

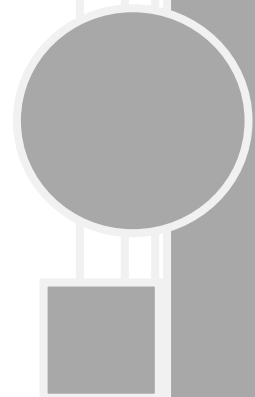


AUDIT REPORT

DALLAS COUNTY

DALLAS COUNTY PURCHASING DEPARTMENT - FY2017 & FY2018

Darryl D. Thomas
Dallas County Auditor
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DALLAS COUNTY PURCHASING DEPARTMENT - FY2017 & FY2018

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This report is intended for the information and use of the agency/department. While we have reviewed internal controls and financial reports, this review will not necessarily disclose all matters of a 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



DALLAS COUNTY
COUNTY AUDITOR

MANAGEMENT LETTER

Mr. Michael Frosch
Purchasing Director
Dallas, Texas

Attached is the County Auditor's final report entitled "**Dallas County Purchasing Department - FY2017 & FY2018**" Report. In order to reduce paper usage, a hard copy will not be sent through in-house mail except to the auditee.

If you prefer that released reports be emailed to a different (or additional) recipient, please inform me of the name and the change will be made.

Respectfully,

A handwritten signature in blue ink, reading "Darryl D. Thomas".

Darryl D. Thomas
County Auditor

EXECUTIVE SUMMARY

A review of the Purchasing Department for fiscal years 2017 and 2018 with an expanded review of manual receipts for fiscal years 2012 through 2018 revealed the significant observations listed below. **The current Purchasing Director joined Dallas County on March 4, 2019, as such, the identified observations occurred during the administration of the prior Purchasing Director and interim Purchasing Director.**

Summary of Significant Observations

- The insurance information for five vendors awarded contracts valued at more than \$2,627,630 could not be located.
- The bid folders for three vendors awarded contracts valued at more than \$563,746 could not be located.
- 11 computer receipts totaling \$166,033.60 issued between eight and 283 days after the manual receipt dates.
- 41 checks included in fiscal years' 2017 and 2018 deposits totaling \$149,092.17 were deposited between 8 and 48 business days after the check date.
- One non-supervisory employee had Oracle system access to activate, deactivate, and/or create vendors, requisitions, purchase orders, request for payment, and bids.
- Only one quote documented on each of 16 purchases totaling \$171,489.18.
- The department did not retain MWBE participation documentation for 13 purchases totaling \$251,775.56.
- Three bid folders for awarded contracts totaling \$4,813,831 could be not located by the department.
- Department did not perform annual certifications as required by Local Government Code Sec 262.011.
- 608 vehicles valued at \$17,007,868.34 were incorrectly assigned to the Purchasing Department in the FAMP report instead of the departments that were responsible for the assets.
- Inventory system was not updated on an ongoing basis.
- Tagging and recording of inventory only performed once a year by an outside contractor.

Repeat Observations from Previous Audits:

- None identified

Only those weaknesses which have come to our attention as a result of the audit have been reported. It is the responsibility of the department management to establish and maintain effective internal control over compliance with the requirement of laws, regulations, and contracts applicable to the department.

INTRODUCTION

Dallas County Auditor's Office mission is to provide responsible, progressive leadership by accomplishing the following:

- Comply with applicable laws and regulations
- Safeguard and monitor the assets of the County utilizing sound fiscal policies
- Assess risk and establish and administer adequate internal controls
- Accurately record and report financial transactions of the County
- Ensure accurate and timely processing of amounts due to County employees and vendors
- Set an example of honesty, fairness and professionalism for Dallas County government
- Provide services with integrity
- Work in partnership with all departments to resolve all issues of the County
- Strive to utilize the latest efficient and effective technology in the performance of tasks
- Provide technical support and training in the development, implementation, and maintenance of information systems
- Hold ourselves accountable to the citizens of the County at all times
- Be responsive to the elected officials and department heads of Dallas County

The objectives of this audit are to:

1. Ensure compliance with statutory requirements
2. Evaluate internal controls
3. Verification of accuracy and completeness of reporting
4. Review controls over safeguarding of assets

This audit covered the period of October 1, 2016 through September 30, 2018.

The audit procedures will include interviews with key process owners, observation of transactions processing, data analysis and sample testing of transactions. The main system used will also be reviewed and incorporated as part of the testing of transactions.

DETAILS

Purchasing Other - Vendors

A sample review of 28 vendors awarded Dallas County procurement contracts during fiscal year 2017 or 2018, processes related to the verification of insurance, and inquiry of department personnel revealed that the insurance information for five vendors awarded contracts valued at more than \$2,627,630 could not be located. Vendors were not required to submit insurance documents with the bids and updated insurance documents were not maintained in the bid folders if the information was not sent with the bid. In addition, the department did not have written procedures for tracking active and expired vendor insurance, and did have a process to identify vendors' insurance that had lapsed. As a result, the Purchasing Department routinely processed requisitions/purchase orders without updated insurance information on file. Payments to vendors were subsequently withheld until updated insurance information could be provided. Additionally, the bid folders for three vendors awarded contracts valued at more than \$563,746 could not be located. The court order awarding the bid to one of these vendors on July 3, 2018 could not be located. **Status: Department indicated the bid was to be canceled in May 2019, but did not provide a court order/verification that the bid was canceled.** Department responses to the Internal Control Questionnaire (ICQ) revealed that vendors with outstanding debts due to Dallas County were eligible to receive bid awards.

According to Government Code Section 2251, a payment by a governmental entity under a contract executed on or after September 1, 1987, is overdue on the 31st day after the later of the date the governmental entity receives the goods under the contract; the date the performance of the service under the contract is completed; or the date the governmental entity receives an invoice for the goods or service.

Texas Retention Schedule Section 5.3007 indicates that bid documentation including bid requisitions/authorizations, invitations to bid or propose, bid specifications, successful and unsuccessful bids, and bid tabulation/evaluations associated with a contract executed, renewed, or amended are required to be retained seven year after the bid close date. Additionally, unsuccessful bids that do not meet agency submission requirements and are not included in the bid evaluation process (e.g. withdrawn, missed submission deadline, incomplete submission, etc.) are required to be retained two years after the bid close date.

The Texas Procurement and Contract Management Guide states insurance coverage should be sufficient to cover all claims against the contractor. The insurance coverage must be effective from the start of the contract and in place with no lapse at any time during the term of the contract.

Lack of management oversight and written procedures related to the review vendor insurance compliance prior to the issuance of purchase orders combined with a lack of automated verification tools increased the potential for financial liabilities to Dallas County resulting from uninsured injuries, property losses or accrued interest on delayed vendor payments. Additionally, non-adherence to retention schedules related to the bid process have decreased the transparency of the procurement process.

Recommendation

Purchasing Other - Vendors

Management should:

- Develop and establish written procedures for tracking vendors' insurance which include a process to identify policies that have lapsed.
- Maintain vendor insurance and update regularly.
- Verify insurance prior to issuing a purchase order
- Create a system that can electronically track bids and bid required items to minimize lost bid items, as well, as bid folders.
- Train employees on retention requirements related to the bid process.
- Implement a process to identify bids from vendors who owe a debt to Dallas County.

Management Action Plan

Purchasing has implemented an electronic procurement system (April 27, 2020) which will provide required information to be submitted and retained electronically within the procurement system platform. The platform will serve as the Procurement Department's repository for all solicitation documents, post award exhibits and required documentation. Future documents related to solicitations and subsequent awarded contracts will reside and accessible through the electronic procurement system. The Procurement Department will develop work instructions and processes to help staff manage and file documents electronically for each procurement.

The current insurance tracking process is a manual process which requires staff to rely on paper documents and physically reference the hard copy files to determine whether insurance is in compliance before proceeding with an order. The County currently lacks the infrastructure to conduct risk reviews for appropriate insurance requirements for each procurement request. The County also lacks a system capable of conducting insurance compliance reviews prior to contract award, tracking of insurance certificates post contract award, and issuance of (buyer and vendor) notifications prior to lapse of coverage. Two basic components critical to the life cycle of work with the Civil DA's Office on an affidavit for all formal solicitations. The affidavit will require each respondent to read and sign indicating they do not have any outstanding debts. Additionally, we will review the current terms and conditions for all solicitations with the Civil DA's office and recommend a new condition related to outstanding debts. Purchasing will recommend a T & C which will allow an offset of any outstanding debt found during a contract period, to provide Dallas County the ability to recover any debt, found and not disclosed during the procurement

process.

Auditors Response

None

Manual Receipts and Deposits

An expanded review of all 42 manual receipts issued from fiscal years 2012 through 2018 revealed that 11 computer receipts totaling \$166,033.60 were issued between eight and 283 days after the manual receipt dates including one manual receipt that was written with the name of the Purchasing employee who issued the receipt in the payee line; signed off by unauthorized non-department personnel; and issued a computer receipt for \$0.60 more than the manual receipt amount. Additionally, one manual receipt was altered to \$650 less than the original receipt amount instead of voiding and re-issuing the receipt; one voided manual receipt was missing the customer copy and an explanation for the void; and one manual receipt was skipped in sequence and not marked "Void". Because the Purchasing Department did not have access to a computerized receipting system, manual receipts and a manual 98 were provided to the Treasurer's Office to issue computer receipts and complete deposits.

A sample review of 59 checks included in fiscal years' 2017 and 2018 deposits comparing the check date to the deposit date revealed that 41 (69.5%) of checks totaling \$149,092.17 were deposited between 8 and 48 business days after the check date.

Specific controls related to manual receipt procedures indicate that all manual receipts should be accounted for and properly used, include supervisory review, be kept in numeric order, and deposited daily and timely in accordance with Local Government Code, § 113.022. All copies of a void receipt should be retained, clearly marked "Void" and affixed with a reason for the void. Manual receipts are not altered, but properly voided and affixed with a reason for the void with retention of all voided copies.

A lack of management oversight and written procedures related to the manual receipt process and deposits combined with a lack of access to a computerized receipting system has resulted in delayed revenue recognition and increased the potential that funds may be lost or misappropriated. Additionally, funds tendered for security/bid deposits may lose value due to the expiration of checks or the payers' requests for stop payments with the issuing banks.

Recommendation

Manual Receipts and Deposits

Management should:

- Request access to the County Wide Receipting system (CWR) to receipt monies received by the department.
- Establish written procedures for processing manual receipts. New and current employees should be trained on the manual receipting procedures.
- Promptly deposit funds receipted as indicated in Local Government Code, § 113.022.

- Implement a dual signature sign off on voided manual receipts.
- Periodically review manual receipts for completeness and accuracy.
- Develop internal controls to ensure checks are timely taken to be receipted by the Treasurers' Department.

Management Action Plan

Purchasing requested access to the County Wide Receipting (CWR) system on June 19, 2020. The current staff within the Purchasing Department was unaware of such system and following further inquiry, it was learned the prior Purchasing administration determined the system was not necessary based on the volume of departmental deposits. The current staff was trained to use the CWR and instructed to have all deposits deposited per the listed County's policy and State statues. On August 15, 2020, Purchasing implemented the use of the CWR to process cash, checks, and other sources of revenue.

Due to the lack of a County wide cash handing policy or Administrative Directive, the Purchasing Department has requested other department's cash handling processes and work instructions. The Purchasing Department will use documents already established by other departments to develop its own. Once the Purchasing Department completes its own standard processes and work instructions, the Purchasing Department will train appropriate staff and shortly thereafter will implement the processes and subsequent work instructions. In addition to complying with implemented cash handling processes, the Purchasing Department shall include management oversight and approval for revenue required to be deposit. The utilization of the County Wide Receipting system in conjunction with the County's cash handling manual, annual training, management oversight, and annual internal audits will assist the Purchasing Department maintain compliance with the County's cash handling policy.

Auditors Response

None

Purchase Requisitions

A sample review of 40 purchase requisitions, review of the Aging Summary report, and inquiry of Purchasing Department personnel revealed that the Purchasing Department authorized three purchase requisitions from other departments that were initially submitted and approved by the same requestor in the amount of \$12,040.82; a Purchasing Department employee was the approver for three requisitions on behalf of other Dallas County departments in the amount of \$9,000; the Purchasing department does not retain department authorization forms for purchase requisitions; the department processed 15,992 (37.4%) purchase orders more than 25 days after the purchase requisition approval dates; and there were no written procedures for the supplemental PO process.

Inquiry of department personnel revealed one non-supervisory employee had Oracle system access to activate, deactivate, and/or create vendors, requisitions, purchase orders, request for payment, and bids.

Per Texas State Records Retention Schedule 4.2.005, requisitions should be kept three years after the fiscal year in which they were issued. According to the Dallas County Purchasing Manual, departments must provide a record of the requested purchase; verification that the request was submitted by a person authorized to request purchases; and the requisition must be signed by an employee who has been authorized by a department head or elected official to submit requisitions. Specific controls related to the processing of requisitions indicate that the Purchasing Department should review purchase requisitions to ensure that the documents are approved by authorized department personnel other than the person who submitted the original request and purchase orders should be processed within a reasonable time period after the department approves a purchase requisitions. Department bid tabulation sheets should accurately reflect the actual amounts submitted by bidders.

A lack of management oversight related to the processing of purchase requisitions has resulted in a bypass of internal controls and the approval of purchase requisitions by non-authorized personnel and department personnel whose duties as related to the requisition process should be segregated. The lack of separation of duties may lead to unauthorized expenditures and a misappropriation of County resources. A lack of written procedures related to the supplemental PO process may result in incomplete or inaccurate records and delayed issuance of purchase orders requiring additional staff time to obtain the missing documentation. Further, non-adherence to state retention schedules related to purchase requisitions has resulted in decreased accountability and transparency in the procurement process.

Recommendation

Purchase Requisitions

Management should:

- Pursue system modifications that create separate Oracle submission and approver roles which segregate job duties.
- Maintain electronic records of authorization forms for purchase requisitions.
- Review requisitions to ensure the requestor is not the same as the approver.
- Create written procedures to provide proper guidance for requesting supplement purchase orders.
- Train employees on retention schedules.

Management Action Plan

The electronic procurement platform was implemented and fully function effective April 27, 2020. The role and internal controls of the financial system itself are not controlled at a centralized level within the County, rather in operational areas. The Purchasing Director agrees with the need for a centralized control process for access to the financial system.

The access roles approval process should be reviewed and/or modified during the ERP upgrade discussions. In the interim, Purchasing will notify all departments with staff in both the requisition entry and approval roles of the need for separation of duties. The requisitions are retained within the Oracle financial system, meeting all record retention guidelines. The referenced Purchasing employee with access to modify create and/or modify vendor profiles was assigned and classified at a higher level to provide technical support of the Oracle procurement roles. The Purchasing Director re-classed the position to remove the technical requirements of the position.

Auditors Response

None

Purchases \$50,000 or more

A sample review of 20 bid solicitations submitted during fiscal years 2017 and 2018 revealed that three bid folders for awarded contracts totaling \$4,813,831 could be not located by the department; two bid proposals did not have a time stamp and amounts for 13 bid items recorded on the bid tabulation sheet did not reflect the amounts that the bidder submitted including eight items on the bid tabulation sheet that were overstated by \$82.08 and five items on the bid tabulation sheet that were understated by \$11.01.

Per Texas State Library and Archives Commission, successful bids should be retained for three years after the fiscal year submitted and unsuccessful bids retained for a period of two years after the fiscal year. Specific controls related to the bid process indicate a bid should be to immediately date and time stamped upon receipt.

Lack of management review to timely identify clerical errors on the Bid Tabulation sheets have resulted in inaccurate/incomplete procurement records and may result in the incorrect vendor receiving a contract on a bid that is based on lowest bid amount. Further, non-adherence to retention guidelines have decreased the transparency of the procurement process.

Recommendation

Purchases \$50,000 or more

Management should:

- Continue to pursue an electronic solution to accepting bids which includes electronic time stamps on bids and electronic capture of bid offer amounts.
- Implement controls to detect and prevent actions inconsistent with departmental policies and procedures.
- Train personnel on retention guidelines.

Management Action Plan

The electronic procurement platform was implemented and fully function effective April 27, 2020. The benefits of the electronic procurement platform include, but are not limited to, electronic receipt of solicitations, electronic record retention, automated tabulation and evaluation of vendor responses, and electronic post record repository. The electronic purchasing platform will help in consolidation of solicitation and award records and provide a central repository where pre and post award records will reside. The automated tabulation and evaluation process will help minimize human error and misfiling of related records.

The Purchasing Director created additional level of management reviews for all Purchasing activities. All Court agenda items are reviewed by the assigned buying staff, clerical support, and Assistant Purchasing Agent prior to final review and approval by the Director. This review ensures all areas of the procurement, documented and supported per County policies and statutes. Departmental employees have all been retrained on all record retention polices and procurement processes.

Auditors Response

None

Purchasing Property Procedures

A review of three Dallas County departments' inventory on the Fixed Asset Management Program (FAMP) report, inquiry of department personnel, and review of the Purchasing Department's responses to the Internal Control Questionnaire (ICQ) revealed several internal control weaknesses related to the tracking and maintenance of Dallas County property including those associated with property records/certifications, property tagging, and property surplus, transfer and disposition.

Property Records/Certifications

Review of the FAMP property records and processes related to inventory management revealed that the department did not perform annual certifications, the property inventory system was not updated on a continuous basis, and there were no written procedures for recording property assets.

Specific reporting issues related to the FAMP report include that the report did not reflect fields required to accurately track the acquisition and disposal of property; property for the Law Library and the Commissioners Court were combined on the FAMP report; the Surplus Items report was not maintained and contained inaccurate information; the FAMP report was not updated to reflect the sale of one item for scrap; 12 capital assets listed on the FAMP report were not in the Oracle Fixed Asset System; seven serial numbers for capital assets listed on the FAMP report did not match serial numbers listed on the Oracle Fixed Asset System; the description for two capital assets did not match descriptions on Oracle Fixed Asset System; and 608 vehicles valued at \$17,007,868.34 were incorrectly assigned to the Purchasing Department in the FAMP report instead of the departments that were responsible for the assets including 161 vehicles that were not listed with the original county tag number and 447 vehicles that were listed with erroneous additional characters in the original county tag number column.

Property Tagging

Inquiry of Purchasing Department personnel revealed that capital assets had not been tagged by the Purchasing Department since July 2018; the Purchasing Department did not have written procedures for tagging capital and non-capital assets; and the Purchasing department was dependent on an outside contractor to tag and record property inventory. The outside contractor only conducted an annual property inventory.

P280 Transfer Forms

When property is no longer needed by a department the department fills out a Property Transfer Form P280 and sends the form to the Purchasing Department for review and transfer of items to surplus for auction or redistribution to other Dallas County departments. A sample review of 10 Property Transfer Forms P280 revealed that all 10 P280 forms were processed by Purchasing Department personnel with incomplete data on the form.

Property Auctions

When property is no longer of use to Dallas County it may be auctioned off by the Purchasing department. A sample review of records related to six auctions and department responses on the Internal Control Questionnaire revealed that all court orders sampled were missing identifying information such as tag numbers and P280 property transfer forms; one auction deposit slip was not sign by management; and four auction checks totaling \$151,764 were deposited between 21 and 30 business days after receipt based on the check issuance date.

Property Disposition

A review of the department's responses to the Internal Control Questionnaire related to the disposition of property items purchased with grant funds revealed that the department did not obtain permission from the Grants section prior to the disposal, sale or salvage of equipment purchased with grant funds and the department did not maintain a record as to which items were purchased with a particular grant and the amount of proceeds attributable to grant funded items.

Per Local Government Code Sec 113.022, a county officer or other person who receives money shall deposit the money with the county treasurer on or before the next regular business day after the date on which the money is received.

Per Dallas County Code Sec 90-351 and state statutes, the purchasing agent is responsible to ensure that the property inventory records are up to date and accurate in all respects. Per the Dallas County Purchasing Manual Section 18, the process of tagging and inventorying controlled and fixed assets is under the direction of the Purchasing Department. The Purchasing Department has a responsibility for providing accurate inventory records for controlled and fixed assets and will perform duties in support of this responsibility including those related to tagging property, maintaining property and performing annual certifications as required by Local Government Code Sec 262.011.

Lack of management oversight, understaffing and incomplete knowledge of job duties/responsibilities has result in inaccurate inventory records and delayed revenue recognition. The lack of management oversight and lack of written procedures may result in a loss of county resources with an inability to affix accountability for

the loss. Further, limited employee knowledge related to the sale and disposition of items purchased with grant funds may lead to a loss of grant funding for inaccurate recordkeeping/use of grant funds.

Recommendation

Purchasing Property Procedures

Management should:

- Develop and establish written procedures.
- Implement trackable electronic P280 forms.
- Require departments to fill in all fields on the P280 forms before processing.
- Perform annual certifications
- Update the FAMP report to include all fields to accurately track the acquisition and disposition of property inventory.
- Regularly update inventory system
- Tag capital assets at least once a month.
- Reconcile the Oracle Fixed Asset Report to the FAMP report.
- Review and include all supporting documentation with auction court orders.

Management Action Plan

This entire role and responsibility is being discussed with the County Auditor. No response at this time.

Auditors Response

None

Purchases Less than \$50,000

A sample review of 20 purchases valued at \$50,000 or less revealed that the Dallas County Purchasing Manual did not specify the number of quotes that should be documented. As a result, a determination could not be made as to whether the department's vendor selection was in accordance with the Open Market Pricing guidelines outlined in the Purchasing Manual. Only one quote documented on each of 16 purchases totaling \$171,489.18; the department did not retain MWBE participation documentation for 13 purchases totaling \$251,775.56; and the pricing and quote documentation was missing for three purchases.

Per the Dallas County Purchasing Manual Section 7, for open market purchases of goods and services totaling \$50,000 or less which are exempt from competitive procurement, the Purchasing Agent is authorized to select the exact goods or services to meet the requests of user departments. In selecting the exact goods or services requested by the user departments, the Purchasing Agent considers the available information about sources and prices of the goods and services. Competition for purchases less than \$50,000.00 should include MBE/WBE bidding requirements. Regardless of the value of items requested, all requisitions and purchase orders must have supporting pricing documentation.

Per Texas State Library and Archives Commission, successful bids documentation should be retain for three years of the fiscal year submitted and unsuccessful bids documentation should be retain for a period of two years. Per the Texas State Library and Archives Commission, procurement documentation should be retained for three years after the fiscal year submitted.

Lack of management oversight and a lack of specific documentation requirements in the Purchasing Manual have resulted in inconsistent/incomplete documentation for purchases valued at less than \$50,000. Further non-adherence to retention schedules have decreased the transparency of the procurement process and increased the potential that purchases are based on vendor familiarity rather than competitive factors.

Recommendation

Purchases Less than \$50,000

Management should:

- Retain all documentation in accordance with the Texas Retention Schedule.
- Implement controls to detect and prevent actions inconsistent with departmental policies and procedures.

Management Action Plan

Manual quotations for informal and formal purchasing is time consuming, less efficient, and lacks in transparency. This process does not allow for adequate competition for the goods and services being procured for Dallas County. To resolve this issue, Purchasing implemented an electronic solicitation platform on April 27, 2020. The web-based platform captures all pertinent procurement activity, to include the electronic notices, and response. Additionally, the system will automatically calculate or tabulate the responses to reduce opportunities for administrative errors. The online platform has over 300,000 registered vendors, which will increase outreach, transparency, and overall competitiveness of the solicitation process.

Although requisitions and purchase orders reside in the County's Oracle system, which complies with records retention policy, the online procurement platform will help resolve the issues with competition and post award records required to accompany the solicitation

to support the awarded. Additionally, the Purchasing Department will develop supplemental processes, work instructions to help aid with obtaining and retaining appropriate records, update the Procurement Manual to clarify solicitation and outreach requirements.

Auditors Response

None

Cash Management

A review of cash counts performed on the Purchasing Department's deposits received at the Treasurers' Office during fiscal year 2018 revealed two check payments were \$201 less than the manual 98 control total due to being recorded for the numerical amount instead of the legal written amount. Additionally, an unscheduled cash count performed at the Purchasing Department on April 8, 2019 revealed four un-deposited checks totaling \$6,205.41. **Status: Checks were deposited May 14, 2019.**

Specific controls related to cash management procedures indicate that all monies received should be promptly receipted and deposited consistent with Local Government Code, § 113.022, payments should be accurately recorded and verified for accuracy, and checks are receipted for the legal written amount.

Lack of management oversight to establish written cash management procedures combined with a lack of access to a computerized receipting system has resulted in delays in depositing funds, which increased the risks that funds may be lost or misappropriated. Additionally, due to the delays Dallas County may incur financial losses for unrecoverable amounts paid for services already rendered.

Recommendation

Cash Management

Management should:

- Request access to the County-Wide Receipting (CWR) system to issue computer receipts.
- Establish written procedures for cash handling and train employees on the procedures.
- Emphasize to employees that check totals should be calculated using written legal amount and verified against the receipt control total.

Management Action Plan

Please see previous cash handling response.

Auditors Response

None

Bid/Awards/Contract Requirements

Review of the Oracle Purchasing Activity Register for the rotation of buyers for 95 vendors and inquiry of department personnel revealed 80 (84.2%) vendors were assigned the same buyers for at least 2 years and buyers were rotated based on Dallas County departments instead of rotating based on vendors or products/services procured.

Inquiry of Purchasing Department personnel, review of the Purchasing manual and review of responses to the Internal Control Questionnaire (ICQ) revealed that bids were not opened in the presence of two parties; Bid Tabulation sheets were not signed by two parties; not all the solicitations over \$500,000 had pre-bid conferences; and unsuccessful bidders were not notified in writing. Additionally, the department did not have specific written procedures for certain bid processes including those related to documentation requirements for purchases less than \$50,000 such as phone quotes, written quotes, advertisements, and/or MWBE certificates and procedures related to the selection process for vendor purchases less than \$50,000.

Per Local Government Code 272, a county purchasing agent or, in a county without a purchasing agent, the Commissioners Court shall adopt procedures that provide for competitive procurement, to the extent practicable under the circumstances, for the county purchase of an item that is not subject to competitive procurement or for which the county receives no responsive bid.

Specific controls related to bid/award/contract requirements indicate that the Purchasing manual should reflect minimum requirements for all bid types including establishing written procedures that includes specific documentation requirements for the selection of vendors for purchases less than \$50,000. Pre-bid conferences should be conducted for bids over \$500,000. Purchasing agents or buyers are periodically rotated among purchasing responsibilities to ensure independence. Bids should be opened in the presence of at least two parties and unsuccessful bidders should be formally notified in writing.

A lack of management oversight due to increased management turnover and a lack of written procedures have resulted in decreased accountability and transparency in the procurement process and increased the risks of procurement of products/services based on vendor familiarity. By not conducting pre-bid conferences additional staff time may be required to review and/or explain requirements to current and future vendors.

Recommendation

Bid/Awards/Contract Requirements

Management should:

- Revise Purchasing Manual to incorporate specific documentation requirements for the selection of vendors for purchases less than \$50,000.
- Open bids with at least two employees present.
- Rotate buyer responsibilities more frequently based on vendors/products.
- Unsuccessful bidders should be notified in writing.

Management Action Plan

The Purchasing Department is in the process of revising the Purchasing Manual. Purchasing will address the Auditor's Office recommendation related to supporting documentation for solicitations and awards.

Purchasing implemented an electronic solicitation process on April 27, 2020. The web-based platform captures all pertinent solicitation and procurement activity, to include the electronic notices, evaluation scoring for proposal, and response. Additionally, the system will automatically calculate or tabulate the responses to reduce opportunities for administrative errors.

Although the Purchasing Director implemented a requirement to have pre-solicitation meetings (pre-bids) for formal solicitations, there are no statutory requirements to include a pre-bid meeting for any solicitation. Additionally, the Purchasing Director disagrees with the Audit team's opinion on the need to "rotate" responsibilities to ensure independence. The integrity and ethics of the Purchasing department are cornerstones of the public procurement profession. The need to manage daily work responsibilities of Purchasing staff is the Purchasing Director's responsibility. It should be noted the Purchasing Director changed the method of serving the County by assigning staff to commodities, rather than strictly by client departments. Rotating staff's commodity responsibility is not an effective procurement model because by rotating commodities consistency, familiarity, and potential aggregation may be lost. Additionally, unsuccessful respondents are notified prior to moving forward for Court consideration.

The bid/proposal opening process has been standardized and the process includes two Purchasing staff members responsible for accounting for bids/proposals received and publicly opened. It should be noted, the electronic purchasing platform will reduce any issues regarding tabulations and notice of award, with the majority of submissions being made electronically.

Auditors Response

Per the Purchasing Department, pre-bid conferences are currently conducted for all formal solicitations over \$50,000. It should be noted that pre-bid conferences are not required by statute.

Department Property Inventory

A sample review of the Purchasing Fixed Asset Management Program (FAMP) inventory list for non-capital items in 19 rooms/areas located in the Purchasing Department revealed that three non-capital items were not located in the rooms specified; four non-capital items were not tagged by the Purchasing Department or listed on the FAMP inventory list including two laptops and other computer equipment; 11 non-capital items were located in different rooms than specified on FAMP list; and three rooms/cubicles did not have room tags.

According to 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. It is the sole responsibility of the elected official/department head to which property is assigned to maintain a proper accounting of all property through proper inventory records.

Incomplete management oversight over the maintenance of inventory records including updating the inventory lists and tagging new items has resulted in reduced accountability for inventory and may result in duplicate purchases, as well as, in inventory being lost or stolen.

Recommendation

Department Property Inventory

Management should:

- Regularly maintain inventory records for accuracy.
- Tag and record items in a timely manner.

Management Action Plan

It should be noted the fixed asset items were not misplaced by the Purchasing Department, they were simply in a different room within the department office. The items without asset tags were a dolly, used to move heavy items, and a step ladder.

Department staff have been informed to notify our fixed asset liaison when any items are moved from cubical to cubical. Additionally, all items determined to be fixed assets will be tagged as appropriate.

Auditors Response

None

County Code Procedures/Regulations

Review of the Purchasing Manual revealed that the document had not been updated since 2016, had limited written procedures, and did not contain due diligence procedures and policies for items purchased through government procurement programs such as the Texas Procurement and Support Services (TPASS), the Texas Multiple Award Schedule (TXMAS), and the Department of Information Resources (DIR). The manual also did not contain written procedures related to discounts and/or rebates. Per Commissioners' Court Order 2017-0074, the Purchasing Manual "shall be dated for the applicable fiscal year, renewed or approved by the Commissioners Court prior to the start of each fiscal year, and have any changes from the prior year noted at the beginning of the document."

Review of procedures related to Purchasing Authorization forms revealed that the department only retains the Purchasing Authorization forms for one year. Per Texas State Library and Archives Commission (TSLAC) retention 5.3.007, authorizations should be retained for seven years after the bid close date. Since documentation was not maintain, the auditor was unable to verify if employees were authorized to complete or submit requisitions on behalf of the department for fiscal years 2017 and 2018.

Management turnover has resulted in a lack of transparency in the procurement process and non-compliance with records retention requirements and Dallas County Commissioners' Court Orders. Further, incomplete employee training related to retention requirements and the inability to determine that personnel was authorized to submit requisitions on behalf of Dallas County increased the potential that contracts may be nullified.

Recommendation

County Code Procedures/Regulations

Management should:

- Verify authorization forms are updated and retained according to Texas Retention Schedule.
- Train employees on retention schedules.
- Verify the Purchasing Manual is updated at least once a year and contains detailed written procedures.

Management Action Plan

Agree, the Purchasing Manual is being reviewed and will be revised to include the clarifications as defined in this section of the audit and will incorporate any updates to the procurement process. Once completed, the Purchasing Manual will be presented to Commissioners Court for review and approval this fiscal year. Going forward, the manual will be reviewed annually for any pertinent or legislative changes deemed necessary. All records are being submitted electronically and will be retained per applicable Texas Retention schedules. Purchasing Staff will be trained accordingly.

Auditors Response

None

Pick Up Purchase Orders (PUPOs)

A sample review of 40 pickup purchase orders (PUPOs) issued during fiscal years FY2017 and FY2018 and review of department responses to the Internal Control Questionnaire revealed that all 40 PUPOs did not reference a contract number and/or a cooperative contract number; County departments did not record an issuance date on three PUPO requests; the Purchasing Department did not record the date one PUPO request that was received from a County department; the departments did not send 15 PUPO copies to the Purchasing Department within five business days, including one PUPO copy that was received from a department after 38 business days; the Purchasing did not write approval dates on two PUPO requests; one department did not sign for items received; three PUPO requests were missing the Purchasing Agent's signature; and the Purchasing Department did not maintain a list of the voided PUPOs.

Per Section 7 of the Dallas County Purchasing Manual, a pick-up purchase order, also known as blanket purchase order, is a funded purchase order to a vendor on contract or on a cooperative agreement. The pick-

up purchase order will reflect a specific period of time, list of commodities and/or services, budget/funding information, department, location. The Contract Number or Cooperative Contract Number is required to be referenced on the pick-up purchase order. The maximum threshold allowed for pick-up purchase order is \$500. A lack of management oversight and review of PUPOs combined with inadequate training may result in delayed vendor payments and financial losses to Dallas County due to the misuse of PUPOs.

Recommendation

Pick Up Purchase Orders (PUPOs)

Management should

- Review all PUPOs for completeness and accuracy, including but not limited to, dates, signatures, contract number, and approval dates.
- Maintain a list of issued PUPOs including those that are voided.

Management Action Plan

The definitions and current application of the pickup purchase orders within Dallas County is not accurately reflected in the Purchasing Manual and will be revised on the next update. Pick up purchase orders (PUPO) are used for small dollar purchases (\$500 or less) and is a procurement tool initially designed to help departmental field operations to effectively procure goods or services needed while conducting maintenance and repairs in the field. PUPO's are currently used to fulfill an immediate small dollar procurement need that's typically associated with an ongoing field operation that would sustain unreasonable delays if the operator was required to leave the worksite in order to obtain a purchase order through the requisition process. Field operators using paper PUPO's may not have the time or resources needed to complete the administrative tasks required to complete a PUPO and thus causing PO's to be submitted incomplete; rejecting such PUPO's may cause additional delays in vendor payments thus causing additional issues such the County being placed on credit hold and future disruption in services.

Procuring goods and services through pick up PUPO's is not the most efficient and cost effective method for procuring necessary goods and services for field operators. The administrative effort to secure and complete PUPO's in conjunction with the administrative workflow to obtain necessary signatures for processing payment is very extensive. The Purchasing Department will provide departmental staff additional training related to the utilization of PUPO's and the administrative aspect of preparing a PUPO for the payment process.

The Purchasing Department will also review the Purchasing Card (P-Card) pilot program, approved by Court Order 2017-1298, and determine whether the P-Card program can be expanded or implemented Countywide. The P-Card program provides greater security, administrative efficiencies, controls, accountability and oversight. Prior to expanding or implementing the P-Card Program, the Purchasing Department will develop an Administrative Directive, training materials, training program, departmental support

infrastructure, administrative infrastructure, and an annual P-Card audit program.

Auditors Response

None

Contract Extensions Process and Testing

A sample review of 20 contract extensions during fiscal years 2017 and 2018 revealed that one department extension letter could not be located; two department extension letters were not completed to reflect whether or not the departments agreed to the extensions; and a court order approving one contract extension could not be located; and eight purchase orders processed and paid after the contract extension dates without Commissioners' Court and/or the department approval.

Per the Dallas County Purchasing Manual, all contract renewals and/or amendments will be submitted to Commissioners Court through the Purchasing Department. The Purchasing Department will verify contractual requirements to determine renewal is in accordance with the terms, conditions, and pricing. Additionally, Purchasing will verify if there are remaining option years to renew. Lack of management oversight related to the extension of contracts may result in unauthorized purchases and overspending on contracts that are extended rather than being competitively bid.

Recommendation

Contract Extension Process and Testing

Management should:

- Establish internal controls to track and review the duration of contracts and renewals.
- Pursue a computerized solution to track contract terms and renewals.
- Establish a process to ensure all approvals are obtained and documentation is retained.

Management Action Plan

Unfortunately the lack of a document management system and the absence of contract management platform in the current financial system to automate and manage the lifecycle of a contract presents an extensive challenge for the Purchasing Department. The Purchasing Department currently conducts contract management through the use of Excel files, Word and PDF document, scanned documents, and a combination of electric and hard copy files.

The Purchasing Department implemented an electronic procurement platform on April 27, 2020. Although this platform is not a contract management system, the system will help aggregate most of the documents related to a solicitation and post-award documents; benefits of the electronic procurement platform include, but are not limited to, electronic

receipt of solicitations, electronic record retention, automated tabulation and evaluation of vendor responses, and electronic post record repository. The electronic purchasing platform will help in consolidation of solicitation and award records and provide a central repository where pre and post award records will reside. The automated tabulation and evaluation process will help minimize human error and misfiling of related records. Contracts approved for award are being loaded into Oracle for tracking purposes and to allow departments to encumber, creating some efficiencies in the contract ordering process.

Additionally, the Purchasing Director instituted an agenda review process where all contract actions (where Purchasing is involved) such as renewals, extension, amendments, changes orders, etc. will be reviewed by the Purchasing management team to ensure compliance with contracting best practices prior to being presented to Commissioners Court for approval.

Auditors Response

None

Sole Source Approval Process

A sample review of 20 sole source purchases during fiscal years 2017 and 2018 revealed 13 (65%) sole source purchases totaling \$225,449.05 were awarded without being approved through Commissioner's Court. Additionally, one sales quote solicitation was input as a sole source purchase in the Oracle Financial system.

Status: On June 06, 2016, the department corrected the purchase to reflect accurately in the financial system.

Per the Dallas County Purchasing Manual purchases of sole source items may be purchased without competitive procurement if the County Purchasing Agent provides a signed statement to the Commissioners Court that only one source of purchase exists, and the Commissioners' Court accepts the statement and grants an exemption. Lack of management oversight and inconsistent training due to management turnover has resulted in inaccurate data represented in the Oracle Financial system and may result in overspending on sole source contracts which could be competitively bid.

Recommendation

Sole Source Approval Process

Management should:

- Train employees on the procedures for approval of sole source purchases.
- Develop controls to ensure solicitation are fairly and accurately presented in the financial system.

Management Action Plan

Of the 13 sole source items reported as not being approved by the Commissioner's Court, 12 of the items were less than \$50,000, and do not require Court approval. The Purchasing department has instituted sole source forms requiring the department and the vendor to justify and confirm the good or service is a sole source and complies with statutory sole source requirements. Additionally, the buyer will conduct an internet search to confirm whether the good or service meets the statutory requirements for a sole source before proceeding with the purchase. Purchasing will conduct additional staff training to ensure staff is educated in distinguishing sole source goods or services and ensuring the appropriate information is collected to support the procurement method.

Auditors Response

The Dallas County Purchasing Manual indicates that purchases of sole source items may be purchased without competitive procurement if the County Purchasing Agent provides a signed statement to the Commissioners Court that only one source of purchase exists. However, it should be noted that per the department the Purchasing Manual is currently undergoing update and revision.

Disclosure of Outside Income and Code of Ethics Statements

Department responses to the Internal Control Questionnaire (ICQ) and inquiry of department personnel revealed that department was not up-to-date on *Disclosure of Outside Income* forms; employees did not sign Code of Ethics Statements forms; and purchasing agents did not participate in routine training related to their job duties.

Per the Dallas County Purchasing Manual and Dallas County Code Section 71-96, procurement professionals shall participate in regular training courses to ensure their knowledge and understanding of the Code of Ethics, as well as to enhance their skills, learn best practices, and better perform their duties related to contracting and contract solicitation.

Per Dallas County Code Section 71-30, individuals working for Dallas County who are responsible for the daily administration, implementation, or monitoring of a contract and bids should submit a *Disclosure of Outside Income* form to the County Administrator by April 30 of each year. Inconsistent management oversight may result in unidentified conflicts of interest and decrease the transparency of the procurement process.

Recommendation

Requirements for Financial Disclosure and Ethics Training

Purchasing Director should:

- Update and obtain Disclosure of Outside Income and Code of Ethics Statement forms.
- Implement a procurement policy and guidance in regards to ethics and code of

conduct for everyone involved in the procurement process.

- Establish a routine employee training program.

Management Action Plan

The Purchasing Department will develop a system to ensure all Purchasing staff comply with the Disclosure of outside Income. The Purchasing Department will establish an ethics policy and provide related training annually. Additionally, routine training and professional development opportunities will be made available for staff to promote professional development and increase industry expertise.

Auditors Response

None

Request for Payments/Disbursements

A sample review of six requests for payment revealed three requests for payment (RFPs) were missing receipt or deposit slip information including two requests for payment that did not have the budget coding listed. Per Dallas County Code Sec. 70-543, the department issuing a refund will prepare and submit a request for payment form to the County Auditor, along with supporting documentation, including the account and year when revenue was originally recorded.

Lack of management review combined with incomplete knowledge of budget codes and clerical errors has resulted in the inability to verify funds have been receipted. Further, RFPs submitted with incomplete documentation may result in funds being disbursed from the incorrect account, duplicate disbursements, or disbursements to parties not entitled to the funds.

Recommendation

Request for Payments/Disbursements

Management should:

- Review request for payments for completeness and accuracy
- Maintain all appropriate documentation for submitted request for payments

Management Action Plan

Purchasing Director implemented additional reviews for all financial transactions. Staff have been trained in all roles and responsibilities to include documentation for all payments. Additionally, the Purchasing Director requested and received authorization to reclassify a buying position to Manager. This additional role, which started August 4, 2020, will assist with daily oversight of administrative processes.

Auditors Response

None

cc: Darryl Martin, Commissioners Court Administrator