



Douglas County Internal Audit

January 12, 2015

Douglas County Board of Commissioners
1819 Farnam Street, Suite LC2
Omaha, NE 68183

Attention: Mary Ann Borgeson, Mike Boyle, Jim Cavanaugh, Clare Duda, Marc Kraft,
PJ Morgan, and Chris Rodgers

Eric Carlson, Purchasing Agent
1819 Farnam Street
Omaha, NE 68183

Dear Mr. Carlson:

I have completed a performance audit of the County's formal bidding process. The purpose of the audit was to assess the adequacy and effectiveness of the County's process for awarding contracts to vendors that provide the County its goods and services. The audit revealed that the County's policies were adequately designed and generally, worked effectively. There were exceptions noted and there are opportunities identified to strengthen the policy. Specific issues and recommendations for improvement appear in the Findings section below.

Background

In September of 2004 the City of Omaha and Douglas County entered into an interlocal agreement that merged the purchasing functions of both into a single, functional entity. Although the functions have been merged, there are differing policies for each. Nebraska's County Purchasing Act is incorporated into the Douglas County Purchasing Department Policy Manual. The policy and procedures outlined in the manual are required to be followed for the procurement of all goods and services for Douglas County. Per the policy, "Formal procedures must be used whenever the total cost of the purchase or Request for Proposal (RFP) is expected to exceed \$20,000." These are the procedures that Internal Audit (IA) tested.

Objective

The purpose of the audit was to:

- Provide assurance that the internal controls in the County's bidding and awards process are in place and functioning as intended.

- Assess compliance with policies in place as outlined in the County’s Purchasing Department Policy Manual.
- Determine if suppliers are adhering to conditions set forth in the bid awards.

Scope

The scope of the audit covered bids and expenditures made from November 1, 2013 through October 31, 2015.

Methodology

IA obtained files from the Oracle system of all vendor payments from the scope period indicated above. Payments were totaled by vendor. Forty vendors that had Individual payments or a series of payments that totaled more than \$20,000 were then judgmentally selected to see if the proper bidding procedures were followed. There was a further review to see if a contract was in place that matched the bid and that the vendor billing matched the contract. An additional twenty vendor bids were judgmentally selected from the archive of bids/quotes on the County Purchasing Department’s website. The same review of bids, contracts, and billing was then performed as described above for the sample of forty vendors.

In addition to the tests described above, we compared the County’s purchasing policies to other entities to see if Douglas County was following best practices. In addition to Nebraska, IA reviewed the procurement policies for counties in the states of Texas, and Minnesota, Johnson County, Kansas, Kane County, Illinois, and Utah County, Utah. We also reviewed best practice recommendations from the Institute for Public Procurement. Specific findings for our policy review and bid testing are included in the Findings section below:

Findings

Criteria: According to the Douglas County Purchasing Department Policy Manual, “Formal procedures must be used whenever the total cost of the purchase or Request for Proposal (RFP) is expected to exceed \$20,000.”

Condition: Food purchases over the last two years totaled \$181,181 for Cash Wa Distributing and \$366,519 for Reinhart Foodservice LLC. There were no formal County contracts in place or formal bidding conducted for the product purchases. Purchasing indicated the items being purchased were specialty items. If in fact these were unique items, the process used to procure unique or sole source items should have been followed.

Effect: The County Purchasing policy was not followed. The County may not have received the best deal on the items that were bought.

Cause: The County purchasing policies were not enforced.

Recommendation: Follow the appropriate policy regarding the Cash Wa and Reinhart purchases. Reiterate to all County personnel that County Purchasing policy must be followed.

Management Response: In an effort to reduce on-hand food inventories in May 2014, we moved the majority of food purchases to the US Communities cooperative purchasing contract with US Foods (allowable exception to formal bid process per Nebraska Revised Statute 23-3109 (1)(d) (iii). However, there were approximately 39 specialty items which were not available through the US Foods contract at the time we transitioned the food purchases. Many of these items are market sensitive commodities, where pricing can change weekly. Therefore, these purchases are considered by Purchasing and DCHC to be unique and non-competitive items, purchased from the above-referenced local vendors to minimum cost while maintaining quality, and to also ensure timely and efficient delivery. Purchasing acknowledges that there should have been “Sole source” documentation for these particular purchases. In reviewing the 2015 annual costs, we determined Douglas County did not spend over \$20,000 on any one specific item.

While researching the 39 specialty items, the inventory buyers have found that 21 of these items are now available through the US Foods contract and will be transitioned as soon as possible. This leaves approximately 16 specialty items that will still be considered ‘unique’ and will be documented accordingly. Purchasing will also continue to closely monitor the cost of high volume/dollar items to be sure we are compliant with the County Purchasing Policy.

For any other food items that are not available through US Foods or sole source, Purchasing will look at the feasibility of formal or informal bids (keeping in mind that many vendors require a purchase commitment of a 3 month supply, which could run counter to our efforts to reduce and turn inventory more efficiently).

Criteria: The terms in the vendor contracts should reflect all the terms that were provided in the vendor’s formal bid documents.

Condition: There were four Engineer contracts in which twenty percent of the bid amount was added to the contractual payment terms stated as a “not to exceed amount” in the contract. See the table below:

Company	Contract "Not to Exceed Amount"	Bid Amount	Total Project Cost	% of Overrun	Next Lowest Bid*
Hawkins Construction	\$1,426,831	\$1,189,025	\$1,220,853	2.7%	\$1,193,375
Tab Construction	\$475,673	\$396,394	\$428,482	8.1%	\$406,664
Vierregger Electric Company	\$219,586	\$182,989	\$198,679	8.6%	\$201,808
Vrana Construction	\$1,558,311	\$1,298,592	\$1,258,439	-3.1%	\$1,327,076

* Other bids were higher than the total project cost.

The Engineer’s Office pointed to a County Board resolution from September of 2000 where the Board approved a change to the Standard Specifications for Highway Construction and the Contract Documents. The Engineer’s Office believed section 104.02 of the document gave the Engineer’s Office authority to add 20% to the bid amount in the payment terms in the contract. Per review by IA and the County Attorney’s office, the change did not grant this authority. It

was noted that the County Board approved all of the contracts with the “not to exceed amount” terms.

Effect: Although none of the projects approached the 20% addition, the contract terms provided vendors a legal means to charge up to 20% more than their original bid amounts without having to get County Board approval.

Note: The Engineer’s Office has stated that the practice of adding 20% to the bid amount is no longer being used.

Cause: The Engineer’s Office believed the changes approved in September of 2000 provided the authority to make the 20% bid addition to the payment terms in the vendor contracts.

Recommendation: Amend the Standard Specifications for Highway Construction and the Contract Documents to make it more clear what changes to quantities and plans can be made by the Engineer’s Office. The County’s policy manual should provide clear instructions for all vendors as to when cost overruns need to be approved by the County Board.

Management Response: Purchasing acknowledges and agrees with the recommendation. We have discussed the process with the Highway Department and advised them to have clear standard specification language in their project contracts to address any changes to quantity etc. Additionally, Purchasing has asked the Engineer’s Office to present change orders to construction contracts to the County Board for review. These instructions will be added to the County’s Purchasing manual as soon as possible.

Criteria: When written properly, formal, written contracts provide clear, legal documentation that helps to protect the best interests of all parties including a means to resolve disagreements between the parties.

Condition: There were five vendor services being used in which payments were being made without contracts. The vendors and amount of services paid for during the last two years follow: Barga Inc. - \$341,261, Capital City Concepts - \$58,195, Environmental Systems Research Institute Inc. - \$38,661, Mid America first Call Inc. - \$156,727, Physicians Laboratory PC - \$284,319.

Effect: The County may not be legally protected in the event of inadequate delivery of goods services when there are no clear agreements detailing warranties and service levels.

Cause: The County does not have a policy stipulating when a written agreement for the delivery of goods and services is required.

Recommendation: Establish a policy stipulating when a written agreement for the delivery of goods and services is required.

Management Response: Purchasing agrees that the County may not be legally protected in the event of inadequate delivery of goods services in certain cases. Purchasing is working with the County Attorney’s Office to determine how to best address this as many transactions for goods and services do not necessary have a written contract. Purchasing will work to define when a

written agreement is required and incorporate this policy into the County's Purchasing manual as soon as possible.

Criteria: An entity should have an objective process for evaluating and choosing its vendors, and the process should be adequately documented. The documentation should be able to stand-up to challenges from outside parties.

Condition: Douglas County's purchasing manual includes a number of policies and best practices shared with the entities identified in the Methodology section above. This includes the use of a centralized purchasing function, vendor price agreements, cooperative purchasing, emergency purchasing provisions, lowest & best bid bidding, establishment of a code of ethics, and appropriate segregation of duties. All of the policies required or recommended objectively formulated and documented scoring criteria in the request for bids. Except for the state of Nebraska and Utah County, they also mandated or recommended the use of weighting factors to apply to the criteria. Douglas County's policy lists a number of factors to consider when awarding contracts, but does not explicitly state that specific scoring and weighting criteria should be used when the bids/ proposal are evaluated. In examining the bids obtained during the audit, IA noted only one bid/RFP file that included evidence of the use of a weighted scoring methodology.

Effect: The County was not always making use of best practices for objectively evaluating bids/proposals and may not have clear documentation supporting the choices made.

Cause: The County does not have a policy stipulating when weighted scoring should be used to evaluate vendors.

Recommendation: Establish a policy stipulating when weighted scoring should be used to evaluate vendors.

Management Response: While the State Purchasing Act does not require a scoring matrix as part of the vendor evaluation process, Purchasing agrees that a scoring matrix should be encouraged as best practice for bids. Purchasing is working on a standard scoring template which incorporates the Competitive Bidding Considerations (per Nebraska Revised State 23-3110). This scorecard and related policy will be added to the County's Purchasing manual once completed. Departments will be instructed by policy to utilize the scoring matrix where possible so the departments will have clear documentation supporting their decisions.

Audit Standards

Internal Audit conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives. This report was reviewed with the Douglas County Purchasing Agent.

Internal Audit appreciates the excellent cooperation provided by the managers and staff of the various offices/departments throughout the County and in particular the Purchasing Department. If you have any questions or wish to discuss the information presented in this report, please feel free to contact me at (402) 444-4327.

Sincerely,

Mike Dwornicki
Internal Audit Director

cc: Mark Rhine
Jude Lui
Richard File
Kathleen Hall
Sheri Larsen
Patrick Bloomingdale
Diane Carlson
Joe Lorenz
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