



A Report
to the
Citizens
of
Salt Lake
County,
the Mayor,
and the
County
Council

A Performance Audit of the

Salt Lake County Division of Contracts and Procurement

December 2007

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Salt Lake County Auditor

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I. Executive Summary

Background

The Contracts and Procurement Division strives to provide County organizations with goods and services at the most cost effective price, in a timely and efficient manner. The Division also seeks to foster fair and open competition in dealings with contractors and vendors.

The responsibilities of the Division include:

- Establishing contracts for goods and services,
- Managing the County purchasing card program,
- Managing surplus property,
- Purchasing goods and services for all County agencies except for library books (which are purchased by the County Library system) and bank services (which are contracted by the County Treasurer).

Our scope was limited to a review of the processes for purchasing goods and services, and did not include the Division's responsibilities regarding the County purchasing card or surplus property.

In general, we found the operations of Contracts and Procurement to be in compliance with statute and policy. However, we identified some areas which need improvement. The following paragraphs briefly describe some of the most significant findings and recommendations.

Findings and Analysis

Contractors charged a mark-up fee on permits for construction projects, in violation of contract terms (§2.8 of Report). Contrary to contract provisions and/or related RFP specifications, contractors included a mark-up fee on reimbursements for these construction permits. In one instance the contractor obtained multiple permits based solely on a provision in the original request for proposal. The contractor submitted three change orders requesting reimbursement for \$706,695 for permits and fees, including a contractor mark-up fee of \$26,035.

In another construction contract, the contractor requested \$13,497 to obtain permits, including a contractor mark-up fee of \$871. Thus, in total, the County reimbursed contractors \$26,906 for expenses not allowed by these contracts.

RECOMMENDATION:

All parties involved in the approval process for change orders should take responsibility for ensuring that contractors are paid appropriately. These roles and responsibilities are defined in Section 2.8 on page 25.

The fiscal staff in the contracting agency should review and approve all change orders submitted by contractors to verify that the change order is consistent with the original project intent, the established funding requirements for the activity, and has any referenced supporting documentation attached.

Change orders on two large contracts did not include adequate supporting documentation and contained some mathematical errors (§2.10 of Report). Of the 73 change orders examined, the majority included a page entitled “Proposed/Preliminary Change Order” submitted by the contractor summarizing additional costs incurred by the contractor and subcontractors. The contractor typically attached detailed subcontractor invoices. However, 18 (25 percent) of the change orders did not include these invoices. Thus, we were unable to reconcile the amounts listed on the contractor’s Proposal/Preliminary Change Order with detailed supporting documentation substantiating that the contractor incurred the costs.

We also found mathematical errors on an “adjusted contract amount” which carried forward through at least four change orders before correction was made. If errors are not caught, these errors could possibly carry forward in the Advantage procurement system without detection, resulting in an incorrect over or underpayment on a contract.

RECOMMENDATION:

Contracts and Procurement should require the Project Manager to submit detailed documentation supporting change orders prior to allowing the change order to be processed further.

Contracts and Procurement should check for math errors on progressive change orders prior to entering the changes in Advantage to avoid error carryovers.

Signatures were missing on forms requesting approval for sole-source, standardization, and change order transactions (§2.7 of Report). We examined 64 large-cost purchases and found required signatures missing on 6 forms (9.4 percent) submitted for approval of sole-source, standardization, or change order transactions. Required approval signatures were missing from either the County agency or Contracts and Procurement. Contracts and Procurement created forms, available on the County intranet, for agencies to justify and indicate approval signatures for change orders and sole-source or standardization exemptions. This facilitates compliance with purchasing guidelines requiring sufficient recordkeeping to enable reconstruction of a decision. When forms are not signed, proper review and approval for a transaction cannot be validated.

RECOMMENDATION:

Contracts and Procurement should ensure that required signatures are obtained from County agencies and purchasing staff on sole-source, standardization, and change order forms.

Some original contracts and change orders to contracts were not “approved as to form” by the DA’s office (§2.4 of Report). During our examination of a sample of 25 contracts, we found 2 construction contracts, each exceeding \$25,000, that were not “approved as to form” by the DA. County Ordinance, 3.28.060(E)¹ requires that whenever public funds are to be expended for the construction or repair of any public work or facility, the director of the Contracts and Procurement Division must ensure that a contract preparation package is assembled and forwarded to the DA for review and “approval as to form,” unless a DA-approved standard-form contract, without any alteration, is used. These two contracts did contain the required elements of a standard-form contract.

RECOMMENDATION:

Contracts and Procurement should ensure that all contracts, not in “Standard Contract Form” above \$25,000, are “approved as to form” by the DA.

Some purchase orders processed for non-generic medicines did not include a copy of the pertinent, “multi-state” contract in the purchasing file (§2.6 of Report). Our sampling of regular and large-cost purchase orders disclosed eight instances where vaccines were acquired under a multi-state contract; an arrangement whereby Salt Lake County piggybacks with other states’ contracts to obtain lowest cost non-generic medication. Of the eight purchase orders, five did not have the contract document included in the purchase order file. According to County ordinance, medicines or medical supplies which are non-generic can be purchased without competitive bid; however, a copy of the pertinent, multi-state contract must be included with the purchase order.

RECOMMENDATION:

Contracts and Procurement should ensure that the multi-state contracts, price quotes, and supporting documentation used to establish the exception for purchasing without competitive bid are included in the purchasing file.

Purchasing rules were circumvented by agencies for some purchases (§3.1 of Report). In reviewing transactions with a single vendor, with multiple purchase orders submitted on the same day, we found a few anomalies. A typical anomaly was the deliberate splitting of orders to keep the total cost of each order below competitive bidding requirements, currently \$2,500. Splitting purchase orders is an evasion of competitive bidding policies and procedures. Invoices should not be split to fit a larger purchase into the small-dollar purchase exception to competitive bidding.

RECOMMENDATION:

Contracts and Procurement should continue their ongoing effort to warn agencies against separating purchases into multiple invoices for a single transaction to avoid competitive bidding.

The Auditor's office should establish periodic data queries to detect split transactions.

The Mayor's Office consistently approved claims for unauthorized purchases upon the recommendation of Contracts and Procurement (§4.1 of Report). We reviewed a total of 181 claims with a combined dollar amount of \$735,439. Nearly 33 percent of required transmittal letters justified the unauthorized purchase based on "employee misunderstanding of purchasing rules." In many instances, the same justification was boiler-plate repeated over and over again. If the Mayor's office denied some these claims, or returned them for further justification, the number of claims submitted may decrease.

The majority of County agencies (78 percent) had less than 5 claims per agency during this period. Of the remaining agencies, 4 agencies submitted almost 43 percent of all claims processed.

RECOMMENDATION:

Contracts and Procurement should consider whether claims should routinely be approved where there appears to be a consistent disregard of policies and procedures.

Contracts and Procurement should provide feedback and training on exigency purchase procedures with organizations processing claims that meet exigency criteria.

Contracts and Procurement should emphasize, as part of their training, the need to minimize unauthorized purchases which result in claims, and how that can be accomplished.

The Mayor's Office should consider returning claims to the agency purchasing personnel for further justification and explanation of remedial action.

The Auditor's Office should perform, or assist agencies to perform, on an on-going basis, a review of payments for claim requests to track agencies that have submitted multiple claims. Information regarding excessive claims submitted by an agency would be given to the Department Directors to develop communication and training to limit future claims submitted by those agencies.

Some agencies submitted claims for purchases made against an expired contract, master agreement, or blanket purchase order (§4.2 of Report). We reviewed a sample of claims to identify the reasons claims occurred. Our examination showed that 10 of the 64

claims (16 percent) were due to purchases made against an expired contract, master agreement or blanket purchase order. The justification letters stated that employees made the purchases under the assumption that a contract, master agreement or blanket purchase order was in place, without taking initiative to verify whether that was the case.

All current Countywide contracts, master agreements and blanket purchase orders are listed in a monthly newsletter sent to purchasing personnel in all County agencies, and are also posted on the County Intranet. Therefore, agencies have access to up-to-date information on the status of these procurement documents. This casual disregard for available information demonstrates a lack of attention to detail without fear of the consequences.

RECOMMENDATION:

Contracts and Procurement should better communicate to user agencies the requirement to check the status of contracts, master agreements, or blanket purchase orders before a purchase is processed.

Some agencies submitted claims, which did not include a statement of remedial action taken by the agency to prevent future unauthorized purchases (§4.3 of Report). Our test work revealed that only 27 of the 64 claims reviewed (42 percent) included a statement of remedial action taken by the Department, Division or Elected Official to prevent future unauthorized purchases. The majority (58 percent) we reviewed had no statement of remedial action to prevent these purchases. Although claims transmittal letters contained justifications for the claim, there was no narrative in the letters indicating how the agency would prevent claims from recurring.

Policy #1305, outlines procedures to eliminate unauthorized purchases. The Policy requires action by agency purchasing officials to ensure that requirements are met, and what actions Purchasing Agents must take if there is evidence that policies are being ignored or circumvented.

Contracts and Procurement could create a form for claims, similar to the sole-source and the standardization request forms, and post this form on their Intranet page. The form should have sections for the key information such as:

- Statement explaining why a contract or PO was not obtained prior to the purchase
- Procedures the agency has implemented to prevent recurrence
- Requisition number of the unauthorized purchase
- Signature lines for the organization, Contracts and Procurement, and the Mayor's Office

RECOMMENDATION:

Claims should not be processed until an acceptable letter of justification is submitted by the agency.

Contracts and Procurement should create a claims form for use by organizations submitting a claim request.

Conflict of Interest disclosure statements were not filed for employees who directly or indirectly contracted with the County (§6.1 of Report). During our examination of vendor files, we found that Disclosure Statements were not on file for employees who directly or indirectly contracted with the County. A construction company was awarded two contracts in excess of \$300,000 in December 2006. A month later, the spouse of the principal owner was hired as a part-time County employee and should have filed a Conflict of Interest Statement at that time, a requirement that the spouse may not been aware of. A Disclosure Statement was not on file in the County Clerk's Office for the employee.

In another instance, we found that an employee who was awarded a contract subsequently resigned from the County to perform work under the contract. Upon the expiration of the contract, the employee was re-hired by the County to work in the original department. A Disclosure Statement from the employee was not on file.

RECOMMENDATION:

Contracts and Procurement, working with the District Attorney, should update Conflict of Interest clauses in contracts using language to more clearly emphasize the legal requirement for filing Disclosures with the County Clerk's Office.

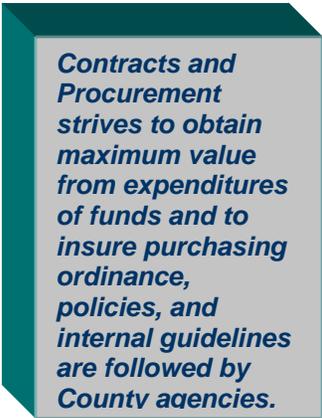
II. Introduction

The primary mission of the Contracts and Procurement Division is:

To provide goods, services, and professional staff support to all Salt Lake County agencies, allowing each agency the opportunity to perform their responsibilities to the citizens of this County by achieving the best value in a timely and efficient manner with an environment of fair and open competition in all dealings.

Contracts and Procurement strives to obtain maximum value from expenditures of funds administered and to insure that purchasing ordinances, policies and internal guidelines are followed by County agencies.

The responsibilities of the Division include:



Contracts and Procurement strives to obtain maximum value from expenditures of funds and to insure purchasing ordinance, policies, and internal guidelines are followed by County agencies.

- Establishing contracts for goods and services
- Managing the County purchasing card program
- Managing surplus property
- Purchasing goods and services for all County agencies. (However, library books, periodicals, and other materials are purchased by the Salt Lake County Library System. Likewise, the Treasurer is the agent of the County in contracting for bank services for all offices, departments, divisions and subdivisions of Salt Lake County.)

Between January 1, 2006 and June 30, 2007, Contracts and Procurement issued 3,636 requisitions valued at \$145,474,654. In 2006, the Division of Contracts and Procurement had a staff of 10 full-time equivalents (FTEs) and a budget of \$1,008,888.

Trends in the number and total amounts of purchase orders and contracts processed have fluctuated in recent years. Small-cost purchase orders have steadily trended downward since 2002, when 2,802 purchase orders valued at \$1,268,484 were processed, compared to 2006 when 1,512 purchase orders valued at \$710,427 were processed, a decrease of 46 percent. Increased use of purchasing cards likely contributed to this change.

Since installation of the CGI Technology and Solution Inc., AMS Advantage Procurement (Advantage) software in 2003, trends have continued to fluctuate. The number of regular purchase orders processed remained virtually unchanged from 2004 through 2006, with 683 processed in 2006 representing a typical number. However, blanket order releases decreased in 2005 by 27 percent but then increased 76 percent in 2006 when 4,114 releases occurred.

New contracts showed a similar unpredictable trend, with 49 percent fewer processed in 2005 compared to 2004, followed by a 57 percent increase in 2006 when 369 contracts, valued at \$20.7 million, were processed. Amendments to contracts increased significantly – 77 percent in 2005 compared to 2004,

followed by a 20 percent increase in 2006 when 402 contract amendments, valued at \$230.2 million, were processed.

Consultant requests significantly increased in 2007, with 121 requests through November 1, compared to 60 made and completed in 2006. By further comparison, 10 consultant contracts were approved in 1997 and 40 in 2002, reflecting a generally increasing trend from 1997 through 2007.

The Contracts and Procurement Director feels that workload has increased over the past five years, a claim supported by trends in overtime expenditures. Nominal overtime expenditures were recorded in 2002 and 2003, followed by \$13,000 in 2004, \$11,000 in 2005 and \$25,000 in 2006. All of this occurred as the number of FTE's remained fairly steady at about 10.3.

The major findings of this audit report indicate some lack of attention to important details in oversight of the procurement process. A contributing factor may be lack of adequate staffing to ensure proper training, enforcement and follow through on details. A staffing study was beyond the scope of this audit and may be under review by an outside consultant recently engaged by Contracts and Procurement management.

Figure 1, below, shows the organization chart for the Division.

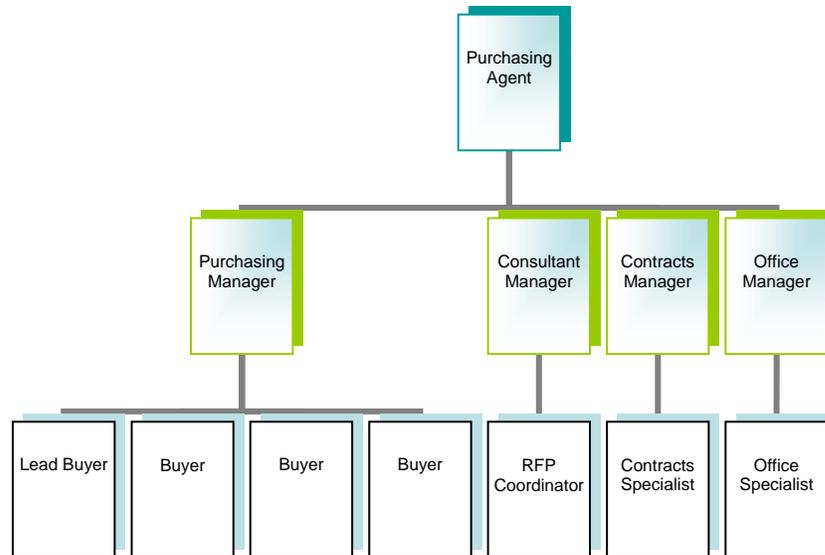


Figure 1. *Organization Chart for the Division of Contracts and Procurement.*

Salt Lake County Ordinance Chapters 3.16, 3.20, 3.22, 3.24 and 3.28 identify the requirements of the Division for obtaining goods and services. Effective April 2, 2007, Contracts and Procurement only processes purchases over \$2,500, while County agencies are responsible for purchase transactions of \$2,500 and under. All purchases over \$25,000 require approval from the Mayor's Office, and only after a formal competitive bidding process has been completed, unless the purchase arises pursuant to the provisions for purchases not requiring competitive bids. These exceptions are discussed later in this report.

III. Scope and Objectives

This audit examined operations of the Contracts and Procurement Division from January 1, 2006 through June 30, 2007, and, accordingly, included such tests of the records and other auditing procedures as we considered necessary in the circumstances. The scope of this audit was limited to a review of the processes for purchasing goods and services, and did not include the Division's responsibilities regarding the County purchasing card or surplus property.

Accordingly, our work was designed to achieve the following audit objectives:

- Review the administration of the procurement function and determine if purchasing ordinances and policies were followed.
- Determine if Contracts and Procurement efficiently performed its duties.
- Determine if purchasing actions followed established ordinances, policies and procedures regarding formal approval processes.
- Verify that files were maintained with proper documentation and included all necessary information and attachments.
- Determine if purchases made under exceptions to the competitive bidding process were appropriate and documented.
- Confirm that unauthorized purchases were limited and controlled.
- Verify that appropriate Conflict of Interest disclosure statements were filed when required.

This audit was limited to a review of the processes for purchasing goods and services.

Although we performed work designed to test each audit objective, comments are limited to those which address material operational issues and concerns. Our reviews of records and documents were limited to samples. We did not look at 100 percent of the records. As with all sampling, there is a risk that issues may not be identified.

IV. Summary of Findings and Recommendations

#	Finding	Recommendation	Main Report Reference Page
1.0	General Purchasing Procedures		14
2.0	Regular And Large-Cost Purchases		15
2.1	Transactions that involved statewide, multiple-award (MA) contracts did not always include written quotes in the contract file.	<p>Contracts & Procurement should continue to emphasize that County agencies obtain quotes from several MA vendors prior to processing POs for goods or services over \$1,000.</p> <p>Contracts and Procurement should perform spot checks of agency purchasing files to determine whether the required quotes are maintained.</p>	16
2.2	Documentation was not available to explain the reason approvals were bypassed or rejected in Advantage.	Contracts and Procurement should ensure that the "Document Comments" area in Advantage is used to record and explain the reason for rejected or bypassed approvals, and that awareness of these requirements be raised by training and enforcement.	18
2.3	Some POs were not "approved as to form" by the DA's office as required by County Ordinance.	Contracts and Procurement should ensure that all POs above \$25,000 are "approved as to form" by the DA and properly stamped to so indicate, and immediately recorded in the Advantage System.	19
2.4	Some original contracts and change orders to contracts were not "approved as to form" by the DA's office.	Contracts and Procurement should ensure that all contracts, not in "Standard Contract Form" above \$25,000, are "approved as to form" by the DA.	19
2.5	Purchase Orders did not always include all required signatures.	Contracts and Procurement should obtain signatures, as appropriate, on each page of the PO from the Purchasing Agent and/or the Mayor, according to dollar threshold requirements, prior to sending the PO to the vendor for processing, indicating a complete and thorough review of its content.	21

#	Finding	Recommendation	Main Report Reference Page
2.6	Some POs processed for non-generic medicines did not include a copy of the pertinent "multi-state" contract in the purchasing file.	Contracts and Procurement should ensure that the multi-state contracts, price quotes, and supporting documentation used to establish the exception for purchasing without competitive bid are included in the purchasing file.	22
2.7	Signatures were missing on forms requesting approval for sole-source, standardization, and change order transactions.	Contracts and Procurement should ensure that required signatures are obtained from County agencies and purchasing staff on sole-source, standardization, and change order forms.	23
2.8	Contractors charged a mark-up fee on permits for construction projects in violation of contract terms.	<p>All parties involved in the approval process for change orders should take responsibility for ensuring that contractors are paid appropriately. These roles and responsibilities are defined in Section 2.8 on page 25.</p> <p>The fiscal staff in the contracting agency should review and approve all change orders submitted by contractors to verify that the change order is consistent with the original project intent, the established funding requirements for the activity, and has any referenced supporting documentation attached.</p>	23
2.9	Expenditures for contract NQ0400C exceeded the Guaranteed Maximum Price (GMP) as set forth in the contract.	Contracts and Procurement should request a legal opinion from the DA on whether change orders, alone, constitute sufficient legal documentation to support project design changes and expenditures above the GMP established in a contract.	25
2.10	Change orders on two large contracts did not include adequate supporting documentation and contained some mathematical errors.	<p>Contracts and Procurement should require the Project Manager to submit detailed documentation supporting change orders prior to allowing the change order to be processed further.</p> <p>Contracts and Procurement should check for math errors on progressive change orders prior to entering the changes in Advantage to avoid error carryovers.</p>	26

#	Finding	Recommendation	Main Report Reference Page
2.11	Several contract change orders were combined as one “document-line version” rather than individual versions in Advantage in violation of purchasing guidelines.	<p>Contracts and Procurement should create a new version line for each change order entered in Advantage for contracts and POs.</p> <p>Contracts and Procurement should ensure that County agencies understand the process for creating a new version line in Advantage for change orders processed at the agency level.</p>	27
2.12	Construction-related contracts varied in length and content.	Contracts and Procurement, with the assistance of the DA’s Office, should review the process for developing construction contracts to ensure that the County is consistently using the same language and elements in contracts.	28
3.0	Small-Cost Purchases		29
3.1	Purchasing rules were circumvented by agencies for some purchases.	<p>Contracts and Procurement should continue their ongoing effort to warn agencies against separating purchases into multiple invoices for a single transaction to avoid competitive bidding</p> <p>The Auditor’s office should establish periodic data queries to detect split transactions.</p>	30
3.2	Procurement Type IDs were left blank or incorrectly entered on some purchase requisitions.	Contracts and Procurement should monitor requisitions and POs to ensure that Procurement Type IDs are entered correctly by agencies, requisitions and POs with “Unclassified” Procurement Type IDs are discarded, and new requisition numbers entered.	31
3.3	Contracts and Procurement is proactive in establishing Countywide contracts and blanket purchase orders with vendors.	none	32

#	Finding	Recommendation	Main Report Reference Page
4.0	Unauthorized Purchases (Claims Against the County)		32
4.1	The Mayor's Office consistently approved claims for unauthorized purchases upon the recommendation of Contracts and Procurement.	<p>Contracts and Procurement should consider whether claims should routinely be approved where there appears to be a consistent disregard of policies and procedures.</p> <p>Contracts and Procurement should provide feedback and training on exigency purchase procedures with organizations processing claims that meet exigency criteria.</p> <p>Contracts and Procurement should emphasize, as part of their training, the need to minimize unauthorized purchases which result in claims, and how that can be accomplished.</p> <p>The Mayor's Office should consider returning claims to the agency purchasing personnel for further justification and explanation of remedial action.</p> <p>The Auditor's Office should perform, or assist agencies to perform, on an on-going basis, a review of payments for claim requests to track agencies that have submitted multiple claims. Information regarding excessive claims submitted by an agency would be given to the Department Directors to develop communication and training to limit future claims submitted by those agencies.</p>	32
4.2	Some agencies submitted claims for purchases made against an expired contract, master agreement, or blanket purchase order.	Contracts and Procurement should better communicate to user agencies the requirement to check the status of contracts, master agreements, or blanket purchase orders before a purchase is processed.	34
4.3	Some agencies submitted claims, which did not include a statement of remedial action taken by the agency to prevent future unauthorized purchases.	<p>Claims should not be processed until an acceptable letter of justification is submitted by the agency.</p> <p>Contracts and Procurement should create a claims form for use by organizations submitting a claim request.</p>	35

#	Finding	Recommendation	Main Report Reference Page
5.0	Purchases Not Requiring Competitive Bids		36
5.1	There were some instances when documentation was not submitted to justify the sole-source exemption.	Purchases from a sole-source vendor should not be approved without the appropriate documentation included with the PO.	37
5.2	The files for exigency purchases included information reflecting the need was compelling and of unusual urgency.	none	37
5.3	No emergency purchases were made between January 1, 2006 and June 30, 2007.	none	37
6.0	Examination Of Vendor Files for Disclosure Statements		38
6.1	Conflict of Interest disclosure statements were not filed for employees who directly or indirectly contracted with the County.	Contracts and Procurement, working with the District Attorney, should update Conflict of Interest clauses in contracts using language to more clearly emphasize the legal requirement for filing Disclosures with the County Clerk's Office.	39
6.2	A conflict of interest existed for a Consultant Selection Committee member who directly supervised a contract recipient.	Consultant Selection Committees should carefully consider situations wherein a member has a supervisor/subordinate relationship with a bidder.	39
6.3	State mandated insurance coverage was waived by a member of the Consultant Selection Committee.	Contracts and Procurement should review contracts for hand-written amendments and investigate items that may change essential contract provisions.	41

V. Findings and Analysis

We found the operations we reviewed were generally in compliance with applicable statutes, ordinances and policies. However, we identified some areas where the Division can further improve internal controls and monitoring of purchases.

Our findings and analysis are divided into the following sections:

- General Purchasing Procedures
- Regular and Large-Cost Purchases
- Small-Cost Purchases
- Unauthorized Purchases (Claims Against the County)
- Purchases Not Requiring Competitive Bids
- Examination of Vendor Files for Disclosure Statements

1.0 General Purchasing Procedures

Procurement transactions and the rules governing their management are based upon aggregate dollar amount and type of purchase. In April 2007, new purchasing-related ordinances and policies went into effect. The guidelines listed in Table 1 below are based on new dollar amount classifications.

Countywide Policy #7010 outlines these general requirements for purchase transactions as of April 2007.

General Purchasing Requirements	
Purchase Amounts	General Requirements
Less than \$1,000	<ul style="list-style-type: none"> • No bids required • Approved by agency
Over \$1,000 but less than \$2,500	<ul style="list-style-type: none"> • Minimum of two quotes • Bids by mail or telephone • Approved by agency • Quotes filed with agency purchasing files
Request for Quote - Over \$2,500 but less than \$25,000	<ul style="list-style-type: none"> • Written quotes (bids) from at least three qualified vendors • Conducted and approved by Contracts and Procurement
Request for Quote - Over \$25,000	<ul style="list-style-type: none"> • Bids (RFB or RFC) notification by advertisement in newspaper • Bids in writing • Conducted by Contracts and Procurement • Approved by County Attorney and County Mayor • Approved for funds available by the Auditor's Office
Expedited Consultant - Over \$2,500 but less than \$15,000.	<ul style="list-style-type: none"> • Conducted by agency • Information sent to Contracts and Procurement
Request for Proposal - Over \$15,000	<ul style="list-style-type: none"> • Conducted by Contracts and Procurement
Sole-Source, Standardization, Resale - Less than \$1,000	<ul style="list-style-type: none"> • Approved by agency
Sole-Source, Standardization, Resale - Over \$1,000 but less than \$2,500.	<ul style="list-style-type: none"> • Agency documents its file with exemption form for defined purchases not requiring competition
Sole-Source, Standardization, Resale - Over \$2,500	<ul style="list-style-type: none"> • Requisition sent to Contracts and Procurement with exemption justification

Table 1. Purchasing dollar amounts and requirements currently in effect.

Procurement transactions are processed using the Advantage software. Advantage provides various methods for users to request goods or services:

- Purchase Orders (POs)
- Delivery Orders (DOs)
- General Accounting Expenditures (GAXs)
- Payment Request Commodities (PRCs)

Purchasers select items or services to purchase and then provide required information to complete the request (e.g., funding code, quantity, price, procurement type, etc.). Activities are monitored and the process is tracked by the Advantage system.

Unless otherwise requested, all POs and DOs over \$1,000 flow through an electronic approval process. Advantage was configured to facilitate the default functionality of allowing organizations to process small-cost POs of \$1,000 or less without the requirement of an approval from the Unit Manager in the organization. Some departments have requested tighter controls by requiring that all POs and DOs be electronically approved regardless of the amount.

Delivery Order documents differ from PO documents in two ways:

- Delivery Order documents can only reference master purchasing agreements.
- Commodity line items on DO documents have two additional required fields called **agreement line number** and **agreement vendor line number**. These fields require a line number from the referenced master agreement.
- The system automatically extracts all required line-level information (vendor, unit price, or commodity code) from the master agreement onto the appropriate line on the DO document.
- The user cannot change the values of the fields that were replicated from the master agreement document.

GAXs and PRCs do not go through the electronic approval process. These documents are approved by management according to an agency's internal controls and procedures.

The remainder of this report examines various aspects of these general rules and governing procedures in greater detail.

2.0 Regular and Large-Cost Purchases

During our audit, we examined a sample of large-cost POs and contracts issued during the period January 1, 2006 to June 30, 2007. In April 2007, the threshold amount for large-cost purchases was increased. The large-cost purchase threshold—above \$1,000 prior to April 2007—increased to above \$2,500 after

that date. We examined a sample of 64 POs and 25 contracts and found the following:

- ***Transactions that involved statewide, multiple-award (MA) contracts did not always include written quotes in the contract file.***
- ***Documentation was not available to explain the reason approvals were bypassed or rejected in Advantage.***
- ***Some POs were not “approved as to form” by the DA’s office as required by County Ordinance.***
- ***Some original contracts and change orders to contracts were not “approved as to form” by the DA’s office.***
- ***Purchase Orders did not always include all required signatures.***
- ***Some POs processed for non-generic medicines did not include a copy of the pertinent “multi-state” contract in the purchasing file.***
- ***Signatures were missing on forms requesting approval for sole-source, standardization, and change order transactions.***
- ***Contractors charged a mark-up fee on permits for construction projects in violation of contract terms.***
- ***Expenditures for contract NQ0400C exceeded the Guaranteed Maximum Price (GMP) as set forth in the contract.***
- ***Change orders on two large contracts did not include adequate supporting documentation and contained some mathematical errors.***
- ***Several contract change orders were combined as one “document-line version” rather than individual versions in Advantage in violation of purchasing guidelines.***
- ***Construction-related contracts varied in length and content.***

2.1 Transactions that involved statewide, multiple-award (MA) contracts did not always include written quotes in the contract file.

Statewide contracts are term contracts made available to the County to purchase items without competitive bidding. These contracts are designed to achieve volume savings and reduced administrative costs. MA contracts are statewide and are awarded to multiple suppliers of similar products or services.

We examined a sample of 64 large-cost POs that occurred during the period January 1, 2006 to June 30, 2007. During this period, Countywide Policy #7020, “Statewide Contracts,” was revised by the County Council. The current version was made effective on March 13, 2007. Therefore, the current version of the policy only applies to transactions in our sample from March 2007 to June 2007.

The prior version of Policy #7020 "Statewide Contracts," Section 2.3.1², outlined the following with regard to vendor quotes:

- For MA purchases under \$10,000 — the purchasing organization must contact two approved MA vendors for a quote.
- If the purchase exceeds \$5,000 — the quotes obtained should be in writing.
- For MA purchases over \$10,000 — written quotes must be obtained from three vendors, if three are available.
- Written quotes must be forwarded to the Contracts and Procurement Division

9% of the POs processed through multiple-award contracts did not have copies of vendor quotes on file in Contracts and Procurement.

Of the 64 POs examined, we found 6 (9 percent), dated prior to March 2007, that did not have copies of the vendor quotes on file with Contracts and Procurement, as required. Therefore, we could not determine whether quotes were obtained from other MA vendors prior to the issuance of the PO. We did not examine agency files to determine if quotes were in agency purchasing files. In any case, agencies

were required by prior Policy #7020 to forward quotes to Contracts and Procurement.

The March 2007 revision to Policy #7020 still requires that quotes be obtained for purchases more than \$1,000. However, the revision eliminated the requirement of forwarding written quotes to Contracts and Procurement. Agencies must now maintain their own file of quotes for MA contract purchases. We did not conduct tests to verify whether multiple quotes were obtained and filed by agencies.

The purpose for obtaining quotes from several MA vendors is to recognize that each vendor has its unique supply chain. This may facilitate obtaining a lower price through contracts and volume purchases from its distributors. If only a single MA vendor is contacted for price quotes, the County may not obtain the lowest price available.

RECOMMENDATIONS:

Contracts and Procurement should continue to emphasize that County agencies obtain quotes from several MA vendors prior to processing POs for goods or services over \$1,000.

Contracts and Procurement should perform spot checks of agency purchasing files to determine whether the required quotes are maintained.

2.2 Documentation was not available to explain the reason approvals were bypassed or rejected in Advantage.

The purchasing system, Advantage, tracks required approvals for each PO and contract. For POs, an authorized official in the Auditor's Office, DA's Office, Mayor's Office, and the Contracts and Procurement Division is required to enter their approval in Advantage, depending on the dollar amount and type of purchase. For contracts, the same approvals are required in Advantage as with a PO, except the DA's Office only "approves as to form" on the original written contract, not electronically in Advantage. In some instances approvals may be "rejected" or "bypassed" in the system.

"Rejected" status on an approval indicates that changes were to be made by the PO or contract originator and then resubmitted for approval. "Bypassed" status indicates that an authorized person in Contracts and Procurement was able to override and disregard the absence of electronic approval by the required officials normally involved in the approval process.

Contracts and Procurement staff indicated that bypassing approvals is not common practice. They explained that the most common reason for bypassing approval is when a person with signature authority fails to electronically approve the PO or contract, in Advantage, even though that person has already signed and approved the written PO or contract. Another instance arises when a minor change, such as an accounting code or fiscal year, is made to the PO or contract. Instead of waiting for each individual in the separate offices to re-enter their approval, Contracts and Procurement sometimes bypasses their approvals to keep the PO or contract processing moving forward.

We examined the approval steps in Advantage for the 64 large-cost POs and 25 contracts in our sample to isolate rejected or bypassed transactions. We found that 9 (14 percent) of the POs and 8 (32 percent) of the contracts either had been rejected or had bypassed approvals without documentation explaining the reason for the rejection or bypass.

Advantage software has a "comments area" that can be used to explain rejected or bypassed approvals, but users seemed unaware of it.

A section of the County Purchasing System Manual, dated June 2006, summarizes the upgrades to the Advantage software from version 3.2 to version 3.5.1. Item 3 of the Summary of Changes, describes a "comments area" which was added to record changes in a document without editing or modifying the document. This feature is useful, when an approver wants to reject a requisition and make a comment back to the creator of the document, or for anyone else to review.³

Of the 9 rejected or bypassed POs mentioned above, 5 (55 percent) occurred after June 2006. Of the 8 rejected or bypassed contracts, 5 (62 percent) occurred after June 2006. These 10 rejections/bypasses occurred after the "comments area" in Advantage was available. Thus, even though the Purchasing System Manual was issued and available for reference, explanations in the "comments area" were not recorded in these instances. Thus, the guidance of the Purchasing System Manual was not well understood by users or enforced by Contracts and Procurement.

When approvals are rejected or bypassed without explanation, the control environment weakens and the possibility increases of a PO or contract being processed without recording final review by the authorized officials when appropriate.

Recommendation:

Contracts and Procurement should ensure that the “Document Comments” area in Advantage is used to record and explain the reason for rejected or bypassed approvals, and that awareness of these requirements be raised by training and enforcement.

2.3 Some POs were not “approved as to form” by the DA’s office as required by County Ordinance.

For **Purchase Orders over \$25,000**, the Office Specialist in Contracts and Procurement prepares a packet of documents to send to the DA to review. The packet includes the PO, each page of which is signed by the Purchasing Agent, along with a cover memo requesting the PO be “approved as to form.”

Ordinance requires all POs, and change orders over \$25,000 to be “approved as to form” by the DA on each signature page.

Salt Lake County Code of Ordinances, Chapter 3.28.080(A)⁴ requires that all POs and change orders over \$25,000 must indicate, on each signature page, an approval as to form by the DA, prior to approval by the mayor or council for execution or ratification. “Approved as to form” means that the County may lawfully enter into the transaction and the document contains no illegal provisions.

When the DA receives the packet, a log number is written in the top right corner of the transmittal memo, indicating receipt and initiating processing through their office. Upon review, the document is stamped on each page “approved as to form;” then signed and dated in the stamped area. Electronic approval by the DA is also required in Advantage simultaneously, with the manually stamped “approval as to form” on the document. The PO packet is then sent back to Contracts and Procurement for final processing.

During our examination of 64 large-cost POs, we found 3 POs (4.7 percent) where the “approved as to form” stamp was missing. One PO for \$715,544 had no indication of approval as to form by the DA. The file documenting this PO included a memo to the DA requesting the approval. However, the memo did not have a DA log number indicating receipt by the DA’s office. Not surprisingly, the “approved as to form” stamp was missing from all pages. Likewise, the DA’s approval in Advantage was not entered, but was bypassed by the Contracts & Procurement buyer without any explanation recorded, either in Advantage or the paper file.

One PO for \$715,544 had no indication of “approved as to form” by the DA.

This large PO was made under provisions of an established State Contract. Thus, the Contracts and Procurement buyer may have concluded that it was unnecessary to process the PO through the DA’s office. However, regardless of whether this PO for \$715,544 was purchased under a State Contract, the lack of review and approval by the DA presents significant risk to the County. Contracts and Procurement’s failure to check whether the DA has “approved as to form” in all cases could put the County at risk if any legal issue came up regarding this PO. However, our research regarding this particular PO indicated that this particular purchase was delivered and paid for without any legal issue arising.

Additionally, we found two POs, one for \$91,896 and one for \$71,677, on which the DA's "approved as to form" stamp was missing on either the first or second page of a two-page document. If those pages were incomplete or contained illegal provisions, the County could likewise be subjected to risk. The DA may have reviewed these two POs, but inadvertently neglected to stamp, sign, and date each page.

RECOMMENDATION:

Contracts and Procurement should ensure that all POs above \$25,000 are "approved as to form" by the DA and properly stamped to so indicate, and immediately recorded in the Advantage System.

2.4 Some original contracts and change orders to contracts were not "approved as to form" by the DA's office.

For contracts over \$25,000, Contracts and Procurement prepares a contract preparation package for the DA's Office. The DA's Office drafts the contract and approves it as to form by stamping, signing and dating the signature page(s) of the final contract. *The DA is not required to enter an approval in Advantage for contracts over \$25,000.*

During our examination of a sample of 25 contracts, we found two construction contracts each exceeding \$25,000 that were not "approved as to form" by the DA. County Ordinance, 3.28.060(E)⁵ requires that whenever public funds are to be expended for the construction or repair of any public work or facility, the director of the Contracts and Procurement Division must ensure that a contract preparation package is assembled and forwarded to the DA for review and "approval as to form," unless a DA-approved, standard-form contract without any alteration is used.

We found 2 construction contracts and 37 change orders with amounts over \$25,000 that were to "approved as to form" by the DA.

To qualify as a standard-form contract, the document should contain the words "Standard-Contract Form," the standard form number, and the approval date in the contract title. The two contracts we examined did not qualify because these elements were not included in the title. Therefore, according to ordinance these contracts should have been reviewed by the DA and "approved as to form."

In addition to the above contracts, we found two additional construction contracts that included a total of 73 change orders. Of these 73 change orders, 37 (51 percent) were over \$25,000. The original contracts were "approved as to form" by the DA. However, the change orders that were over \$25,000 were not "approved as to form."

County Ordinance 3.28.080(A)⁶ requires that **bilateral contracts and contract amendments** in excess of \$25,000 must indicate, on each page signed by the county, that each has been "approved as to form" by the DA's office prior to submission to the mayor or council for execution or ratification. As mentioned before, Contracts and Procurement's neglect to discover that the DA did not

approve the contracts as to form could put the County at risk if a legal issue arose regarding these contracts.

Recommendation:

Contracts and Procurement should ensure that all contracts, not in "Standard Contract Form" above \$25,000, are "approved as to form" by the DA.

2.5 Purchase Orders did not always include all required signatures.

During our review of large-cost POs, we examined the documents for signatures. County Ordinance 3.20.100⁷ requires that:

- The award of any contract in excess of \$25,000 must be made by the Mayor.
- All POs or other contracts of \$25,000 or less must be awarded and signed by the purchasing agent, then submitted to the Mayor for approval and ratification.

The Mayor and Purchasing Agent are required to sign each page of POs above \$25,000. We found 3 instances where either the Mayor or Purchasing Agent failed to sign.

Some POs we examined required multiple pages to capture all the information for the purchase. Each page has a place for the Purchasing Agent and Mayor to provide their signature for approval. As outlined in the previous section, the Mayor and Purchasing Agent are required to sign each page of POs above \$25,000. Only the Purchasing Agent is required to sign each page of POs below \$25,000.

We examined 3 POs (4.7 percent) on which either the Mayor or Purchasing Agent signature was missing on one page, indicating a lack of thorough review and approval as required by ordinance. County Ordinance, 3.28.030⁸

mandates that the purchase order shall specify the:

- Nature of the goods or services to be acquired
- Purchase price thereof
- Freight charges
- Prompt payment discounts
- Delivery date
- Person or entity from whom goods are being acquired
- Organization for whom the acquisition is being made
- Such other provisions as may be appropriate or required.

The purchase order must incorporate by reference all the terms, conditions and specifications, if any, contained in the request for bids. When processing the PO,

it is critical for the Purchasing Agent and the Mayor to review the PO for the information required by the above ordinance. If a PO page is not reviewed and signed by the appropriate individuals, it is possible that required information could be omitted or recorded incorrectly, prior to submission to the vendor for processing.

Recommendation:

Contracts and Procurement should obtain signatures, as appropriate, on each page of the PO from the Purchasing Agent and/or the Mayor, according to dollar threshold requirements, prior to sending the PO to the vendor for processing, indicating a complete and thorough review of its content.

2.6 Some POs processed for non-generic medicines did not include a copy of the pertinent “multi-state” contract in the purchasing file.

One of the exceptions for purchasing without competitive bid in County Ordinance is for medicines or medical supplies which are non-generic in nature. During our examination of the sample of 64 large-cost purchases, we discovered eight POs in which vaccines were purchased under a multi-state contract. This is a contract established by other states for purchase of non-generic medicines and medical supplies on which the County piggybacks.

Five POs did not have a reference copy of the multi-state contract included in the PO file, as required by

Of the eight POs, five did not have a reference copy of the multi-state contract included in the PO file. The contract lists the prices for the various vaccines that can be purchased through the vendor. Thus, we were unable to determine if the prices listed on the PO were the same as the prices listed in the contract.

County Ordinance, 3.20.030 B.2⁹, provides that the purchasing file must reflect price, cost analysis, or such other evidence of reasonable pricing, and other information concerning contract or award matters to reasonably support the contract award to the vendor.”

Moreover, the ordinance requires in Chapter 3.28.05¹⁰ that the purchasing agent retain on file, by either hard copy or on-line computer system storage:

- All original requisitions
- Request for bids or proposals
- Bids or proposals submitted
- Copies of public notices showing advertisement for bids or proposals
- Any other documents or correspondence relating to the acquisition

Recommendation:

Contracts and Procurement should ensure that the multi-state contracts, price quotes, and supporting documentation used to establish the exception for purchasing without competitive bid are included in the purchasing file.

2.7 Signatures were missing on forms requesting approval for sole-source, standardization, and change order transactions.

Contracts and Procurement provides electronic forms via the Intranet for County agencies to complete when requesting a change order for a purchase, or requesting a purchase under the sole-source or standardization exceptions. These forms have an area at the bottom for both an agency and a Contracts and Procurement signature. The standard language at the bottom of each form states: *“By signing, the agency is certifying the information is accurate. Final decision will be determined by Contracts and Procurement. When submitted by email, type requestor’s name on the signature line. The email will constitute the electronic signature.”*

We found six forms that did not have either the County agency or the Contracts and Procurement buyer signature on the form.

During our examination of a sample of 64 large-cost purchases, we found six forms (9.4 percent) that did not have either the County agency or the Contracts and Procurement buyer signature on the form. Countywide Policy and Salt Lake County Ordinances do not provide or require a specific form to be completed. However, policy does require that sufficient

records be maintained to allow reconstruction of a decision. The supporting documents submitted by a County agency should have an explanation of the reason for a change order, or for the sole-source, or standardization exemptions from competitive bidding. Likewise, requiring that an official at both the County agency level and at Contracts and Procurement Division sign the appropriate form, helps ensure that the proper authorization and review has been performed for these transactions.

Recommendation

Contracts and Procurement should ensure that required signatures are obtained from County agencies and purchasing staff on sole-source, standardization, and change order forms.

2.8 Contractors charged a mark-up fee on permits for construction projects in violation of contract terms.

We examined two construction contracts, the Salt Palace Expansion (NQ0400C) and the Children’s Museum Interior (NC05103C), in which the contractors obtained multiple permits at their own expense on behalf of the County. In the RFP for contract NQ04000C, Addendum #2, item #14, it states: *“Article 7: Contract Price – Paragraph 7.3.15, add the following: The design/build contractor*

will take out and pay for all permits. He will be reimbursed by the County as a cost of the work.”

This section of the RFP has no specific provision for a contractor mark-up on cost reimbursements. However, in three separate change orders, the contractor requested reimbursement for \$706,695 in permits and fees including contractor mark-ups totaling \$26,035.

For contract #NC05103C, the Project Manual, General Conditions, Section 3.36.00, “Permits and Fees,” states, “*In the event the contractor pays any of the fees required by the permitting authority or utility fees, said fees will be reimbursed by the County at actual cost.” (Emphasis added) Nonetheless, in two separate change orders the contractor requested reimbursement for \$13,497 in permits and fees, including a contractor mark-up fee totaling \$871.*

The change orders processed for these reimbursements have six separate areas for approval signatures:

- **Facilities and the Community Services Departments** – verifying that the change order is consistent with the original project intent and the established funding requirements for the activity
- **A Contract Administrator** – certifying that the change is required to ensure satisfactory and timely completion
- **The Auditor’s Office** – verifying that funds are available for the proposed contract change
- **Contracts and Procurement** – verifying that the change order has been reviewed by their division and the contract is in effect and properly executed
- **The Mayor’s Office** – approving the change order in accordance with the provisions and conditions of the contract documents.
- **The Contractor** – agreeing to the adjustment in the contract sum and completion date

Contractors charged and were reimbursed \$26,906 for permit fees above contract terms.

In the two contracts examined, Facilities would be responsible for reviewing contract change orders for consistency with original project intent. In all, the fiscal staff in the contracting agency is responsible for ensuring change orders are correct and documented. This includes verifying that the contractor is requesting reimbursement for expenses allowed in the contract, and that supporting documentation is included with the change order. In these two situations, the County reimbursed the contractors \$26,906 above the amount allowed by the contracts, indicating an incomplete review.

Recommendations:

All parties involved in the approval process for change orders should take responsibility for ensuring that contractors are paid appropriately. These roles and responsibilities are defined in Section 2.8 on page 25.

The fiscal staff in the contracting agency should review and approve all change orders submitted by contractors to verify that the change order is consistent with the original project intent, the established funding requirements for the activity, and has any referenced supporting documentation attached.

2.9 Expenditures for contract NQ0400C exceeded the Guaranteed Maximum Price (GMP) as set forth in the contract.

One of the large-cost agreements we examined, Contract NQ0400C, between the contractor/design builder (DB) and the County states, in Section 7.5.1, Price, *“When the drawings and specifications are sufficiently complete, DB shall submit a Guaranteed Maximum Price (GMP) which shall be the sum of the estimated Cost of Work as defined in Section 7.3... The GMP for this Project shall not exceed the following... for design and construction...\$51,903,003.”*

Contract Change Order #14 states, *“Per section 7.5 of the contract [DB] is to propose a GMP, which shall be the sum of the estimated Cost of Work, and DB’s fee, not to exceed \$51,903,003. The attached GMP totals \$53,402,024, which includes \$1,235,569.41 in Owner approved scope changes and a request for \$263,451.59 in additional contingency funds.”*

To date, there have been 45 change orders to this contract. The adjusted contract amount in Change Order #45 was \$55,406,298, which exceeded the adjusted GMP established in Change Order #14 by \$2,004,274. Subsequent change orders to #14 did not state a new GMP had been established by the DB. However, all change orders were signed by the DB and various County personnel. Thus, a question appears unresolved as to why a new GMP was not established when design changes were made to the project, after #14 and through #45, to cause the project expenditures to exceed the GMP. Perhaps the rationale was that

A new Guaranteed Maximum Price was not established when design changes were made to a project.

the change orders, alone, provided sufficient approval and documentation to allow the project to go over the GMP, even though the change orders did not reflect or establish a revised GMP again after Change Order #14.

A formal opinion from the DA may assist Contracts and Procurement in the future when reviewing contract change orders to ensure the legal elements of the contract are addressed when significant project changes occur.

Recommendation:

Contracts and Procurement should request a legal opinion from the DA on whether change orders, alone, constitute sufficient legal documentation to support project design changes and expenditures above the GMP established in a contract.

2.10 Change orders on two large contracts did not include adequate supporting documentation and contained some mathematical errors.

We examined 73 change orders for two major construction projects (NC05103C and NQ04000C) in process during our audit period, of January 1, 2006 to June 30, 2007 as previously reported. Change orders were numbered and included the following main elements:

- Explanation and justification of the additional work to be completed
- Total amount of the change order with each individual change listed separately
- Total change order amounts to date
- Original and adjusted contract amounts, including the revised GMP
- Original and adjusted contract completion date
- Signature section for approvals
- Documents submitted by the contractor summarizing the change amounts along with detailed subcontractor invoices

25% of change orders did not include subcontractor invoices to substantiate additional costs incurred.

We found that the majority of the change orders included a page entitled, "Proposed/Preliminary Change Order", that was submitted by the contractor summarizing the additional expenses incurred by the contractor and subcontractors. The contractor also usually included detailed subcontractor invoices. However, 18 (25 percent) of the change orders did not include the subcontractor invoices. Due to this omission, we were unable to reconcile the amounts listed on the contractor summary page with any detailed documentation to support the costs incurred.

County Ordinance, 3.28.060(E)¹¹, provides that whenever public funds are to be expended for the construction or repair of any public work or facility, the Contracts and Procurement Division must retain a file copy of:

- The request for the construction or repair services
- The original request for bids
- All bids submitted

- A copy of any contract that is prepared
- **Any other documents or correspondence relating to the acquisition**

As Contracts and Procurement reviewed the change orders for these contracts, they did not require that the project manager include all the supporting detail prior to processing the change orders through the Mayor's and Auditor's Office. As a result, we discovered multiple instances where the documentation supporting change order amounts was not on file in Contracts and Procurement.

In addition, we found math errors on the adjusted contract amount for contract NQ04000C that carried forward through at least four change orders. On Change Order #39, the adjusted contract amount was crossed out and a new amount was hand-written on the document. The hand-written amount was added incorrectly and was \$73,695 more than the actual total. The error was reduced to a \$30 shortage on Change Order #40. The \$30 error carried forward through Change Order #45. If these math errors are not discovered and resolved during the review by Contracts and Procurement, it is possible for a more significant error to carry forward in Advantage.

Recommendations:

Contracts and Procurement should require the Project Manager to submit detailed documentation supporting change orders prior to allowing the change order to be processed further.

Contracts and Procurement should check for math errors on progressive change orders prior to entering the changes in Advantage to avoid error carryovers.

2.11 Several contract change orders were combined as one "document-line version" rather than individual versions in Advantage in violation of purchasing guidelines.

After a PO or contract is finalized, a change order must be created within Advantage, if the completion date or project dollar amount changes. When this occurs, the user creates a new sequential **version** of the document in Advantage. Each version of the document requires a separate electronic approval in Advantage by the appropriate approval authorities.

As discussed above, we examined 73 contract change orders for two major construction projects (NC05103C and NQ04000C). During our examination, we found that instead of Contracts and Procurement creating a new document version in Advantage for each of the 73 change orders, some of the change orders were combined together into a single version. The Contracts and Procurement internal policy, "Purchasing Related Ordinance and Policy Changes, April 2007" emphasizes the necessity of creating a new version line in Advantage for each change order. We noted that this statement applied to small-cost purchases but found no corresponding guidance for contracts.

Purchasing policy requires creating a new sequential document-line version in Advantage for each small-cost change order.

Contracts and Procurement explained that occasionally change orders from the project manager are received out of sequence, making it difficult to enter them sequentially in Advantage. They also observed that they sometimes receive separately numbered change orders in a batch, so they would enter them as a single version change in the system.

Thus, multiple change orders were approved together as a single line-item version, instead of separately. Combining change orders presents a problem. When one change order is batched with others, the entire batch of orders could be rejected based on an issue with one order. This potentially delays other change orders that would otherwise be approved. In contrast, if each numbered change order was entered as a separate version in Advantage, approvals are processed for each document separately. This approach would mirror the paper approvals since each written change order is separately approved by authorized individuals in the process.

Recommendations:

Contracts and Procurement should create a new version line for each change order entered in Advantage for contracts and POs.

Contracts and Procurement should ensure that County agencies understand the process for creating a new version line in Advantage for change orders processed at the agency level.

Follow-up:

Upon subsequent examination of this issue, and comment from the Contracts and Procurement Director in Appendix A, we have concluded that the current manner of entering change orders into AMS does not violate policy. Furthermore, we concur with the Director’s statement in Appendix A that agencies do not have security authorization in AMS to make changes to contracts.

2.12 Construction-related contracts varied in length and content.

Finally, during our examination of the sample of 25 contracts, we noted that 4 (16 percent) of the construction contracts were a standard-form contract developed by the DA’s Office. In these instances, the DA’s Office is not required to “approve as to form.”

We noted that contract length and content varied widely in construction contracts.

However, closer examination of contracts NQ04000C and NC05103C, revealed that they were not standard-form contracts, and both their content and lengths varied widely. This made finding the information needed to perform a consistent examination of the contracts difficult. For future contracts, it may be useful for Contracts and Procurement,

with assistance of the DA’s Office, to review the development of construction-related contracts to ensure that contract language and sections are more consistent.

Recommendation:

Contracts and Procurement, with the assistance of the DA's Office, should review the process for developing construction contracts to ensure that the County is consistently using the same language and elements in contracts.

3.0 Small-Cost Purchases

Prior to April 2, 2007, Countywide Policies and Procedures defined these transactions as purchases less than \$1,000 (currently \$2,500). These purchases were processed by Contracts and Procurement. The necessary information was provided by the requisitioning agency to enable the Contracts and Procurement Division to generate a PO.

To streamline the purchasing process and reduce administrative cost, Contracts and Procurement recently delegated limited authority and responsibility to purchasing agents in County organizations. The change, effective April 2, 2007, increased the dollar threshold for small-cost purchases from \$1,000 to \$2,500 and gave County agencies the ability to make these purchases without obtaining approval from Contracts and Procurement. Thus, Contracts and Procurement has no direct role in these purchases.

As stated in the previous paragraph, the amount authorized for small-cost purchases must not exceed \$2,500 per transaction. However, the policy states that any purchase made between \$1,000 and \$2,500 requires an agency to solicit at least two written price quotes for the goods or services. Purchases that are below \$1,000 do not require competitive quotes; however, when possible, quotes are strongly encouraged.

Additionally, to further reduce administrative costs of small-dollar purchases, Contracts and Procurement encourages use of purchasing cards. The purchasing card program allows use of credit cards issued to individuals in the various agencies. The cards can be used for purchases of most items of \$2,500 or less. Cardholders are encouraged to use purchasing cards for low-cost purchases to achieve administrative cost savings and improve processing time.

Contracts and Procurement sends a monthly newsletter to all purchasing personnel in County organizations, including information to raise awareness of the availability of the purchasing card program. Each month, Contracts and Procurement offers purchasing card training to County personnel. The purchasing card program is periodically reviewed as a part of other audits the Auditor's Office performs. Therefore, the purchasing card program was not included in the scope of this audit.

Our analysis of small-cost purchase requisitions and the oversight responsibility of the Contracts and Procurement Division revealed the following:

- **Purchasing rules were circumvented by agencies for some purchases.**

- **Procurement-Type IDs were left blank or incorrectly entered on some purchase requisitions.**
- **Contracts and Procurement is proactive in establishing Countywide contracts and blanket purchase orders with vendors.**

3.1 Purchasing rules were circumvented by agencies for some purchases.

Purchases that would exceed the small-cost purchasing limit are sometimes divided into two or more smaller-cost POs to fit under the \$2,500 limit. This “cost-splitting” is often done intentionally to bypass the competitive bidding policy. This practice violates the purpose of the policy and circumvents requirements for small-cost purchases.

Countywide Policy #7021, “Small Cost Purchasing Procedures,” Section 3.2¹² warns that invoice amounts must not be split, or separated into multiple invoices, for a single transaction. When the invoice for a single transaction would otherwise be over \$1,000 (currently \$2,500), but more than one invoice is submitted, it is assumed that the transaction was invoiced multiple times in order to circumvent the per transaction limit of \$1,000.

Invoices must not be split in order to fit under the small-cost purchase limit, and still be in compliance with purchasing requirements.

Using Audit Command Language (ACL) software, we reviewed transactions with a single vendor which appeared to be invoiced several times in one day. In reviewing these transactions, we found evidence of split transactions. For example, we discovered two instances where multiple purchases from one vendor could have been combined and submitted under the standardization exemption, which would have

provided sufficient justification to avoid competitive bidding. The agency should have submitted a standardization form explaining that competitive procurement was not required.

In addition to violating purchasing policy, submitting separate POs for each transaction increases the administrative costs of processing and making payments to the vendor.

Another example of multiple small-cost purchases from one vendor occurred because of an exigency situation. In this case, Contracts and Procurement could have advised the agency to submit an exigency request for the total amount, rather than processing several separate small-cost POs.

We also found four instances where agencies submitted multiple invoices for a single vendor to the Auditor’s Office for payment. However, the Accounts Payable section rejected the invoices, refusing to process them because they were split transactions. The agencies then submitted the invoices as unauthorized purchases (claims), with justification letters, requesting payment. In these cases, where invoices are rejected then eventually paid as a claim, purchasing policy is circumvented and the competitive bidding process is turned on its head, against the best interest of the County and its vendors.

RECOMMENDATION:

Contracts and Procurement should continue their ongoing effort to warn agencies against separating purchases into multiple invoices for a single transaction to avoid competitive bidding

The Auditor's office should establish periodic data queries to detect split transactions.

3.2 Procurement Type IDs were left blank or incorrectly entered on some purchase requisitions.

Procurement Type IDs are used in the Advantage system to assign items to a purchasing classification for detailed procurement analysis. Procurement Type IDs allow users to filter and view details on category spending. A specific Procurement-Type ID is assigned to small-cost purchases. Of the 3,636 requisitions submitted between January 1, 2006 and June 30, 2007, 63 percent (2,287 requisitions) were for small-cost purchases. We realize that with this

Agencies are required to enter a Procurement Type ID when entering a requisition. This does not always happen.

volume of purchases it is difficult to monitor the Procurement Type IDs assigned to each requisition. However, Contracts and Procurement should strive to ensure that Procurement Type IDs are entered correctly.

The Purchasing System Manual requires agencies to enter a Procurement Type ID for each requisition. The Procurement Type ID is a mandatory field and the purchasing system will default to a "1 – Unclassified" if this field is left blank. According to the Purchasing System Manual:

- An unclassified requisition cannot be processed by Contracts and Procurement
- Once a requisition becomes a PO, DO, contract, or master agreement, the procurement type cannot be changed
- If the procurement type is finalized as "unclassified (1)", it should be discarded and a replacement requisition with a new number entered

To ensure the integrity of the classification data, the Procurement Type ID is hard-wired in the system, according to the County Information Systems (IS). As stated, once the requisition goes to a PO, DO, contract, or master agreement, the Procurement Type ID cannot be changed. However, we discovered that this does not always happen in practice, and the hard-wiring in the system breaks down or is overridden.

We stratified total requisitions to isolate and examine purchases by Procurement Type ID. Although the requirement is that requisitions cannot be processed if the Procurement Type is unclassified, we found that, of the 2,287 requisitions for small-cost purchases, 75 were unclassified. Contracts and Procurement generates reports from the Advantage system for the agency's review. When small-cost purchases are coded as unclassified, important information is missing from the data that would assist agency purchasing managers. To ensure that relevant purchasing data is available to management, the Procurement Type IDs should be entered correctly by agencies.

RECOMMENDATION:

Contracts and Procurement should monitor requisitions and POs to ensure that Procurement Type IDs are entered correctly by agencies, requisitions and POs with “Unclassified” Procurement Type IDs are discarded, and new requisition numbers entered.

3.3 Contracts and Procurement is proactive in establishing Countywide contracts and blanket purchase orders with vendors.

We used ACL software to identify vendors used repetitively and to identify items which were purchased in sufficient quantities that an economic advantage could be gained from consolidated purchasing through a contract or blanket purchase order. Our review revealed that the majority of vendors from which small-cost purchases are made had ten or less transactions processed per vendor during the period of our test review. This indicates that Contracts and Procurement is proactive in establishing Countywide contracts and blanket orders with vendors for which purchase transactions are 20 or more per year. This complies with Policy #7010, Section 18.2 which states that frequency of purchases should exceed 20 per year for a purchasing contract to be beneficial. Contracts and Procurement reviews usage figures to determine when it is advantageous to establish Countywide contracts and blankets. Currently, there are 259 Countywide contracts and blanket purchase orders.

4.0 Unauthorized Purchases (Claims Against the County)

County purchasing policies require agencies to obtain specific approvals before making purchases. Without proper approvals, agency purchasing clerks circumvent established controls, and transactions take additional time to process.

These unauthorized purchases also result in claims against the County.

Unauthorized purchases circumvent County purchasing controls and are contrary to County policy.

Countywide Policy #1305, “Processing of Unauthorized Payments (Claims) Against the County,” defines a claim as “*a request for payment for goods and services that already have been*

received without a properly-executed bilateral contract or purchase order, and that do not fall under the provision of ‘Emergency Procurement’ or other existing County payment policy.” The policy also requires that all claims be accompanied by a justification letter explaining, in detail, why the purchase was made without a properly executed PO, and what action the agency has taken to prevent unauthorized purchases from recurring.

In reviewing claims, we found the following:

- **The Mayor’s Office consistently approved claims for unauthorized purchases upon the recommendation of Contracts and Procurement.**

- Some agencies submitted claims for purchases made against an expired contract, master agreement, or blanket purchase order.
- Some agencies submitted claims, which did not include a statement of remedial action taken by the agency to prevent future unauthorized purchases.

4.1 The Mayor’s Office consistently approved claims for unauthorized purchases upon the recommendation of Contracts and Procurement.

To determine if unauthorized purchases are limited in number and controlled by County agencies, we reviewed a sample of 64 claims for compliance with the approval criteria in Policy #1305. According to the policy, all requests from agencies submitting a claim must include a letter containing the following:

- Justification from the agency making the claim, including a detailed statement explaining why the purchase was made without a properly executed bilateral contract or PO.
- Action taken by the Department/Division or Elected Official to ensure future unauthorized purchases will not occur.

An agency that submits a claim must include a statement of action to be taken to prevent future claims; many fail to do so.

The letter and a copy of the invoice(s) must be attached to the claim approval request prepared by Contracts and Procurement, reviewed and signed by the Purchasing Agent, and sent to the Mayor’s Office for approval of the payment. Only after approval from the Mayor’s Office, is the Auditor authorized to make payment.

During the period examined, there were 181 claims filed totaling \$735,439. The majority of County agencies (78 percent) had less than 5 claims per agency during this period. Of the remaining agencies, 4 submitted 43 percent of claims processed during this period as listed below:

➤ Parks and Recreation	8%
➤ Public Works Operations	8%
➤ Facilities Management	13%
➤ The Sheriff’s Office	<u>14%</u>
Total	43%

From our review of justification letters from these agencies, we found that many purchasing agents are not properly trained in procedures. Almost one-third (31 percent) of explanations in letters of justification stated that claims occurred because an agency employee misunderstood purchasing procedures.

Our examination also disclosed that 12 percent of claims actually met the criteria for exigency purchases, but agencies ignored or were unaware of this option. Countywide Policy #7010 defines exigency procurement as a state of affairs that makes an urgent demand and will not tolerate delays in the procurement of goods or services. The need must be compelling and of unusual urgency and the County would be seriously injured, financially or otherwise, without action.

When making exigency purchases, agencies are not required to get competitive bids if not practical to do so. However, a properly entered PO must still be submitted prior to the purchasing of the goods or services, otherwise the transaction becomes an unauthorized purchase.

The majority of unauthorized purchases we reviewed were made in the best interest of the County and appeared to be reasonable. However, when purchases are made without following proper purchasing procedures, there is a greater risk that a vendor offering the best product at a competitive price is overlooked.

Contracts and Procurement should consider being less compromising about approving claims. When consequences are not enforced for non-compliance, claims continue.

County policy permits the Mayor to refuse to pay a purchase made without prior approval or authorization if the purchase resulted in the intentional circumvention of prescribed procedures. However, the Mayor's Office consistently approves claims upon the recommendation of Contracts and

Procurement. This practice runs the risk of sending a message that there are no consequences for disregarding County policy. Conversely, if a request for payment of a claim is returned by the Mayor's Office for proper justification, the agency purchasing personnel may get a stronger message that they can be held personally liable for payment. This could reduce the number of claims being submitted.

RECOMMENDATIONS:

Contracts and Procurement should consider whether claims should routinely be approved where there appears to be a consistent disregard of policies and procedures.

Contracts and Procurement should provide feedback and training on exigency purchase procedures with organizations processing claims that meet exigency criteria.

Contracts and Procurement should emphasize, as part of their training, the need to minimize unauthorized purchases which result in claims, and how that can be accomplished.

The Mayor's Office should consider returning claims to the agency purchasing personnel for further justification and explanation of remedial action.

The Auditor's Office should perform, or assist agencies to perform, on an on-going basis, a review of payments for claim requests to track agencies that have submitted multiple claims. Information regarding excessive claims submitted by an agency would be given to the Department Directors to develop communication and training to limit future claims submitted by those agencies.

4.2 Some agencies submitted claims for purchases made against an expired contract, master agreement, or blanket purchase order.

We reviewed a sample of claims to identify the reasons claims occurred. Our examination showed that 10 of the 64 claims (16 percent) were due to purchases made against an expired contract, master agreement or blanket purchase order. The justification letters stated that employees made the purchases under the assumption that a contract, master agreement or blanket purchase order was in place, without taking initiative to verify whether that was the case.

Contracts and Procurement should better communicate the requirement to check for contracts, master agreements or blanket purchase orders prior to processing transactions. All current Countywide contracts, master agreements and blanket purchase orders are listed in a monthly newsletter published by Contracts and Procurement. The newsletters are sent to purchasing personnel in all County agencies and are also on the Intranet. Therefore, agencies have access to up-to-date information on the status of these procurement documents.

RECOMMENDATION:

Contracts and Procurement should better communicate to user agencies the requirement to check the status of contracts, master agreements, or blanket purchase orders before a purchase is processed.

4.3 Some agencies submitted claims, which did not include a statement of remedial action taken by the agency to prevent future unauthorized purchases.

Our test work revealed that only 27 of the 64 claims reviewed (42 percent) included a statement of remedial action taken by the Department, Division or Elected Official to prevent future unauthorized purchases. The majority (58 percent) we reviewed had no statement of remedial action to prevent claims from recurring. Although letters of justification were filed, there was no narrative in the letters indicating how the agency would prevent claims from recurring.

Over half of the justification letters for claims reviewed did not include a statement to indicate how the agency would prevent claims from recurring.

Policy #1305 outlines procedures designed to eliminate unauthorized purchases within the County.

The Policy requires action by the Department/Division or Elected Official to ensure that purchasing requirements are met, and what actions Purchasing Agents must take if there is evidence that policies are being ignored or circumvented.

When a remedial action statement is not provided, yet the claim is processed, there is little deterrent to incomplete submissions. We found that a claim submitted in one month was identical to one submitted by the same agency in a previous month. We also found one agency which submitted a claim in 2006, followed by two identical claims in 2007. Policy #1305¹³ requires that if the Purchasing Agent or Mayor finds that the purchase resulted from the intentional

circumvention of prescribed procedures, or is another in a series of unauthorized procurement, evidencing a disregard for established purchasing ordinances and procedures, the request must be returned to the requesting agency without approval. The repetitive nature of the claims we found in our sample appear to form a series of unauthorized purchases and suggest that the agencies involved were disregarding established purchasing procedures. Nonetheless, the claims were processed.

To encourage agencies to include all the required information when preparing claim requests, Contracts and Procurement should create a form for claims, similar to the sole-source and the standardization request forms, and post this new form on their Intranet page. The form should have sections for the key information required by policy such as:

- Statement explaining why a contract or PO was not obtained prior to the purchase
- Procedures the agency has implemented to prevent recurrence
- Requisition number of the unauthorized purchase
- Signature lines for the organization, Contracts and Procurement, and the Mayor's Office

Agencies requesting payment approval for unauthorized purchases would complete the form and include all pertinent facts and circumstances.

RECOMMENDATIONS:

Claims should not be processed until an acceptable letter of justification is submitted by the agency.

Contracts and Procurement should create a claims form for use by organizations submitting a claim request.

5.0 Purchases Not Requiring Competitive Bids

Purchasing ordinances and policies require that competitive bidding be sought, where feasible and practicable, for any transaction of more than \$1,000, unless brand-name product or proprietary service is:

- Unique and available only from a sole-source
- Designed to match other items used in a particular installation, facility, or location

Salt Lake County Ordinance #3.20.030 outlines the circumstances when competitive solicitation is not required due to these “sole-source” or “standardization” exceptions.

Likewise, “exigency” purchases are exempted from competitive bidding and appropriate when the need is compelling and of unusual urgency. These

instances arise when the County would be seriously injured, financially or otherwise, if the goods or services were not furnished by a certain time, and when they could not be procured in time by soliciting bids. An exigency purchase applies irrespective of whether the urgency could or should have been foreseen.

Finally, "emergency" purchases are exempted. These purchases arise out of a threat to public health, welfare or safety by reason of floods, epidemics, riots, equipment failures, earthquakes, or other reason proclaimed by the County Mayor. Such purchases are logically exempt from competitive bidding.

When purchases are made without competitive solicitation, a memorandum identifying the specific provision of the Salt Lake County Ordinance, which exempts the PO from the bidding requirements, must be included in the purchasing file. Through random sampling and analytical review, we examined purchases not requiring competitive bids. Our findings were as follows:

- **There were some instances when documentation was not submitted to justify the sole-source exemption.**
- **The files for exigency purchases included information reflecting the need was compelling and of unusual urgency.**
- **No emergency purchases were made between January 1, 2006 and June 30, 2007.**

5.1 There were some instances when documentation was not submitted to justify the sole-source exemption.

Policy #7010 Section 17.1¹⁴ requires that any agencies requesting approval of a contract (or purchase order) based on a sole-source product must document why that vendor is the only source of supply, including an explanation as to why no other item would be suitable to meet the County's needs. Each request must be reviewed by the purchasing agent or his designee, on a case-by-case basis, and rejected if the purchasing agent feels there may be other potential bidders.

We reviewed supporting documentation for 37 sole-source purchases to determine if County Ordinance and Countywide Policy were followed. There were three instances when documentation was not submitted to justify the sole-source exemption.

Contracts and Procurement has included on their website a standard form for agencies to complete and submit with their sole-source purchase requests. When a completed form is not in the purchasing file, there is no assurance of appropriate justification that the product or service is unique or proprietary, thus requiring purchase from a single source.

RECOMMENDATION:

Purchases from a sole-source vendor should not be approved without the appropriate documentation included with the PO.

5.2 The files for exigency purchases included information reflecting the need was compelling and of unusual urgency.

Contracts and Procurement and County organizations should be commended for their judicious use of the emergency and exigency provisions of the purchasing ordinance.

We reviewed a sample of 28 exigency purchases made during the period of January 1, 2006 through June 30, 2007 and found that the exigency purchases were reasonable and appropriate. There was a letter of justification for each exigency purchase in our sample. We commend Contracts and Procurement for their judicious oversight of exigency provisions of the purchasing ordinance.

5.3 No emergency purchases were made between January 1, 2006 and June 30, 2007.

During our review, we found that there were no emergency purchases during the period we tested.

6.0 Examination of Vendor Files for Disclosure Statements

Countywide Policy #5650, "Professional Ethics and Conflict of Interest," Section 2.1¹⁵ requires every County employee and volunteer who is an officer, director, agent, employee or the owner of a substantial interest in any business entity, subject to the regulation of the County, including licensure, to disclose, in a sworn statement to the Legislative Body:

- The position held
- The precise nature and value of any interest

This must first be done upon becoming an officer or employee and, again, during January of each year thereafter during which he or she continues to be an officer, director, agent, owner, volunteer or employee.

Likewise, Utah Code Annotated – Title 17 – "County Officers and Employees Disclosure Act" Section 16a-3, 6¹⁶, mandates that every appointed or elected officer who is an officer, director, agent, or employee or the owner of a substantial interest in any business entity, subject to regulation of the county in which he is an elected or appointed officer, is required to make the same sworn statement cited above.

"Substantial interest" is defined in the ordinance as the ownership, either legally or equitably, by an individual, his spouse, and his minor children, of at least 10 percent of the outstanding shares of a corporation or 10 percent interest in any other business entity.

Further, the statute provides that any person who knowingly and intentionally violates the statute is guilty of a Class A misdemeanor and must be dismissed from employment or removed from office.

Finally, the statute states that if any transaction is entered into in connection with a violation of the disclosure requirements, the County may rescind or void any

contract or subcontract entered in pursuant to that transaction without returning any part of the consideration received by the County.

We examined two data files, one that included all current County employees and a second that contained all accounts payable vendors. Queries identified duplicate taxpayer identification numbers and duplicate addresses between the two files. We found a single instance of a social security number matching a vendor tax identification number. Of the 26 instances of duplicate addresses, 23 were reimbursements and worker compensation payments to employees. The three remaining duplicate address matches between employee and vendor files led to the following findings:

- **Conflict of Interest disclosure statements were not filed for employees who directly or indirectly contracted with the County.**
- **A conflict of interest existed for a Consultant Selection Committee member who directly supervised a contract recipient.**
- **State mandated insurance coverage was waived by a member of the Consultant Selection Committee.**

6.1 Conflict of Interest disclosure statements were not filed for employees who directly or indirectly contracted with the County.

A construction company was awarded two contracts in excess of \$300,000 in December 2006. A month later, the spouse of the principal owner was hired as a part-time County employee and should have filed a Conflict of Interest Statement at that time, a requirement that the spouse may not been aware of. In another instance, a contract for \$49,550 was awarded to a part-time employee while employed by the County. The employee resigned to perform work on the contract and was re-hired by the original department once the contract was completed. In both situations, Disclosure Statements from the employees were not on file with the County Clerk's Office.

The employees and/or contractors may not be aware of the requirement for filing Disclosure Statements for their interests in contract awards and the resulting ramifications. Conflict of Interest documents are permanent and maintained in the County Clerk's Office.

RECOMMENDATION:

Contracts and Procurement, working with the District Attorney, should update Conflict of Interest clauses in contracts using language to more clearly emphasize the legal requirement for filing Disclosures with the County Clerk's Office.

6.2 A conflict of interest existed for a Consultant Selection Committee member who directly supervised a contract recipient.

A \$49,550 contract was awarded to a County employee to process and index historical records. The direct supervisor of this employee was also a member of the Consultant Selection Committee. The resulting contract provided the employee a 55 percent hourly wage increase with an additional \$1,500 for supplies. A timeline of events occurred as follows:

- January 2003 — Employee worked as part-time temporary in Archives and Records Management
- January 24, 2003 — Consultant Selection Committee was requested to convene.
- February 3, 2003 — Request for Proposal letter was issued to solicit bids
- February 7, 2003 — Advertisement was placed in local paper
- February 24, 2003 — Employee responded to the Request for Proposal
- February 25, 2003 — Request for Proposal due date
- March 4, 2003 — Letter to Mayor listed the supervisor as a member of the Consultant Selection Committee and recommended employee, who was the only applicant
- April 4, 2003 — Letter from DA approved the contract form and listed the supervisor and employee as contract reviewers
- April 8, 2003 — Employee signed contract
- April 16, 2003 — Contract awarded to employee
- April 30, 2003 — Employee received final County paycheck
- April 2003 to December 2004 — Contract work performed
- January 2005 — Employee re-hired in Archives and Records Management

Countywide Policy #5650 states that a County employee shall not use his or her position to secure special privileges for self or others.

The purpose of Countywide Policy #5650, "professional Ethics and Conflict of Interest," sets forth expectations for employees who serve on boards, committees, or commissions of the County. Section 1.3¹⁷ states further that a County employee shall not use his or her position to secure special privileges for self or others.

Countywide Policy #7030, "Request for Proposals (RFP) and Consultative Services Request Format," Section 6.2¹⁸ requires that a written conflict of interest and disclosure statement be received by the chairperson from each member of the evaluation committee prior to the evaluation of the proposals. Section 6.2.1 adds that if the disclosed interest of any committee member presents a conflict, and the selection committee determines it to be prejudicial to the selection process, the selection committee may disqualify that member from the committee.

Disclosure Statements by members of the Consultant Selection Committee are important to avoid subjective, prejudicial contract awards. Close involvement between contract committee members and awardees can restrict competition. In these instances, the potential exists for a contract recipient to influence a committee member to tailor specifications to effectively assure the contract award to a specific individual; in this case, the direct subordinate.

The conflicted supervisor may have submitted a Disclosure Statement and/or notified the Consultant Selection Committee Chairperson of their conflict. Retention schedules for Contracts and Procurement allow for the Consultant Selection Files to be destroyed one year after the bid opening, thus a Disclosure Statement from the committee member was not found. However, review of documents and correspondence provided evidence that the committee member was not recused. This outcome could lead one to conclude that the members of the selection committee did not determine the conflict to be prejudicial to the selection process.

RECOMMENDATION:

Consultant Selection Committees should carefully consider situations wherein a member has a supervisor/subordinate relationship with a bidder.

6.3 State mandated insurance coverage was waived by a member of the Consultant Selection Committee.

We discovered a hand-written note on the contract referenced in the previous section that waived required insurance coverage. The note indicated that the waiver was requested by the supervisor of the employee who was awarded the contract. As noted previously, the supervisor was also a member of the Consultant Selection Committee. Another committee member and a representative from the DA's Office also approved the waiver.

Insurance requirements for contractors are intended to protect the contractor and County from fire and extended coverage losses, claims from bodily injury, death or property damage which may arise from performance under the contract. The contract stated that the minimum coverage includes:

- Worker's Compensation and Employer Liability Insurance (unemployment)
- Public Liability, Bodily Injury and Property Damage
 - Injury or death of one or more persons in a single accident - \$500,000
 - Property damage - \$1,000,000.

According to Contracts and Procurement, waiving insurance coverage is very unusual. It requires additional documentation from the contractor and a letter from Risk Management in the DA's Office to waive coverage. The required additional documentation and letter from Risk Management was not on file with this contract. At the time of this contract award, the contract specialist was not

aware of the necessity for additional documentation and had simply marked through the section and noted it.

RECOMMENDATION:

Contracts and Procurement should review contracts for hand-written amendments and investigate items that may change essential contract provisions.

ENDNOTES

¹ Salt Lake County Code of Ordinances, Chapter 3.28.060(E) states, “Whenever public funds are to be expended for the construction or repair of any public work or facility, the director of the contracts and procurement division will ensure that a contract preparation package is assembled.... The contract package shall be forwarded to the attorney for review and approval as to form unless an attorney approved standard form contract is used without any alteration.”

² Countywide Policy #7020 dated July 2004, Section 2.3.1, states, “If a purchase under a statewide MA contract will not exceed \$10,000, the using organization will contact at least two vendors having a MA statewide contract to obtain pricing quotes for the goods to be acquired. Quotes obtained from vendors having MA statewide contracts must be in written form for acquisitions in excess of \$5,000. For all acquisitions in excess of \$10,000, the using County organization will contact at least three statewide MA contract vendors, if available, to obtain pricing prior to issuance of a purchase order. Using organizations that obtain quotes pursuant to statewide MA contracts will forward the quotes to the Division of Contracts and Procurement to process.” (emphasis added)

³ County Purchasing System Manual, dated June 2006, Item 3 of the Summary of Changes, states: “A comments area has been added. Information for a document can be entered here without editing/modifying the document... This can be useful, for example, when an approver wants to reject a requisition and they can make a comment back to the creator of the document, or for anyone else to review.”

⁴ Salt Lake County Code of Ordinances, Chapter 3.28.080(A) states, “All **purchase orders and change orders**... which are for an amount over twenty-five thousand dollars or more.... shall reflect, on each page, to be signed by the county, that the same has been “approved as to form” by the attorney’s office prior to submission to the mayor or council for execution or ratification.”

⁵ Salt Lake County Code of Ordinances, Chapter 3.28.060(E) states, “Whenever public funds are to be expended for the construction or repair of any public work or facility, the director of the contracts and procurement division will ensure that a contract preparation package is assembled.... The contract package shall be forwarded to the attorney for review and approval as to form unless an attorney approved standard form contract is used without any alteration.”

⁶ Salt Lake County Code of Ordinances, Chapter 3.28.080(A) states, “...all **bilateral contracts and contract amendments** in excess of twenty-five thousand dollars,... shall reflect, on each page to be signed by the county, that the same has been “approved as to form” by the attorney’s office prior to submission to the mayor or council for execution or ratification.”

⁷ Salt Lake County Code of Ordinances, Chapter 3.20.100 states, “The award of any contract involving amounts in excess of twenty-five thousand dollars shall be made by the mayor... All purchase orders or other contracts involving amounts of twenty-five thousand dollars or less shall be awarded by the purchasing agent... and shall be signed by the purchasing agent and submitted to the mayor for approval and ratification.”

⁸ Salt Lake County Code of Ordinances, Chapter 3.28.030 states, *“The purchase order shall specify the nature of the goods or services to be acquired, the purchase price thereof, freight charges, prompt payment discounts, the delivery date, the person or entity from whom the same is being acquired, the organization for whom the acquisition is being made, and such other provisions as may be appropriate or required. The purchase order shall incorporate by reference all the terms, conditions and specifications, if any, contained in the request for bids.”*

⁹ Salt Lake County Code of Ordinances, Chapter 3.20.030 B.2, states, *“The [purchasing] file reflects price or cost analysis or such other evidence of reasonable pricing and other information concerning contract or award matters as will reasonably support the award of the contract to the vendor.”* Ordinance states in Chapter 3.28.05, *“The purchasing agent will retain on file, by either hard copy or on-line computer system storage, all original requisitions, request for bids or proposals, all bids or proposals submitted, evidence of publication showing that there has been advertisement for bids or proposals, and any other documents or correspondence relating to the acquisition.”*

¹⁰ Salt Lake County Code of Ordinances, Chapter 3.20.030 B.2, states, *“The [purchasing] file reflects price or cost analysis or such other evidence of reasonable pricing and other information concerning contract or award matters as will reasonably support the award of the contract to the vendor.”* Ordinance states in Chapter 3.28.05, *“The purchasing agent will retain on file, by either hard copy or on-line computer system storage, all original requisitions, request for bids or proposals, all bids or proposals submitted, evidence of publication showing that there has been advertisement for bids or proposals, and any other documents or correspondence relating to the acquisition.”*

¹¹ Salt Lake County Code of Ordinances, Chapter 3.28.060(E), states, *“Whenever public funds are to be expended for the construction or repair of any public work or facility... the contracts and procurement division will retain on file a copy of the request for the construction or repair services, the original request for bids, all bids submitted, a copy of any contract that is prepared, and **any other documents or correspondence relating to the acquisition.**”*(Emphasis added)

¹² Countywide Policy #7021, “Small Cost Purchasing Procedures,” Section 3.2 states: *“Invoice amounts shall not be split or separated into multiple invoices for a single transaction. When the invoice amount for a single transaction would otherwise be over one thousand dollars (\$1,000), but more than one invoice is submitted for the transaction, it will be assumed that the transaction was invoiced multiple times in order to circumvent the limit of one thousand dollars (\$1,000) per transaction.”*

¹³ Policy #1305, Section 3.3, *“If the Purchasing Agent or the Mayor find that the purchase resulted in the intentional circumvention of prescribed procedures, or is another in a series of such unauthorized procurement evidencing a disregard for established purchasing ordinances and procedures, the request will be returned to the requesting agency without approval.”*

¹⁴ Policy #7010, “Procurement,” Section 17.1, *“Any agencies requesting approval of an award of a contract (or purchase order) based upon a ‘sole source’ product will document why that vendor is the only source of supply for the item. Also the request will include an explanation as to why no other item would be suitable to meet the County’s needs. Each request will be reviewed by the purchasing agent*

or his designee on a case by case basis and rejected if the purchasing agent feels there may be other potential bidders.”

¹⁵ Countywide Policy #5650, “Professional Ethics and Conflict of Interest,” Section 2.1 states, “Every County employee and volunteer who is an officer, director, agent, employee or the owner of a substantial interest in any business entity which is subject to the regulation of the County, including licensure, shall disclose in a sworn statement to the Legislative Body the position held and the precise nature and value of any interest upon first becoming an officer or employee and again during January of each year thereafter during which he or she continues to be an officer, director, agent, owner, volunteer or employee.”

¹⁶ Utah Code Annotated – Title 17 – “County Officers and Employees Disclosure Act” Section 16a-3, paragraph 6 states, “Every appointed or elected officer who is an officer, director, agent, or employee or the owner of a substantial interest in any business entity which is subject to the regulation of the county in which he is an elected or appointed officer shall disclose the position held and the precise nature and value of his interest upon first becoming appointed or elected, and again during January of each year thereafter during which he continues to be an appointed or elected officer.” Paragraph 7 states, “‘Substantial interest’ means the ownership, either legally or equitably, by an individual, his spouse, and his minor children, of at least 10 percent of the outstanding shares of a corporation or 10 percent interest in any other business entity.” Paragraph 10 states, “In addition to any penalty contained in any other provision of the law, any person who knowingly and intentionally violates this part is guilty of a class A misdemeanor and shall be dismissed from employment or removed from office.” Paragraph 12 continues, “If any transaction is entered into in connection with a violation of Section 17-16a-6, the County may rescind or void any contract or subcontract entered into pursuant to that transaction without returning any part of the consideration received by the County.”

¹⁷ The Countywide Policy #5650, “Professional Ethics and Conflict of Interest,” purpose states, “To set forth standards of conduct for all employees and volunteers appointed to boards, committees or commissions of the County in areas where there are actual or potential conflicts of interest between their public duties and their private interests and to encourage adherence to professional codes of ethics where they exist.” Section 1.3 continues, “County employees and volunteers **shall not**: Use or attempt to use his or her position to secure special privileges or exemptions for self or others.”

¹⁸ Countywide Policy #7030, “Request for Proposals (RFP) and Consultative Services Request Format,” Section 6.2 states, “A conflict of interest and disclosure statement[s], in writing, must be received by the chairperson from each member of the evaluation committee prior to the evaluation of the proposals as shown in Attachment A.” Section 6.2.1 continues, “If the disclosed interest of any committee member presents a conflict that the selection committee determines to be prejudicial to the selection process if that member participates, the selection committee may disqualify that member from the committee.”

Appendix A

Contracts and Procurement's Response to the 2007 Performance Audit

Contracts and Procurement's Response to the 2007 Audit

2.1 Transactions that involve statewide, multiple-award (MA) contracts did not always include written quotes in the contract file.

RECOMMENDATIONS:

Contracts and Procurement should continue to emphasize that County agencies obtain quotes from several MA vendors prior to processing POs for goods or services over \$1,000.

Response:

Contracts and Procurement will continue emphasizing the requirement of obtaining quotes as we have done in the past. News letter articles on multiple award contracts were released in August and October 2007. We will continue using our monthly newsletters on training issues that are sent to all fiscal managers and purchasing coordinators to stress the proper steps to be taken. When we conduct training classes in 2008 we will remind those in the training about obtaining quotes from MA vendors.

Contracts and Procurement should perform spot checks of agency purchasing files to determine whether the required quotes are maintained.

Response:

If Contracts and Procurement were to do spot checks on agency purchasing files, this could have a negative impact on our work load and the time frames we have committed to getting out bids expeditiously for the using organizations. We feel that this is the role of other organizations in the County. We will continue addressing this issue when we have meetings with various groups within the county as we have done in the past and coordinate with the County's CFO for regular fiscal manager meeting to remind them of the issues. Two articles have been written in the Contracts and Procurements newsletter dealing with the issues of small cost purchases and quotes. They were published in May and June 2007.

2.2 Documentation was not available to explain the reason approvals were bypassed or rejected in Advantage.

RECOMMENDATION:

Contracts and Procurement should ensure that the “Document Comments” area in Advantage is used to record and explain the reason for rejected or bypassed approvals, and that awareness of these requirements be raised by training and enforcement.

Response:

Contracts and Procurement started adding the document comments in either April or May of 2007 to consistently use this new feature in the purchasing system. Prior to May 2007 hard copies explaining why a contract was bypassed was kept by the Contracts Manager. The current process is to insert a comment in AMS as well as to keep a hard copy for review of the reason for the bypass.

2.3 Some POs were not “approved as to form” by the DA’s office as required by County Ordinance.

RECOMMENDATION:

Contracts and Procurement should ensure that all POs above \$25,000 are “approved as to form” by the DA and properly stamped to so indicate, and immediately recorded in the Advantage System.

Response:

Contracts and Procurement recognizes this issue and has taken steps and made assignments to improve this problem. An additional step has been added by assigning the Office Specialist the auditing responsibilities of all documents received from the District Attorney’s Office to ensure all required pages are stamped appropriately. The District Attorney’s Office is also reviewing the documents before sending them back. This has been a work load issue for both offices.

2.4 Some original contracts and change orders to contracts were not “approved as to form” by the DA’s office.

RECOMMENDATION:

Contracts and Procurement should ensure that all contracts, not in “Standard Contract Form” above \$25,000, are “approved as to form” by the DA.

Response:

It has always been the practice of this Division to have all qualifying contracts sent to the District Attorney’s Office to be reviewed and stamped by one of their

attorneys. A new Contract Administrator who is responsible for processing construction projects and contracts was hired and trained in early 2007. We do not know where the break down originated in the workflow process for those contracts referenced, but we will add additional emphasize to the staff on this issue.

2.5 Purchase Orders did not always include all required signatures.

RECOMMENDATION:

Contracts and Procurement should obtain signatures, as appropriate, on each page of the PO from the Purchasing Agent and/or the Mayor, according to dollar threshold requirements, prior to sending the PO to the vendor for processing, indicating a complete and thorough review of its content.

Response:

Contracts and Procurement recognizes this issue and has taken steps and made assignments to improve this problem. An additional step has been added by assigning the Office Specialist the auditing responsibilities of all documents received from the District Attorney's Office to ensure all required pages are stamped appropriately. The District Attorney's Office is also reviewing the documents before sending them back.

2.6 Some POs processed for non-generic medicines did not include a copy of the pertinent "multi-state" contract in the purchasing file.

RECOMMENDATION:

Contracts and Procurement should ensure that the multi-state contracts, price quotes, and supporting documentation used to establish the exception for purchasing without competitive bid are included in the purchasing file.

Response:

This is not an issue of not knowing that proper documentation should include supporting information but appears to be a problem with quality control. Steps will be taken to set up a quality assurance program to ensure that copies of referenced state contracts are included.

2.7 Signatures were missing on forms requesting approval for sole-source, standardization, and change order transactions.

RECOMMENDATION:

Contracts and Procurement should ensure that required signatures are obtained from County agencies and purchasing staff on sole-source, standardization, and change order forms.

Response:

Contracts and Procurement recognizes this issue and will take steps to make assignments to improve this problem. Buyers and Contracts Administration have been instructed to insure that the referenced forms they are processing have all required signatures.

2.8 Contractors charged a mark-up fee on permits for construction projects in violation of contract terms.

RECOMMENDATION:

Contracts and Procurement should review contract change orders to ensure that payments to the contractor are for expenses allowed in the contract, and supporting documentation is provided.

Response:

Contracts and Procurement does receive back-up documentation which may include invoices when change orders are processed. The documents relating to the change orders itself are the only things we approve, not the payment of invoices. It is Contracts and Procurements' role to insure that the process was fair and complete. Our office is responsible to check if the change order was appropriate or if there is a change of scope that should be competitively bid. It is Facilities Management or other organizations responsibility to assume the role of reviewing and approving all financial transactions such as invoice on contracts. Facilities Management is better able to track the payments of all construction contracts as they are much closer to the activity or service. We don't see request for payments in this division. The using organizations and the Auditor are responsible for all financial payments.

2.9 Expenditures for contract NQ0400C exceeded the Guaranteed Maximum Price (GMP) as set forth in the contract.

RECOMMENDATION:

Contracts and Procurement should request a legal opinion from the DA on whether change orders, alone, constitute sufficient legal documentation to support project design changes and expenditures above the GMP established in a contract.

Response:

Many county organizations were represented as part of the construction oversight committee. Minutes were taken at each meeting where the change orders were discussed in much detail. The District Attorney's Office had a representative present and had a vote on the specific construction oversight committee reviewed in the audit. A request will be made to the District Attorney's Office as suggested in the recommendation.

2.10 Change orders on two large contracts did not include adequate supporting documentation and contained some mathematical errors.

RECOMMENDATIONS:

Contracts and Procurement should require the Project Manager to submit detailed documentation supporting change orders prior to allowing the change order to be processed further.

Response:

As state above in Section 2.16 it is not Contracts and Procurement role in approving invoices. That is the responsibility of the managing organizations. We also disagree that the statement above in Section 2.19 that "any other documents or correspondence relating to the acquisition" refers to invoices.

Contracts and Procurement should check for math errors on progressive change orders prior to entering the changes in Advantage to avoid error carryovers.

Response:

Math errors are checked by the Contract Section. Many are returned to Facility Management Project Managers for correction. Obviously more detailed work needs to be done in this area. Steps will be taken to set up a quality assurance program to review contract change orders.

2.11 Several contract change orders were combined as one "document-line version" rather than individual versions in Advantage in violation of purchasing guidelines.

RECOMMENDATIONS:

Contracts and Procurement should create a new version line for each change order entered in Advantage for contracts and POs.

Response:

Contracts and Procurement and the Accounts Payable Section and others in the Auditor's Office have worked together trying on several occasions to solve problems with the interface between AFIN and AMS to avoid contract changes being sent into "suspense". It has been determined that all change orders for one year should be put on one commodity line with separate accounting line for each change order. We will continue using this procedure until the Auditors Accounts Payable Section gives us a different direction in writing. Contracts and Procurement does not understand the definition this audit is using for a "single line-item version."

Contracts and Procurement should ensure that County agencies understand the process for creating a new version line in Advantage for change orders processed at the agency level.

Response:

Agencies do not have security to make changes to contracts.

2.12 Construction-related contracts varied in length and content.

RECOMMENDATION:

Contracts and Procurement, with the assistance of the DA's Office, should review the process for developing construction contracts to ensure that the County's is consistently using the same language and elements in contracts.

Response:

Contract and Procurement will forward this recommendation to the District Attorney's Office for their consideration as they have the responsibility to draft and approve all contract language.

3.1 Purchasing rules were circumvented by agencies for some purchases.

RECOMMENDATION:

Contracts and Procurement should not approve purchases when invoice amounts are separated into multiple invoices for a single transaction to avoid competitive bidding.

Response:

Contracts and Procurement agrees with the Audit Section that purchasing transactions should not be split to avoid the competitive bidding policies of the County. Contracts and Procurement has no direct role in purchases under \$2,500. If purchasing becomes aware of a situation where order splitting was apparent, we would inform the organization about the problem so corrective action can be taken.

As for the issue of the small-cost blanket, Contracts and Procurement was not aware that the agency would use the blanket in the way that they did. This blanket usage was under the control of the user organization. Another procurement method probably would have better served their needs.

3.2 Procurement Type IDs were left blank or incorrectly entered on some purchase requisitions.

RECOMMENDATION:

Contracts and Procurement should monitor requisitions and POs to ensure that Procurement Type IDs are entered correctly by agencies, requisitions and POs with "Unclassified" Procurement Type IDs are discarded and new requisition numbers entered.

Response:

While efforts are made to have the correct Procurement Type ID shown on the documents, the status could even be changed during the process. Some documents require being cancelled and re-entered and re-approved just to change the Procurement Type ID. The buyers do not use this field as a control field as the information can be acquired in other areas of the document. When it is found that the Procurement Type ID is a (1) for unclassified, purchasing will request the correction be made by the requesting organization.

4.1 The Mayor's Office consistently approved claims upon the recommendation of Contracts and Procurement.

RECOMMENDATIONS:

Contracts and Procurement should consider whether claims should routinely be approved where there appears to be a consistent disregard of policies and procedures.

Response:

This office agrees that un-approved purchases should not be made. Each claim is reviewed on its own merits and is not routinely approved by this office.

Purchasing will contact the four agencies listed and recommend they improve their purchasing training practices.

Contracts and Procurement should provide feedback and training on exigency purchase procedures with organizations processing claims that meet exigency criteria.

Response:

Most training classes offered by Contracts and Procurement, where procurement methods are taught, address the issue of unauthorized purchases and this is usually one of the first issues discussed. Most claims do not meet the “exigency” standards as defined in the ordinance. Claims are submitted by a wide variety of county employees, ranging from elected officials to purchasing coordinators including employees not regularly in the procurement process. As such many of these individuals would not be in the normal purchasing classes. We believe that the organization fiscal managers and directors should become more involved the claim process at the organization level. To this end, Contracts and Procurement will examine the requirements that should be included in all claim requests being submitted. This would include having the signatures of the employee ordering goods or services and both the fiscal manager and Division Director.

We agree with the Auditor’s Office that it is prudent to have both the fiscal managers and directors play a more active role in the purchasing process to insure compliance with policies and procedures.

Contracts and Procurement should emphasize, as part of their training, the need to minimize unauthorized purchases which result in claims, and how that can be accomplished.

Response:

See in response 4.1 above.

The Mayor’s Office should consider returning claims to the agency purchasing personnel for further justification and explanation of remedial action.

Response:

We agree that further justification and explanation of remedial action should be required. We would recommend that this step occur where the claim happened, preferably at the division and department levels.

4.2 Some agencies submitted claims for purchases made against an expired contract, master agreement or blanket purchase order.

RECOMMENDATION:

Contracts and Procurement should better communicate to user agencies the requirement to check the status of contracts, master agreements, or blanket orders before a purchase is processed.

Response:

This recommendation implies that this is not currently occurring. Contracts and Procurement actively communicates this information in trainings, newsletters and personal interactions. Every issue of the monthly purchasing newsletter has a list of expiring contracts. That information is also readily available in the Advantage Purchasing System and the Sire system which contains the actual document and end dates. Checking status of a contract, master agreement or blanket order before a purchase is made is an agency/user responsibility.

4.3 Some agencies submitted claims which did not include a statement of remedial action taken by the agency to prevent future unauthorized purchases.

RECOMMENDATIONS:

Claims should not be processed until an acceptable letter of justification is submitted by the agency.

Response:

We agree with this statement that claims that don't include the correct information on remedial action should be returned. Claim documentation is a very subjective area, with many claims being returned for better justification. This problem will be reduced with the implementation of a claim letter form that will required this be included in the justification. Claim processing will be discussed with all Department Directors.

Contracts and Procurement should create a claims form for use by organizations submitting a claim request.

Response:

We recognize the benefits to this recommendation. A form will be designed to help with the submittal of the claim.

5.1 There were some instances when documentation was not submitted to justify the sole-source exemption.

RECOMMENDATION:

Purchases from a sole-source vendor should not be approved without the appropriate documentation included with the PO.

Response:

We agree that documentation should be with the files and believe this was probably a quality control issue. Additional training will be provided to the staff such as assigning a task to our Office Specialist of checking for all appropriate signatures and backup documentation to verify that the sole source requirement have been met. In the future all sole source purchases above the advertised bid limit will be posted on the County bid distribution system (currently RFP Depot), those sole source request under the advertised limit may be posted at the discretion of the buyers. This will give us more electronic documentation.

6.1 Disclosure Statements were not on file for employees who directly or indirectly contracted with the County.

RECOMMENDATION:

Contracts and Procurement should update conflict of Interest clauses in contracts using language to more clearly emphasize the legal requirement for filing Disclosures with the County Clerk's Office.

Response:

Contracts and Procurement agrees that requirements with respect to conflict of interest should be enforced by the county. We inform all vendors with each Request for Bid, Request for Bid and Resulting Contract and Request for Proposals statement concerning Conflict of Interest. Contracts and Procurement does not know who has been hired by the various county organizations, those are Personnel issues. Unfortunately this division can't be the control point for these issues and believes this should be handed at the agency level for the procurement.

Before each Request for Proposal selection committee meets for their discussion on proposals received by the County, each of the committee members fill out a disclosure statement which is kept with the proposal file. If issues are brought to our attentions concerning conflicts, those issues are forwarded to the District Attorney's Office.

6.2 A conflict of interest existed for a Consultant Selection Committee member who directly supervised a contract recipient.

RECOMMENDATION:

Consultant Selection Committees should carefully consider situations wherein a member has a supervisor/subordinate relationship with a bidder.

Response:

The above referenced RFP and contract was a request from the Hansen Planetarium. They were moving and needed their historical records archived. This was funded from Hansen Planetarium. [REDACTED] was a committee member because someone was needed with the subject matter expertise on the committee. Policy 7030 contains the Conflict of Interest and Disclosure Certification that is used. It asks for full disclosure and of all personal or financial interest and fiduciary relationships.

The Request for Proposal committee makes the determination if there are any issues that may come up that would require someone to be removed from the committee. The members of the committee contained members of Contracts and Procurement as the Chair, two from the Planetarium, one from Records Management and an attorney from the District Attorney Office. As this selection was conducted in 2003, most of the files have been destroyed as they were passed the retention date. There was only one proposal received for this project.

There are many assumptions made by the Audit Staff that can't be verified or discounted because of the passage of time. It therefore appears that the audit assumes that the proper steps were not taken. We don't believe that their assumptions are supported.

6.3 State mandated insurance coverage was waived by a member of the Consultant Selection Committee.

RECOMMENDATION:

Contracts and Procurement should review contracts for hand-written amendments and investigate items that may change essential contract provisions.

Response:

It is agreed that this was a very poor practice. Written documentation from the County Risk Management will be included if standard minimum insurance requirements are modified. Contracts and Procurement will review contracts and amendments looking for changes the vendor has made with their pen. Contracts will then send to the District Attorney's Office for their approval of the changes and flag the document for the Mayor to initial the changes.