cooperative organization.</p> <p>V.T.C.A., Government Code, 791.001. PURPOSE. The purpose of this chapter is to increase the efficiency and effectiveness of local governments by authorizing them to contract, to the greatest possible extent, with one another and with agencies of the state.</p> <p>Comprehensive purchasing policies and procedures exist to promote internal controls and transparency in every aspect of the procurement process.</p>
<p>Cause: (Describe the cause of the condition if possible)</p>	<p>Inconsistent application of policies and procedures Insufficient supervisory review Incomplete retention of phone quote sheets and written quote documentation M/WBE vendor documentation not received from the MBO officer or not retained</p>
<p>Effect: (Describe or quantify any adverse effects)</p>	<p>Non-compliance with records retention requirements, state statutes, County policy, and/or OMB circulars. Risk of Dallas County not receiving the best value on purchases in compliance with statutes and Dallas County Codes. Decreased control over procurement process increases potential for fraud as well as exposure to criticism and lawsuits.</p>
<p>Recommendation: (Describe corrective action)</p>	<ul style="list-style-type: none"> • Purchasing Agent should supervise all purchases in accordance to Dallas County Code including: <ul style="list-style-type: none"> - Requiring buyers to use a checklist to ensure all requirements are met. Attaching checklist with required documents to purchase order in Oracle. - Ensuring phone quotation sheet is used consistently - Requesting written documentation related to M/WBE firms - Supervising oversight on purchases to ensure requirements are being met • Purchasing should maintain all documentation (phone quote sheets and written quotes electronically attached to Purchase Order within Oracle) related to procurement actions in accordance with state retention policy, County code, and grantor requirements. • Sole source designation should be verified, briefed and court ordered bi-annually. • The Purchasing department should expand written policies and procedures for all Dallas County purchasing procurement actions. • Policies and procedures should be updated to reflect changes due to automation and/or statutory changes



	and incorporate into the Dallas County Code as applicable upon approval by Commissioners Court.				
	<ul style="list-style-type: none"> Purchasing should develop plan to have buyers rotate responsibilities. 				
Responsible Department or Organization:	Purchasing Department				
Management's Response:	<input type="checkbox"/> Agree	<input type="checkbox"/> Disagree	Respondent:	Daniel R. Garza, Purchasing Director	Date: 12/21/2015
Comments:	<p><i>The Purchasing Department received Commissioners Court approval to utilize BidNet to advertise all informal and formal solicitations. The system allows the Purchasing Department staff to create an informal Request for Quote "electronically." Vendors will have the ability to respond electronically allowing the Purchasing Department to create an electronic price-quote-tabulation. Vendors can be sourced through BidNet based on Commodity Codes. MWBE vendors will be contacted for additional Minority and Woman Owned Business Enterprise participation. This action far exceeds the minimum vendor and MWBE contact requirements and provides for further transparency.</i></p>				
Disposition:	<input checked="" type="checkbox"/> Audit Report	<input type="checkbox"/> Oral Comment	<input type="checkbox"/> Deleted From Consideration		



Finding Number: 14-Pur-01-04
Date: October 28, 2014
Audit: Purchasing Department – FY13 thru FY14 Partial
Auditor(s) Assigned: TB

<p>Finding:</p>	<p>Price Analysis: Review sample of 49 purchases from Home Depot invoices to unit price offered at Homedepot.com and sample of 51 purchases from Staples invoices to unit price offered at Staples.com revealed:</p> <ul style="list-style-type: none"> • Four (8.16%) of 49 items invoiced at a higher price to the County than the price offered to the general public at Homedepot.com. (Disclosure: public prices were checked by audit staff on the date of review and may vary from the price offered to the public on the original date of purchase.) • Five (9.8%) of 51 items invoiced at a higher price to the County than the price offered to the general public at Staples.com. (Disclosure: public prices were checked by audit staff on the date of review and may vary from the price offered to the public on the original date of purchase.) <p>Review of 41 bid items purchased from various vendors previously awarded contracts to unit prices offered to the general public by competitors revealed:</p> <ul style="list-style-type: none"> • Seven (17.1%) of 41 items available at lower prices to the general public. (Disclosure: unit prices checked by audit staff may include special online discounts not available on an ongoing basis.) <p><u>Other Controls</u></p> <ul style="list-style-type: none"> • No documentation exists to indicate that Purchasing is verifying sample of prices to ensure Dallas County is receiving the best prices • Contracts executed by cooperatives used by Dallas County may contain provisions which allow for price adjustments. Price analysis/comparisons including pricing impact for earlier effective dates or other options (maintenance, volume, etc.) are not evidenced. <p>Departmental responses to the Internal Control Questionnaire (ICQ) and inquiry of Purchasing department staff revealed:</p> <ul style="list-style-type: none"> • Purchasing Department provides a list of awarded items to user departments for open Purchase Orders.
<p>Work paper Reference: (or other method by which finding was identified)</p>	<p>Work paper # 7.A and #7.A (2) Review of Home Depot invoices and public website Review of Staples invoices and public website Purchasing Responses to Internal Control Questionnaire dated 9/03/14</p>
<p>Condition: (Describe the current condition)</p>	<p>Purchasing is involved in the cost/price analysis of bids solicited/awarded by Dallas County, but to a limited extent for state and cooperative agreements handled by the other entities.</p> <p>Purchasing coordinates the preparation of RFP's and RFQ's with user departments and IT Services providing the necessary expert content and technical knowledge with the District Attorney (DA) Civil section providing the required legal review. Purchasing also facilitates the evaluation of the RFP's and RFQ's with the evaluation committee, but does not formally participate on the evaluation committee. Purchasing coordinates the BAFO process between the evaluation committee and the susceptible vendor(s). Purchasing submits briefings and court orders to Commissioners Court along with a recommendation from Purchasing and the evaluation committee.</p>



	<p>Prior to the expiration of contracts eligible for renewal, Purchasing will randomly check market prices for bid items (though no documentation was provided to support this occurs). Purchasing consistently contacts the user departments for feedback on the bid vendors as well as the contract manager for RFP's for agreement for prior contract extension. Purchasing submits briefings and court orders to Commissioners Court for consideration.</p> <p>Currently, there are no methods or tools that the Purchasing department uses to monitor the contractual terms after the award of the contract, especially prices, discounts, and rebates. Also off purchases are approved on an exception basis as reported by the County Auditor but not tracked as new information for bid renewals.</p> <p>Procurement procedures are not documented for assistant Purchasing agents reference regarding guidance on the various aspects of cost / price analysis.</p> <p>Periodically, county departments submit requisitions to Purchasing requesting open purchase orders (PO's) for the purchase operating commodities under the terms of the contract with Home Depot U.S.A., Inc. through the U.S. Communities National Cooperative Purchasing Program (Contract Number 11019-RFP). An open purchase order is issued to user departments. An open order is a Purchase order which has been issued to a vendor, against which specified purchases may be made for a specified period of time. When repeated purchases of the same type of supply items are expected, multiple purchase requisitions may be eliminated by submitting one purchase requisition to establish an open order. On occasion, the County is invoiced at a higher price than the general public.</p>
<p>Criteria: (Describe the optimal condition)</p>	<p>To ensure Dallas County receives the best price, the Purchasing Department needs to be able to monitor various prices and contractual terms, such as discounts and rebates, per bid specification and or quotes.</p> <p>Best practices regarding purchase policies of large government operations include:</p> <ul style="list-style-type: none"> • Tracking the quality, service and price performance of vendors. • Receiving ongoing training and supervision, the necessary analytical, business knowledge, and negotiation skills for the Assistant Purchasing agents. • Identifying current spending areas for the greatest opportunities for improvement through a thorough analysis of purchase transactions with emphasis on higher risk areas. • Developing an annual cost reduction plan for significant contracts. • Utilizing computer system to handle tasks and automate the price analysis process. • Centralizing procurement activities to one location to better manage actions. • Conducting negotiation with vendors considering market opportunity, volume, payment terms, and reliability. • Keeping product information and prices current and maintaining complete catalogues. <p>Procurements are conducted in accordance with state statutes and Dallas County Codes.</p> <p>Local Government Code, § 262.111 (f) A purchase made by the county purchasing agent shall be paid for by an electronic transfer, check, or warrant drawn by the county auditor on funds in the county treasury in the manner provided by law. The county auditor may not draw and the county treasurer may not honor an electronic transfer, check, or warrant for a purchase unless the purchase is made by the county purchasing agent or on competitive bid as provided by law.</p>



Cause: (Describe the cause of the condition if possible)	Lack of standardized methods and tools to monitor prices, discounts, and/or rebates. Lack of updated written departmental procurements policies/procedures.				
Effect: (Describe or quantify any adverse effects)	Dallas County may not receive the best overall value for the least cost. Contracts may not reflect needs of County or County may pay higher prices than the public. Increased departmental expenditures for items invoiced without full discount as stated in the state, cooperative, interlocal, and/or U.S. Communities agreements.				
Recommendation: (Describe corrective action)	<ul style="list-style-type: none"> • Monitor market prices periodically to determine whether the County is receiving the lowest price offered prior to the use of available procurement programs with the State and other government entities. • Perform analysis of master agreement prices annually prior to continued use of existing contracts. • Develop methods and tools necessary to monitor prices and discounts, and track rebates. 				
Responsible Department or Organization:	Purchasing Department				
Management's Response:	<input type="checkbox"/> Agree	<input type="checkbox"/> Disagree	Respondent:	Daniel R. Garza, Purchasing Director	Date: 12/21/2015
Comments:	<p><i>Upon contract renewals, the Purchasing Department will verify pricing against the Consumer Price Index (CPI) to determine if pricing is in accordance with the current market. This information can be used to determine if the requirement needs to be re-advertised. The following represents the Consumer Price Index Formula:</i></p> $CPI = \frac{\text{updated cost}}{\text{base period cost}} \times 100$				
Disposition:	<input checked="" type="checkbox"/> Audit Report		<input type="checkbox"/> Oral Comment		<input type="checkbox"/> Deleted From Consideration



Finding Number: 14-Pur-01-05
Date: October 28, 2014
Audit: Purchasing Department – FY13 thru FY14 Partial
Auditor(s) Assigned: TB

<p>Finding:</p>	<p>Miscellaneous <u>Contract Extensions</u> A sample review of 20 contract extensions granted from FY2013 to partial FY2014 (June 30, 2014) revealed:</p> <ul style="list-style-type: none"> • Three of 20 contract extensions did not show evidence of agreement by department heads or elected officials. <p><u>Vendor Insurance</u> A review of 356 Insurance exception notifications issued to vendors by Accounts Payable and copied to Purchasing from FY2013 to partial FY2014 (June 30,2014) revealed:</p> <ul style="list-style-type: none"> • Purchasing verifies the minimum insurance requirements prior to approving purchasing documents. • 356 first notices issued to vendors with insurance lapses during the original or renewal contract periods resulting in vendor payments withheld. <ul style="list-style-type: none"> • 33 second notices issued • 9 third notices issued <p><u>Budgetary Controls</u> A review of 131 Procurement exception letters issued to departments by Accounts Payable and copied to Purchasing revealed:</p> <ul style="list-style-type: none"> • 81 instances of purchases lacking evidence that purchases were made consistent with statute and Dallas County purchasing policy. • 41 instances of user department ordering non-bid items on open purchase orders. • Three instances of user departments ordering bid items from non-awarded vendors. • Six instances of user departments ordering items from an expired bid. <p>Departmental responses to the Internal Control Questionnaire (ICQ) and inquiry of Purchasing department staff revealed:</p> <ul style="list-style-type: none"> • Return of goods to suppliers is handled by user departments. Return Material to Vendor form is to be completed and sent to Accounts Payable, but not the Purchasing department. • Procedures are not in place to verify whether vendors providing goods and services under an award have not been suspended or disbarred by the federal government. <i>Response: The U.S. government System for Award Management (SAM) is verified for grant purchases.</i> • No means of communication exist for people to report suspected improprieties regarding bids, awards, contracts, pricing, negotiation, and use of or disposition of equipment. • Purchasing is unable to provide assurance that bids handled by other departments are in accordance to statute. • Department written procurement policy is not updated online, timely. • Dallas County Code has not been updated to reflect the automated requisition process.
<p>Work paper Reference: (or other method by which finding was identified)</p>	<p>Purchasing Responses to Internal Control Questionnaire dated 9/03/14 Work paper# 8.A.3 Contract Extensions Workpaper 8.B.1 Vendor Insurance Workpaper 8.C.2-4 Budgetary Controls</p>
<p>Condition: (Describe the current condition)</p>	<p>Purchasing issues different types of purchase orders, including open purchase orders. An open purchase order is intended to allow an open quantity and capped dollar amount of authorized bid or quote items with a specified vendor. User departments submit requisitions to Purchasing to obtain goods, supplies, and services. As items are subsequently ordered, received, invoiced, and RMR'ed, the Accounts Payable section of the Auditor's office reviews the invoices referencing open purchase orders for compliance with proper procurement procedures. Departments occasionally procure items without a requisition or purchase order.</p>



	<p>Items procured for non-bid items or awarded to another vendor are flagged as exceptions. An exception letter is prepared by Accounts Payable and submitted to the department with copies to Purchasing.</p> <p>Invoices are placed on hold and flagged as exceptions for vendors which are required to have insurance when the insurance is expired or insufficient. An exception letter is prepared by Accounts Payable and submitted to the vendor with copies to Purchasing and a listing of payments on hold is included on the Commissioners Court briefing agenda. Infrequently, Commissioners Court will authorize releasing payments on hold.</p> <p>Prior to the initial (or subsequent renewal periods) expiration of bids previously awarded, the Purchasing Department contacts the user department(s) for agreement in extending the bid. Unless unsatisfactory performance or poor quality of goods has been received, user departments will recommend an extension as allowed by the bid/proposal/contract. Purchasing Department will submit a form for an authorized representative of the vendor to sign agreeing to the extension. If the vendor agrees, the Purchasing Department will submit a briefing to Commissioners Court regarding the extension information with attachments including the vendor agreement.</p> <p>The Dallas County Code has not been updated to reflect the current automated requisition and purchase order process. Per Dallas County Code Sec. 94-91, Purchase orders <u>must be typed (six part form)</u> in a precise and clear manner to avoid unnecessary misunderstandings with a vendor.</p>
<p>Criteria: (Describe the optimal condition)</p>	<p>Per Dallas County Code, Sec. 94-73. Vendor insurance and bond requirements.</p> <p>(a) A vendor that conducts business with the county, whether it is for goods and/or services, must maintain lawful workers' compensation insurance meeting the requirements and liability limits in accordance with State of Texas Workers Act, V.T.C.A., Labor Code § 401.001 et seq. without interruption during the term of the contract, and any extension or renewal thereof with the following exceptions:</p> <ol style="list-style-type: none"> (1) Goods and services that are purchased from a contractor and the contractor do not enter county premises. (2) Goods and services that are purchased from a sole proprietorship/owner and the contractor as submitted an affidavit that it is unable to meet the minimum requirements of State of Texas Workers Act, V.T.C.A., Labor Code § 401.001 et seq. and the reason therefore. (3) Goods purchased with a value of less than \$50,000.00 and the contractor has limited entry onto county premises in the performance of the contract as determined by the purchasing department or the county risk manager. (4) Services purchased with a value of less than \$25,000.00 and the contractor has limited entry onto county premises in the performance of the contract as determined by the purchasing department or the county risk manager. <p>(b) Commercial general liability insurance coverage for the following:</p> <ol style="list-style-type: none"> (1) Premises operations; (2) Independent contractors; (3) Products/completed operations; (4) Personal injury; (5) Contractual liability; (6) Explosion, collapse, underground; (7) Broad form property damage, to include fire legal liability. <p>Such insurance shall carry limits of \$100,000.00 for bodily injury and property damage per occurrence with a general aggregate of \$300,000.00, and a products and completed operations aggregate of \$100,000.00. There shall not be any policy exclusion or limitations for contractual liability covering the contractor's obligations herein; personal injury/advertising liability; medical payments; fire damage, legal liability; broad form property damage, and/or liability for independent contractors, or such additional coverage or increase in limits specifically contained within the bid specifications.</p> <p>(c) Bidders will be required to submit with their bids an insurance broker affidavit signed by the bidder and their insurance broker(s) assuring that the bidder will be able to obtain the required coverage(s) within ten days.</p> <p>(d) Within ten days after contract award and prior to commencement of any work, the purchasing agent requires the successful vendor to submit verification of the following, showing the county as the certificate holder (general liability insurance coverage) with coverage dates inclusive to that of the awarded contract:</p>



- (1) Workers' compensation meeting the acceptable requirements as established by the State of Texas Workers Act, V.T.C.A., Labor Code § 401.001 et seq.; or
- (2) An affidavit signed by the owner of a firm stating that his business is unable to meet the minimum requirements of State of Texas Workers Act, V.T.C.A., Labor Code § 401.001 et seq. and the reason therefore.
- (3) General liability insurance meeting the acceptable limits as established in subsection (b) above and/or those limits specifically contained within the bid specifications.
- (e) All county employees who supervise work contracts shall verify that contractors have workers' compensation insurance in place before contractor's employees are allowed on county property. The insurance certificates shall be forwarded to the purchasing agent.
- (f) Any insurance policy where the insurance carrier or any other party shall or may have the right of subrogation against the county, including, but not limited to workers' compensation and general commercial liability insurance, such policy shall contain a waiver of subrogation endorsement, waiving the insurance carrier's right of recovery under subrogation or otherwise.
- (g) The purchasing agent is responsible for contacting vendors and ensuring their insurance coverage is in compliance with the bid requirements, while the contract is in place. The purchasing agent will notify department contract managers when a revised contractor's insurance certificate has not been received. The contract will be suspended until a current insurance certificate has been received by the purchasing agent. The purchasing agent is responsible for assisting the department in obtaining the goods and services through an alternative method until the contractor is in compliance with the bid's insurance requirements.
- (h) Failure to comply with lawful requirements or adequate liability requirements may result in either delay of payments, subject to the orders of the commissioners court not to exceed a period of up to two years from the termination of the contract, or cancellation of the contract or both.
- (i) Bid, performance, and payment bonds will be required on all bids, proposals and contracts in the following situations:
- (1) [When] required by statute;
 - (2) When required specifically in grant funds;
 - (3) When required in the County solicitation; or
- any other situation as determined by the purchasing agent for solicitation and commissioners court in all other solicitations.
- (j) The county risk manager will review any insurance or bonding requirements not covered in this policy and in situations where county personnel feel that additional requirements might be necessary to properly protect the county.
- (k) Pursuant to V.T.C.A., Local Government Code § 262.0271, Dallas County may elect to give preference to bidders who provide health insurance coverage to the bidders' employees that is comparable to the coverage Dallas County provides to its employees. Comparable health insurance coverage consists of the bidder sharing in the cost of the insurance and that covered services are similar to those provided by Dallas County's most utilized health plan. If subcontractors are to be utilized, this preference will only be considered if the subcontractors also provide comparable health insurance coverage to the subcontractor's employees.
- (l) Any vendor or contractor whose insurance or worker's compensation coverage shall lapse during the term of the contract shall reimburse the county for any costs or attorney's fees incurred by the county in curing said default. There will also be retained by the county five percent of the value of the contract for a period of six months commencing on the date the lapse in coverage is cured to cover the county's potential exposure to liability during the period of the lapse.

Per Dallas County Code Sec. 94-71, Requisitions are the basis for every procurement action for supplies, materials, equipment and services. Therefore, it must correctly identify the requirement.

Per Dallas County Code Sec. 94-91, Purchase orders will be issued by the purchasing department only upon receipt of requisitions approved by the commissioner's court and certified for fund availability by the county auditor. The purchase order is the vendor's authority to deliver and charge for the goods or services specified in that order.

Per Dallas County Code Sec. 94-151, Once a need is determined, specifications outlining descriptive sizes, types and number of items and/or services is established by department, or officers of the county. Before any



	procurement action is taken, the agency must submit a requisition to the purchasing department. Specific instructions for completing requisitions are detailed in section 94-71. Requisitions received in the purchasing department will be time stamped and assigned to the buyer/analyst responsible for procuring the commodity or service.					
Cause: (Describe the cause of the condition if possible)	User department non-compliance with county procurement policies. Limited review of vendor insurance compliance prior to issuance of PO's and lack of automated verification tools. Contract manager from originating department does not monitor insurance compliance. Policies cancelled or not renewed during the contract term by the vendor. Dallas County Code not reflective of actual requisition/procurement process in place.					
Effect: (Describe or quantify any adverse effects)	Violation of contract/bid terms. Risk of purchasing item at higher than the awarded amount. Additional staff time to process adjustments and exception letters. Potential financial liability to Dallas County in the event accidents or injuries to the vendor's employees or injuries to others on County property.					
Recommendation: (Describe corrective action)	<ul style="list-style-type: none"> • Purchasing documentation related to contract extensions should be retained clearly indicating department approval or not regarding the extension. • All purchases should comply with statute and Dallas County Code before purchase orders are approved. • County policies and procedures should be updated to reflect changes due to automation and/or statutory changes and incorporated into the Dallas County Code as applicable upon approval by Commissioners Court. • Departmental written policies and procedures should be updated and expanded for all Dallas County procurement actions. • Confidential hotline should be developed for persons to report suspected improprieties regarding bids, awards, contracts, pricing, negotiation, and use of or disposition of equipment. • Insurance monitoring procedures for buyers should include: <ul style="list-style-type: none"> - Online/E-system for review of vendor insurance policies on file prior to release of purchase order - Monitor vendor insurance status and maintain computerized listing of policies including expiration dates and coordinate with departments on using substitute vendors in lieu of non-compliant vendors - Provide annual training or reminders to contract managers regarding insurance requirements - Cancel contracts with vendors that repeatedly default on insurance requirements. • Open Purchase Order procedures should include: <ul style="list-style-type: none"> - Issuance of open purchase orders for limited and restricted use. Users should include a clear and concise reference to items to be procured. - Tracking log and special training where exceptions to policy noted. 					
Responsible Department or Organization:	Purchasing Department					
Management's Response:	<input type="checkbox"/> Agree	<input type="checkbox"/> Disagree	Respondent:	Daniel R. Garza, Purchasing Director	Date:	12/21/2015
Comments:	<i>The Purchasing Director has coordinated with an external Legal Firm to assist with a Dallas County Purchasing Manual. A conference call with the Legal Team was held on December 17, 2015. The Manual is 85% completed. The Purchasing Director is in the process of addressing Emergency Management Operations requirements. The Legal Team is assisting with Alternative Delivery Method criteria relating to Facilities Services.</i>					
Disposition:	<input checked="" type="checkbox"/> Audit Report		<input type="checkbox"/> Oral Comment	<input type="checkbox"/> Deleted From Consideration		



Finding Number: 14-PUR-01-06
Date: 26-May-2015
Audit: Purchasing Department – FY13 thru FY14 Partial
Auditor(s) Assigned: YW, LA, MM

<p>Finding:</p>	<p>Property Controls A review of surplus property held in department 9915, auction activity, scrap disposals and related county procedures revealed:</p> <ul style="list-style-type: none"> • IT subcontractor creates detail listing of decommissioned computer equipment ready for sale, stacks on pallets and covers with shrink wrap for delivery to surplus warehouse for auction. Pallets are stacked too high/compactly to visually confirm contents without breaking open pallet shrink wrap. County staff does not verify all capitalized items placed on pallets have been listed / submitted to Commissioners Court for approval to remove from the property inventory system and sale at auction. • County’s surplus personal property is grouped into auction “lots” commingling multiple grant and other funding sources. • An inventory of items held in Surplus is not completed by Purchasing. • Public Service Program moves non-computer equipment from one location to another including to/from Surplus while the IT subcontractor moves any computer equipment. Purchasing staff does not confirm all items picked up by the IT subcontractor from County departments/grants is returned to the County on surplus pallets or through re-assignments. • Auction procedures are not documented in writing. • Scrap is disposed without the certification process specified by County procedures. <p>Departmental responses to the Internal Control Questionnaire (ICQ) and inquiry of Purchasing department staff revealed:</p> <ul style="list-style-type: none"> • An inventory report comprising of all property on hand and owned by the county is not filed on July 1st with the County Auditor and Commissioners Court as required by statute. • Purchasing relies on departments for grantor permission to dispose, sale, or salvage equipment. • A listing of equipment requiring annual maintenance contracts is not prepared. • A record of donated equipment is not maintained; Purchasing defaults this responsibility to the user department.
<p>Workpaper Reference: (or other method by which finding was identified)</p>	<p>Observations Questions raised by Purchasing staff subsequent to auctions Comparison of surplus listing and items on hand in surplus warehouse Purchasing Responses to Internal Control Questionnaire dated 9/03/14</p>
<p>Condition: (Describe the current condition)</p>	<p>General informal purchasing procedures include:</p> <ul style="list-style-type: none"> • creating auction list • briefing court to obtain approval to dispose • preparing digital pictures and descriptions for online sales • publishing auction list • conducting auction previews • observing auction or reviewing online history • receipting net proceeds from auctioneer
<p>Criteria:</p>	<p>Adherence to Local Government Code, Subchapter D. Chapter 263 Disposition of</p>



<p>(Describe the optimal condition)</p>	<p>salvage or surplus property.</p> <p>Original purchase funding source is identified when property is presented for auction. Auction proceeds are accurately and timely deposited in accordance with state law, Local Government Code, § 113.022 and procedures recommended by the County Auditor.</p> <p>According to Local Government Code Sec. 262.01, on July 1 of each year, the county purchasing agent shall file with the county auditor and each of the members of the board that appoints the county purchasing agent an inventory of all the property on hand and belonging to the county and each subdivision, officer, and employee of the county. The county auditor shall carefully examine the inventory and make an accounting for all property purchased or previously inventoried and not appearing in the inventory. To prevent unnecessary purchases, the county purchasing agent, with the approval of the Commissioners Court, shall transfer county supplies, materials, and equipment from a subdivision, department, officer, or employee of the county that are not needed or used to another subdivision, department, officer, or employee requiring the supplies or materials or the use of the equipment. The county purchasing agent shall furnish to the county auditor a list of transferred supplies, materials, and equipment.</p> <p>Per Dallas County Code Sec. 70-3611, all purchases of personal property valued at \$5,000 or more and Texas Department of Health grant purchases valued at \$1,000 or more shall be placed on the county inventory.</p> <p>Per Dallas County Code Sec. 90-351, state statutes specify that the purchasing agent control the property inventory system. Therefore, the purchasing agent is requested to enforce policy particularly in terms of transfers, sale and destruction of property. According to the statutes, the purchasing agent is responsible to ensure that the property inventory records are up to date and accurate in all respects.</p> <p>Per Dallas County Code Sec. 90-441, property items must be transferred to surplus in all cases where: a replacement item has been funded, purchased, and delivered; a reduction in force has been approved by the court resulting in an excess of property; and, damage to the item prevents its use.</p> <p>Per Dallas County Code Sec. 90-442, items will be physically transported to a storage location by the facilities management department and evaluated for possible reuse by the purchasing agent, county auditor, and facilities management director.</p> <p>Per Dallas County Code Sec. 90-443, the purchasing agent will maintain a list of surplus property with proper coding in terms of condition, and make it available to the budget office for possible reuse recommendation purposes. This list shall be updated monthly so that a current list is available at all times.</p> <p>Per Dallas County Code Sec. 90-444, the purchasing agent, county auditor, budget director, and facilities management director (i.e., scrap committee) will jointly recommend property to be sold at auction or through sealed bid and secure the court's specific action prior to selling any property.</p> <p>Per Dallas County Code Sec. 90-445, other items will be evaluated by the scrap</p>
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	<p>committee described in section 90-444, and be destroyed upon their certification as scrap after approval by commissioners court.</p> <p>Per Dallas County Code Sec. 90-446, the report of property transfer Form No. 280 shall be used for all such transfers to surplus.</p> <p>Per Dallas County Code Sec. 90-471, all property is to be properly identified by property number, description, and location.</p> <p>Per Dallas County Code Sec. 90-371, the facilities management department is responsible for the physical transport of all property as well as the safe storage of all surplus property.</p> <p>Per Dallas County Code Sec. 90-372, the auditor is responsible for auditing the physical inventory of property.</p> <p>Per Dallas County Code Sec. 90-373, all department heads and elected officials are responsible for maintaining property assigned to their department, proper inventory records, and making appropriate reports as required.</p> <p>Per Dallas County Code Sec. 90-313, the transfer of property, either interdepartmental, or from surplus must be approved by Commissioners Court; all items approved for replacement purposes will result in the used item being transferred to surplus for disposition; all items of property shall be stored in a safe place and protected against misuse, theft and vandalism; and, property shall be deleted from inventory records only through commissioners court approval prior to and as a result of a recommendation to sell or certification as scrap by the scrap committee consisting of the county auditor, purchasing agent, budget director and facilities management director, or their designees.</p>
<p>Cause: (Describe the cause of the condition if possible)</p>	<p>Oversight Incomplete listing of surplus items sent for auction Incomplete application of statutory and County property inventory control procedures</p>
<p>Effect: (Describe or quantify any adverse effects)</p>	<p>Inaccurate property inventory records – items sold at auction remain on the Surplus Department 9915 inventory listing. Potential County liability for insufficient control over grant equipment. Estimates used to allocate auction proceeds rather than actual sales of property by original purchase funding source.</p>
<p>Recommendation: (Describe corrective action)</p>	<ul style="list-style-type: none"> • Detailed written purchasing procedures should be developed for the proper handling and disposition of property including auction procedures to ensure compliance with statutes, County code, and grant contracts. • Grantor approval to dispose, sale, or salvage should be verified prior to inclusion of grant equipment in auctions. • County Surplus Storefront should be considered to provide physical access to surplus property so County property is used to the fullest extent of potential. • A list of surplus items should be created, maintained, and updated and provided to County departments on a monthly basis. • Similar property items should be segregated by funding source into auction “lots” to facilitate proper revenue recognition. • Purchasing staff should create detailed auction lists from items on hand in



	<p>surplus (no longer needed/serviceable for County business) using processed property transfer forms. Details should include available County property numbers and associated serial numbers.</p> <ul style="list-style-type: none"> • All computer items should be independently verified by the Purchasing Department prior to the IT subcontractor shrink wrapping pallets. • The Purchasing Department should complete an annual property inventory including surplus items and file the inventory of all property on hand and belonging to the county and each subdivision, officer, and employee of the county on July 1st of each year with the county auditor and Commissioners Court. 				
Responsible Department or Organization:	Purchasing Department				
Management's Response:	<input type="checkbox"/> Agree	<input type="checkbox"/> Disagree	Respondent:	Daniel R. Garza, Purchasing Director	Date: 12/21/2015
Comments:	<p><i>The Purchasing Director prepared a detailed Inventory Policy to include writing a Fixed Asset Specialist job description. The initial plan was to create a Fixed Asset Lead position and two (2) Fixed Asset Specialist positions. After several discussions with the management team, it was determined to start the inventory team with two (2) Fixed Asset Specialist positions, which is pending with the Budget Office and Human Resources departments. Additionally, the inventory policy will be outlined in the pending Dallas County Purchasing Manual.</i></p>				
Disposition:	<input checked="" type="checkbox"/> Audit Report	<input type="checkbox"/> Oral Comment	<input type="checkbox"/> Deleted From Consideration		