

Hernando County Clerk of Circuit Court & Comptroller  
Audit Services Department  
Audit Report  
Of  
HCUD Purchasing Procedures  
June 4, 2018

## MANAGEMENT LETTER

**TO:** County Administrator Leonard Sossamon  
**VIA:** The Honorable Don Barbee, Jr.  
**FROM:** Elizabeth Hogan, CIA, CFE, Internal Auditor  
**DATE:** June 4, 2018  
**SUBJECT:** Audit of HCUD Purchasing Procedures

In accordance with the Audit Services Department's Audit Project Schedule, the internal audit team conducted an audit of HCUD Purchasing Procedures. Based on testing, observations, and communications with key personnel, the audit team produced the attached report for your review. Management's responses to the recommendations are also included. A copy of this report has been forwarded to the Board of County Commission as an agenda "correspondence to note" item.

The purpose of this report is to furnish management independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. It is not an appraisal or rating of management.

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

The courtesies and cooperation extended by the employees of the HCUD Finance Department, the Purchasing & Contracts Department, and the Clerk of Court & Comptroller's Department of Financial Services during the audit were sincerely appreciated.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact Audit Services at (352) 540-6235, or stop by our offices in Room 362.

**ATTACHMENT: HCUD Purchasing Procedures**

**Copy:** Gordon Onderdonk, PE, LEED AP, Hernando County Utilities Director  
James Wunderle, Chief Procurement Officer and Purchasing & Contracts Manager  
Jeffrey Rogers, Deputy County Administrator

**Copy:** **Board of County Commissioners**

Chairman Steve Champion  
Commissioner John Allocco  
Commissioner Wayne Dukes  
Commissioner Jeff Holcomb

**Copy:** **Audit Services Planning & Priorities Committee**

The Honorable Don Barbee, Jr., Clerk of the Circuit Court and Comptroller  
Amy Gillis, CPA, CGFO, Director, Financial Services  
Jon Jouben, Deputy County Attorney  
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Jeffrey Rogers, Deputy County Administrator  
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## Executive Summary

The Audit Services Department (ASDJ) conducted an audit of purchases and contract awards initiated by and for the Hernando County Utilities Department (HCUD). The purpose of this audit was to provide reasonable assurance that the best value was obtained for goods and services, processes complied with County policies and procedures, and internal controls were adequate and effective.

In compliance with Florida Statutes, the County procurement policy requires all solicitations greater than or equal to \$35,000 (also known as the Advertised Bidding Requirement) to be procured through a competitive solicitation process. For awards greater than \$2,500 and less than or equal to \$34,999.99, County procurement policy requires staff members to obtain a minimum of three written quotations.

In addition to contracts awarded to the lowest bidder or lowest quote, contracts may also be awarded to a Sole or Single Source. As stated in the County Policy 070A, "The term 'sole source' means that the commodity can be legally and reasonably purchased from only one source. The term 'single source' means that a commodity can be purchased from multiple sources, but, in order to meet certain functional or performance requirements (repair parts, matching existing equipment or materials) there is only one economically feasible source for the purchase."

Contracts awarded by and for HCUD were selected for compliance testing. The contract awards selected for review materially complied with the applicable policies and procedures. Furthermore, the internal controls, if not circumvented, appeared to be adequate and effective.

In addition to reviewing the contract award process for compliance with County policies and procedures, the rotation of awards to Engineering Professional Services firms was reviewed. The County had a contract with five firms to provide Engineering professional services, on an as needed basis, to various County departments. This review disclosed an Opportunity for Improvement regarding the monitoring and awarding of projects to Professional Engineering firms.

### **Discussion Point 1: Rotation of Awards to Engineering Professional Services Firms**

The contracts with the Engineering firms stipulated that awards were to be made on a rotating basis to all Professional Engineering Firms awarded contracts for Continuing Professional Engineering Services. The term "rotating basis" was interpreted to be defined as sequential.

A manual process was used to track each of the awards. The manual process combined with staff turnover and the lack of a monitoring control resulted in awards that appeared to have been awarded out of sequence. Non-compliance with the contractual agreements puts the County at risk for potential vendor challenges.

## Acknowledgement

Other minor findings not included in the attached report were communicated to management and/or corrected during fieldwork.

Fieldwork was performed by: Elizabeth Hogan, CIA, CFE, Internal Auditor

Management's response was provided: James Wunderle, Purchasing & Contracts Manager and Chief Procurement Officer

Management's response authorized by: Jeffrey Rogers, Deputy County Administrator

This report was reviewed and authorized by Don Barbee, Jr. Clerk of Circuit Court and Comptroller.



Don Barbee, Jr.

6/4/2018

Date

## BACKGROUND INFORMATION

The Purchasing & Contracts Department facilitates the purchase of goods and services in conjunction with the initiating department. As stated in the Purchasing Procedures Manual, *"The mission of Purchasing is to maximize the purchasing value of public funds in procurement; to provide safeguards for maintaining a procurement system of quality and integrity; and to provide for fair and equitable treatment of all persons involved in public purchasing by the County."* The initiating department, which in this case is HCUD, is responsible for identifying the need, preparing specifications, evaluating the budget, and coordinating with the Purchasing and Contracts Department for the procurement of the required product or service.

Florida Statutes Chapter 287 "Procurement of Personal Property and Services" and County Ordinance 93-16 as amended by County Ordinance 2011-3 govern the purchase of commodities and contractual services by the County. In addition, the County has comprehensive Purchasing Policies and Procedures.

Florida Statute 287.017 establishes the purchasing categories and threshold amounts. Florida Statute 287.057 states that "The competitive solicitation processes authorized in this section shall be used for procurement of commodities or contractual services in excess of the threshold amount provided for CATEGORY TWO ins. 287.017." The CATEGORY TWO threshold amount is \$35,000. Therefore, in compliance with Florida Statutes the County's Advertised Bidding Requirement (ABR) is \$35,000.

## OBJECTIVE

The purpose of this audit was to:

- determine if processes complied with County policies and procedures
- determine if best value was obtained for goods and services
- assess the adequacy and effectiveness of internal controls

## SCOPE

The audit period, during which samples were selected, included Fiscal Year 2016 and the first three quarters of Fiscal Year 2017 (October 1, 2016 through and including June 30, 2017).

This review was limited to purchases and contracts for the Hernando County Utilities Department.

To accomplish the audit objectives, the Audit Services Department performed the following procedures:

- Interviewed key personnel
- Reviewed applicable policies and procedures
- Tested samples of purchases and contract awards
- Reviewed the methodology for tracking the rotation of awards to Professional Engineering Firms.

Data Analytical software was utilized to select stratified random samples of contracts awarded during the audit period. Twenty FY2016 contracts and fifteen FY2017 contracts were selected for review. In addition, a judgmental sample of ten Single/Sole Source contracts was selected for

review, five for each fiscal year. Testing of the selected awards included the solicitation of proposals, bids and prices, and the subsequent approval.

This audit was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

Opportunity for Improvement	Description	Page Reference
1	Implement monitoring process for the award/rotation of Professional EnP <sup>ineer</sup> inP- Contracts	9



## Discussion Point

### Discussion Point 1: Rotation of Awards to Engineering Professional Services Firms

Section 1.6 of the Engineering Professional Services contracts states

*"... it is understood that Professional Service projects awarded under this agreement will be assigned on a rotating basis to all Professional Engineering Firms provided that; (1) there is no conflict of interest present relating to the project assignment either by the Engineer or any principal of the Engineer; (2) the Engineer's schedule and/or workload permits completion of the project in the time frame acceptable to the County and (3) the Engineer's cost proposal for completing the assignment is within the budget available for the work. Should any of these exceptions occur, the next firm in the project rotation schedule would be assigned the project. It is understood that the COUNTY may also elect to competitively select a Professional for a specific and/or specialized project."*

The assignment of projects on a rotating basis was interpreted as sequential.

1. **Opportunity for Improvement: Implement a monitoring/verification process to ensure that the County is adhering to the terms stipulated in Section 1.6 of the contract.**

A review of the process utilized to track the awarding of projects to the Professional Engineering firms under contract with Hernando County disclosed that firms were not awarded projects in sequential order which resulted in some firms being awarded more or less projects than other firms. While there may be a legitimate reason for awarding a project out of rotation, Purchasing and Contracts did not maintain adequate documentation to support the "out of rotation" awards.

**Recommendation:** Implement a monitoring/review process that, if designed correctly, should ensure compliance with the contract terms. If award is outside of the rotation, appropriate documentation justifying the award should be submitted for review. In addition, if budgetary conditions allow, management should research and consider options to automate the tracking process.

#### **Management Response:**

Purchasing and Contracts staff has reviewed the contents of this internal audit report and met with Internal Auditing Department representation. Based upon the findings identified herein, the Purchasing and Contracts staff performed its own internal review and we concur with the findings as an opportunity for improvement and we support its recommendations with focus of refining our monitoring and review process to ensure compliance. To achieve these objectives, Purchasing and Contracts Department will impose:

1. **Spreadsheet/Task Log:** The Purchasing and Contracts staff member assigned (primary) will maintain a separate spreadsheet Task Log pertaining to each specific Engineering Professional Service contract and its awarded consultants for proper consultant rotation for Task Order/Consultant numbered assignment.
2. **Security:** Each spreadsheet will be under the strict control of the assigned Purchasing and Contracts staff member (primary) and an assigned backup staff (in absence of the primary) for Engineering Professional Service contract Task Order/Consultant rotation number assignment.
3. **Rotation of Consultants:** This is in strict secrecy, with Purchasing and Contracts primary and back-up staff (eyes only) and is based upon the scoring outcome from highest score (as first Task Order assigned) to the next lowest scored continuing in the rotation process and as identified in Section 1.6 of the Engineering Professional Service contract.
4. **Direct Select - Out of Rotation Consultant Task Assignment:** A Direct Select that takes a consultant out of the Engineering Professional Service contract rotation process is necessary and

**required when a consulting firm under Engineering Professional Service contract performs specific engineering consulting for a County Department (target location). At some point, there may be a requirement for additional Engineering Professional Service contract consulting at the same target location directly applicable to the area of prior Engineering Professional Service Contract Task/Consulting work already performed. Utilizing the expertise of the same Engineering Professional Service contract consulting firm that performed Engineering Professional Service contract engineer services on a prior Task Order may be in the best interests of the County, County Department with cost factors included.**

This Direct Select will:

- > Facilitate and necessitate the Engineering Professional Service contract consultant direct knowledge, ability, and its established prior resources (i.e. CAD programs, software and specific knowledge of the target location) therein, an out of rotation Direct Select is achieved/supported.
  - > The County Department shall provide a memo request for Direct Select directly to the Purchasing and Contracts (primary) and it will identify the County Department detailed justification to include the Department Director signature and/or its authorized designee.
  - > The Purchasing and Contracts (primary) will review and consult with the Chief Procurement Officer (CPO) for Direct Select approval. If approved, the Purchasing and Contracts (primary) will assign the Task Order/Consultant and document upon the spreadsheet the direct select performed for rotation compliance. Identification of Direct Select on the spreadsheet will allow the primary to correctly assign the next consultant in the rotation process when a request is received by a County Department.
  - > This direct select will take a specific Consultant out of rotation. If in the case the direct select consultant was next on rotation assignment, the request for Direct Select will be identified yet will not affect the rotation process.
5. **Grant Funding, Federal Aviation Administration (FAA) Funding, and other support Agency Funding:** From time to time engineering services are required by County Departments and may include funding support by grant funding agencies. Use of such funding is advantageous to the County. Utilizing Engineering Services under County Contract facilitates activities to acquire required engineering services in case of emergencies or other situations that involve grant funding or agency support match funding. That identified, other governmental agencies may impose conditions upon which the County acquires contractors/consultants to comply with agency requirements to qualify for this agency funding. The conditions may require that:
- > All consultants under contract are notified regarding the County department need and their acceptance of additional Federal clauses required by Agency for reimbursement/funding support deemed a "competitive process".
  - > The consultants involved, the focus would be to the specific type Engineering Consulting contract discipline,
  - > Pricing is based upon the number of hours projected by each consultant based upon total time identified times the hourly rates for consultant staff identified,
  - > The lowest fee estimate would be identified as a direct select.
  - > The process would be well documented by the Purchasing and Contracts primary or back-up and the spreadsheet would document the process of the direct select, Task Order rotation would follow procedure. It may also be the case that the consultant may be next on the task order rotation and normal rotation would still follow procedure.
  - > Assignment of a consultant for Local Agency Programs (LAP) projects is based on certain criteria identifying qualifications of the firm as opposed to lowest cost proposal or rotation of the task order.

In closing, Purchasing and Contracts Department will always strive to follow and adhere to policy, procedure, laws and regulations. The Purchasing and Contracts Department has been in a state of personnel changes from the Chief Procurement Officer and subordinate staff which precipitated the concerns in the rotation

process identified by this internal audit. This internal audit provided a refreshing review of this department. Purchasing and Contracts staff will take it from here to improve based upon audit identifications. Personnel as this time has stabilized.

