



# Internal Audit Report

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2021-02 – PURCHASING, PURCHASING CARDS, AND VENDOR  
MANAGEMENT

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**July 21, 2021**

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**Internal Auditor**

July 21, 2021

Honorable Members of the County Council and County Manager

Ladies and Gentlemen:

I am pleased to present audit report 2021-02 Purchasing. The objective of this audit was to determine, with a reasonable degree of assurance, whether the procurement of goods and services is processed in compliance with the established regulations, policies and procedures. The period audited was calendar years 2019 and 2020 (January 1, 2019 through December 31, 2020).

I conducted this audit in accordance with the *International Standards for the Professional Practice of Internal Auditing*, except for the requirement of an external quality control review. Those standards require that I plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for my findings and conclusions based on audit objectives. I believe that the evidence obtained provides reasonable basis for my findings and conclusions. The audit was performed in the months of March through June 2021.

I appreciate the assistance of the staff involved in the Purchasing division as well as staff located throughout the county for their support during this audit.

Jonathan Edwards, CIA, CPFO  
Internal Auditor

## Background

The Purchasing and Contracts Division is a service division that facilitates the procurement of materials, supplies, equipment, as well as professional, technical, and contractual services required for operations of the County. The division has a control function to ensure that laws, rules, and regulations concerning the purchase and disposal of goods and services are followed. In addition to ensuring that all transactions are carried out under the highest ethical standards. Staff also provide for other county division resources, research, and information on new products and services as well as trends and opportunities.

The mission is to provide fair and equitable treatment of all persons involved in public purchasing, to maximize the purchasing value of public funds in procurement, and to provide safeguards for maintaining a procurement system of quality and integrity. The goal is the promotion of the County's best interest through intelligent action and fair dealing that will result in obtaining the maximum value for each dollar of expenditure.

The Purchasing and Contracts Division consists of procurement analysts and administrative staff who specialize in certain commodity and departmental assignments. Staff are organized into buying teams to facilitate the procurement process.

Section 2-261 through 2-283 of the County Ordinances is referred as the "purchasing ordinance" that Council has approved. The Contracts and Purchasing Director maintains a more in-depth procedures manual, which is approved by the County Manager. It provides further direction on policies and procedures for county departments and divisions.

During 2020 and 2021 staff implemented Negometrix, which went live in March 2021. Negometrix is a free service for all respondents to respond to open solicitations. Previously, respondents provided paper bids and responses to county solicitations. Bids and solicitations were previously maintained in locked cabinets that only procurement managers could access. The received responses were kept in the locked cabinet until the public opening. During the public opening, at least two purchasing staff attended the opening to document the responses received. Negometrix will now provide a secured vault that cannot be opened until the published public opening.

The purchasing division has won the National Procurement Institute (NPI) "Achievement of Excellence in Procurement Award" for 13 years and consistently every year since 2014. The prestigious award is earned by those organizations that demonstrate excellence by obtaining a high score based on standardized criteria that measures innovation, professionalism, productivity, e-procurement, and leadership attributes of the procurement organization<sup>1</sup>.

The accounts payable section, organized under the Accounting Division in the Finance Department, is responsible for paying all invoices received by the county for goods and services purchased. Vendors submit invoices for goods and services to the initiating division or department. Verified and approved invoices are forwarded from the initiating division to accounts payable for payment.

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<sup>1</sup> National Procurement Institute, Achievement of Excellence in Procurement Award. [Npi-aep.org](https://npi-aep.org)

## Scope and Methodologies

On January 19, 2021, County Council approved the 2021 Audit Plan, which included auditing purchasing, purchasing cards (P-cards), and vendor management. The purpose of the audit was to determine, with a reasonable degree of assurance, whether the procurement of goods and services is processed in compliance with established regulations, policies, and procedures.

The audit scope included all purchasing solicitations and contracts for calendar years 2019 and 2020 (January 1, 2019 through December 31, 2020). Not included in the scope is the disposal of assets (which is managed by Purchasing staff), solicitations relating to the Constitutional Officers (which through Amendment 10, are no longer part of Council's authority or control), or Votran, the county's transportation system, which was separately audited earlier this year.

Specific audit objectives were:

1. To determine whether the county procures goods and services in compliance with established procure to pay policies and procedures.
2. To obtain an understanding of internal controls that are significant to the process.
3. To perform procedures that will provide reasonable assurance of detecting instances of noncompliance with regulations, resolutions, and policies passed by Council and guidelines that have been established relating to purchasing.
4. To determine whether or not the single/sole-source procurement process has adequate controls to ensure single/sole-source procurements are appropriate.
5. To determine whether P-cards have been utilized and transactions properly processed and accounted in accordance with the policies and procedures established for the county's P-card program.
6. Determine if employees received inappropriate or fraudulent payments.

Audit procedures to accomplish these objectives included the following:

- Obtained and reviewed resolutions, Federal and State regulations, program guidelines, county and department policies and procedures, and other relevant documentation pertaining to purchasing.
- Reviewed and understood internal controls over purchasing, purchasing cards, disbursements and vendor management.
- Reviewed best practices of public procurement issued by the National Institute of Government Purchasing (NIGP).
- Matched and compared vendor records to employee records.
- Tested controls over solicitations and P-card transactions using a mix of statistical and non-statistical sampling techniques while being mindful of fraud considerations (such as: unusual purchases, overly specific/vague specifications, multiple phased-in contracts to avoid thresholds, phony "urgent need" buys, bogus "single/sole-source" justifications, bid rigging, unbalanced evaluation scores, among others).

During this this timeframe, there were 1,385 active contracts. 325 solicitations were issued during this time. For selection for testing, the solicitations were broken-out by type as shown in Table 1. 84 solicitations were reviewed, or 6.1% of the active contracts. Invoices paid to vendors were randomly selected to ensure agreement with the purchasing documents and contracts.

Table 1: Solicitation review selection:

Solicitation Type	Break-out	Total Population	Total Tested	% Tested	Selection methodology
<b>Construction</b>	CMAR *	10	2	20.0%	Sorted by year, haphazardly selected items
	Design-Bid-Build	84	8	9.5%	Sorted by year, haphazardly selected first item then every n <sup>th</sup> item
<b>Total Construction</b>		<b>94</b>	<b>10</b>	<b>10.6%</b>	
<b>Commodities / Services</b>	Single/Sole-source	85	13	15.3%	Sorted alphabetically, haphazardly selected first item then every n <sup>th</sup> item
	Piggyback	15	3	20.0%	Sorted alphabetically, haphazardly selected items
	Misc./no notes	34	6	17.6%	Sorted alphabetically, haphazardly selected items
	Solicitation	165	17	10.3%	Sorted alphabetically, haphazardly selected first item then every n <sup>th</sup> item
<b>Total Commodities / Services</b>		<b>299</b>	<b>39</b>	<b>2.8%</b>	
<b>Master Agreements (MA)</b>	Listed by purchasing analyst name	864	24	2.8%	Sorted by analyst's name, then judgmentally selected based on MA description provided and/or dollar spent
<b>Professional Services</b>	Listed by purchasing analyst name	128	11	8.6%	Sorted by analyst's name, haphazardly selected items
<b>Total Active Solicitations</b>		<b>1,385</b>	<b>84</b>	<b>6.1%</b>	

\*CMAR, Construction Manager At Risk

All of the P-card transactions from January 1, 2019 through December 31, 2020, were downloaded directly from the processing bank's website and sorted by division. This consisted of over 25,000 transactions totaling over \$4.8 million.

The test sample was set at 2% of the total transactions, or 503 transactions. Various reports were generated to analyze the transactions based on the total spend and transaction counts of:

- County department/division
- Cardholder name
- Merchant name
- Category codes

Transactions were then sorted by division and cardholder name. Test items were judgementally selected, being mindful of the top usage by cardholder and merchants utilized by the division.

Transactions were further analyzed and added to the test selection for:

- Potential duplicates
- Over the cardholder limits
- Split into two or more to avoid purchasing thresholds
- Unusual merchant names

Additionally, any transaction greater or equal to \$2,500 was added to the test. A total of 559 transactions (or 2.2%), totaling \$745,231.92 (or 15.4%) were selected for testing as shown in Table 2.

Table 2: P-card review selection:

Dept / Division	Total Spend	Total Count	Test Spend	Test Count	% Test Spend / Total Spend	% Test Count / Total Count
Airport	\$ 296,982.60	1,487	\$ 19,244.02	31	6.5%	2.1%
Economic Development	11,379.03	71	774.88	2	6.8%	2.8%
<b>Total Aviation &amp; Economic Dev.</b>	<b>308,361.63</b>	<b>1,558</b>	<b>20,018.90</b>	<b>33</b>	<b>6.5%</b>	<b>2.1%</b>
Facilities Management	125,298.02	1,276	10,062.52	26	8.0%	2.0%
Fleet Management	156,194.12	779	15,405.25	16	9.9%	2.1%
Purchasing	581,325.23	446	397,109.36	41	68.3%	9.2%
<b>Total Business Services</b>	<b>862,817.37</b>	<b>2,501</b>	<b>422,577.13</b>	<b>83</b>	<b>49.0%</b>	<b>3.3%</b>
Agriculture Extension	22,033.14	199	1,565.35	4	7.1%	2.0%
Community Assistance	86,875.82	669	3,996.30	14	4.6%	2.1%
Library Services	464,201.64	3,069	18,518.43	40	4.0%	1.3%
Parks, Recreation & Culture	262,146.55	1,056	78,073.55	22	29.8%	2.1%
Veterans Services	24,262.80	212	1,103.70	5	4.5%	2.4%
<b>Total Community Services</b>	<b>859,519.95</b>	<b>5,205</b>	<b>103,257.33</b>	<b>85</b>	<b>12.0%</b>	<b>1.6%</b>
<b>County Attorney</b>	<b>85,524.19</b>	<b>443</b>	<b>4,871.95</b>	<b>9</b>	<b>5.7%</b>	<b>2.0%</b>
<b>County Council</b>	<b>80,244.25</b>	<b>349</b>	<b>2,833.80</b>	<b>9</b>	<b>3.5%</b>	<b>2.6%</b>
Community Information	61,642.10	338	1,296.29	7	2.1%	2.1%
County Manager	80,823.72	569	5,184.77	12	6.4%	2.1%
<b>Total County Manager</b>	<b>142,465.82</b>	<b>907</b>	<b>6,481.06</b>	<b>19</b>	<b>4.5%</b>	<b>2.1%</b>
Accounting & Finance	57,164.45	376	1,876.03	8	3.2%	2.1%
I.T.	67,276.35	351	5,510.00	8	8.2%	2.3%
Management & Budget	21,180.69	136	608.98	3	2.9%	2.2%
Treasury & Billing	66,998.25	515	10,047.47	11	15.0%	2.1%
<b>Total Finance</b>	<b>212,619.74</b>	<b>1,378</b>	<b>18,042.48</b>	<b>30</b>	<b>8.5%</b>	<b>2.2%</b>
Building & Code Enforcement	62,491.88	363	7,067.48	8	11.3%	2.2%
Environmental Management	282,276.52	1,717	25,047.09	57	8.9%	3.3%
GRM Admin.	8,300.66	69	599.20	2	7.2%	2.9%
Planning & Development	38,134.76	180	834.66	4	2.2%	2.2%
<b>Total Growth &amp; Resource Mgmt.</b>	<b>391,203.82</b>	<b>2,329</b>	<b>33,548.43</b>	<b>71</b>	<b>8.6%</b>	<b>3.0%</b>
<b>Human Resources</b>	<b>93,082.63</b>	<b>635</b>	<b>3,840.39</b>	<b>13</b>	<b>4.1%</b>	<b>2.0%</b>
<b>Ocean Center</b>	<b>195,297.74</b>	<b>845</b>	<b>6,291.88</b>	<b>17</b>	<b>3.2%</b>	<b>2.0%</b>
Animal Services	103,818.75	559	10,105.83	13	9.7%	2.3%
Beach Safety	83,268.97	648	6,352.21	13	7.6%	2.0%
Corrections	308,275.76	1,306	13,649.84	26	4.4%	2.0%
Emergency Mgmt.	52,257.88	308	8,616.34	8	16.5%	2.6%
Emergency Medical Admin.	3,194.65	12	68.39	1	2.1%	8.3%
Emergency Medical Services	109,161.56	256	34,106.29	8	31.2%	3.1%
Fire Services	271,116.38	1,657	18,630.25	32	6.9%	1.9%
Medical Director	5,875.25	48	85.78	1	1.5%	2.1%
Public Protection Admin.	17,132.07	118	632.30	3	3.7%	2.5%
<b>Total Public Protection</b>	<b>954,101.27</b>	<b>4,912</b>	<b>92,247.23</b>	<b>105</b>	<b>9.7%</b>	<b>2.1%</b>
Coastal	40,115.78	244	2,432.07	5	6.1%	2.0%
Drainage/ Stormwater	42,783.23	310	1,545.77	7	3.6%	2.3%
Engineering & Construction	34,770.66	300	1,392.29	6	4.0%	2.0%
Mosquito Control	129,678.39	839	6,807.70	17	5.2%	2.0%
Public Works Admin.	13,373.37	139	195.57	3	1.5%	2.2%
Road & Bridge	130,386.71	666	4,988.79	14	3.8%	2.1%
Solid Waste	56,101.01	390	2,874.47	8	5.1%	2.1%
Traffic Engineering	54,780.41	377	1,532.02	8	2.8%	2.1%
Water Resources & Utilities	144,941.68	828	9,452.66	17	6.5%	2.1%
<b>Total Public Works</b>	<b>646,931.24</b>	<b>4,093</b>	<b>31,221.34</b>	<b>85</b>	<b>4.8%</b>	<b>2.1%</b>
<b>County Total</b>	<b>\$ 4,832,169.65</b>	<b>25,155</b>	<b>\$ 745,231.92</b>	<b>559</b>	<b>15.4%</b>	<b>2.2%</b>

## Evaluation

Based on the results of the audit, internal controls are operating as intended. There are opportunities for strengthening the controls to adequately safeguard the purchasing function and minimize the occurrence of fraud, waste, and abuse. Vendors are monitored by the end-user or the division's project manager. However, a more formal monitoring effort by the purchasing division will help ensure vendors are operating in compliance with the purchasing contracts. During testing of vendor invoices, there were two vendors noted that did not conform to the approved contracts. While the discrepancies may be immaterial in relation to the scope of the audit work; a formal vendor monitoring program, performed by purchasing staff, may have caught these instances and would have been quickly rectified.

Due to the limited competition and susceptibility of inappropriate single/sole-source purchases, additional testing was performed on these solicitations. Controls over single/sole-source purchases appear to be operating as intended and the purchases tested did not reveal inappropriate usage.

There were no instances detected of inappropriate payments to employees. Vendor and employee data tables were compared and tested to determine if payments to employees were for legitimate business reasons (i.e., travel reimbursements).

Solicitations were tested to ensure controls existed to ensure:

- Proper advertisement of the solicitation
- Specifications were well-written (not overly specific or too vague)
- Appropriate number of potential respondents were notified of solicitations
- Appropriate number of responses were received
- Responses were opened in public forums
- Respondents included all of the required documentation set forth in the solicitation
- Evaluation committee members were properly approved by Deputy County Manager
- Evaluation scores supported fair decisions
- Approval thresholds were met and not circumvented
- Change orders were approved within the proper thresholds and not circumvented
- Invoices were randomly selected to ensure agreement and only allowable items were included
- If solicitation was protested, that the county policy was followed

The report includes recommendations to further enhance and strengthen the internal controls over the purchasing function. Appendix 1 includes several common fraud schemes that can occur in government purchasing, red flags that indicate fraud could be occurring, and controls and safeguards county staff have implemented to help prevent, deter, and detect these schemes from occurring.

## Findings, Concerns, and Recommendations

Findings are defined as frequent or commonly seen observations during an audit. They include critical and major failures in a program where requirements have not been effectively implemented or where there are significant issues.

Concerns are defined as infrequent or isolated observations during an audit. They include minor failures in a program where requirements have been met but opportunities may exist for improvement.

### FINDINGS:

#### 1. VENDOR MONITORING DELEGATED TO END-USERS & INVOICES MAY NOT CONFORM TO AGREEMENTS

Purchasing staff delegate vendor performance monitoring to end-users who may not always be aware of contract requirements and pricing information. During the testing of solicitations, paid invoices were randomly selected and compared to the contract and solicitation materials to ensure compliance. Two vendors were noted with the following issues.

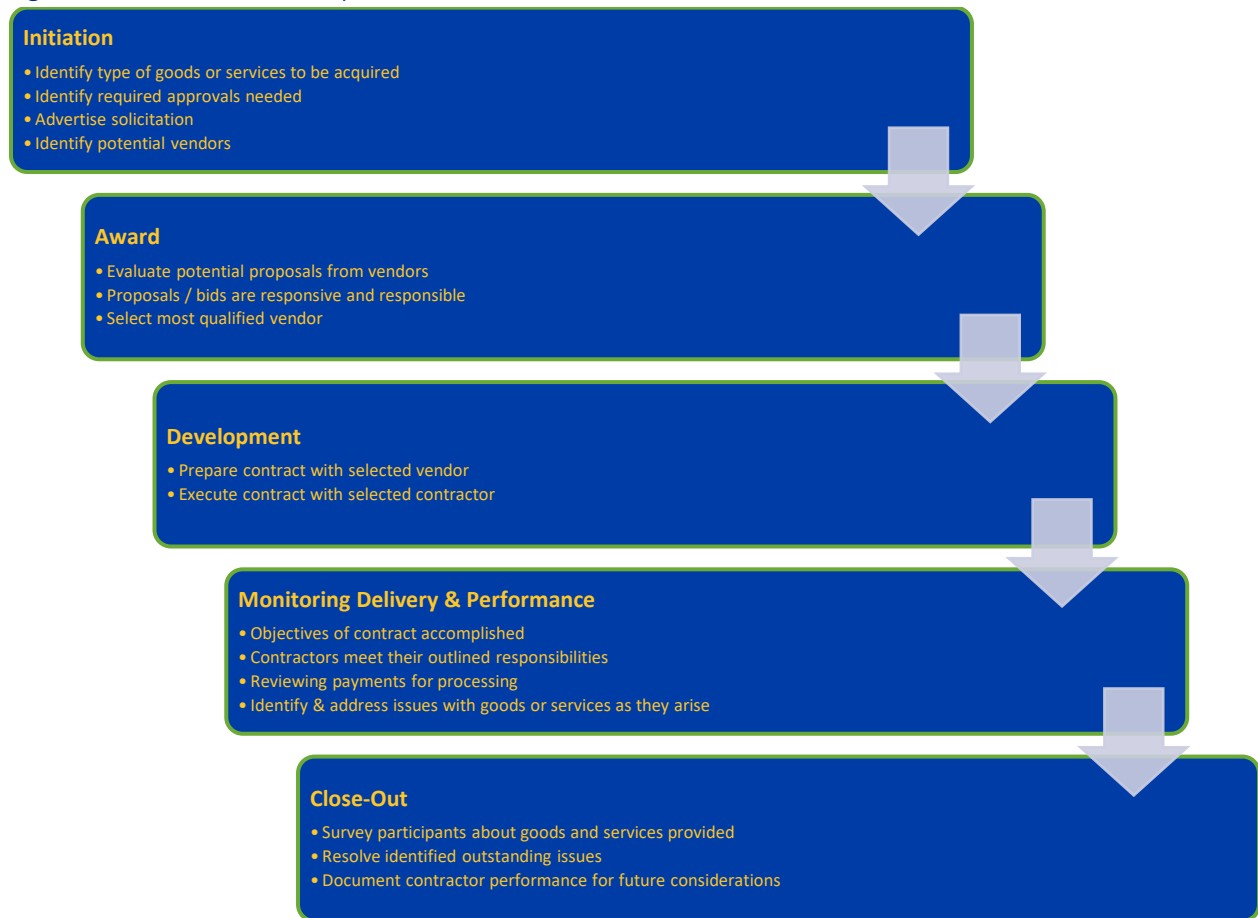
An invoice to a paving vendor included \$3,478.75 for “mobilization” and \$1,900.00 for “maintenance of traffic” on August 20, 2020 with the project description for Clyde Morris and Hand Avenue. These line items were not in the approved contract. When the county construction manager was asked about the charges his reply was “we should not have paid these charges and this was an oversight on our part.”

Several invoices to a single/sole-source vendor, who was approved for work not-to-exceed \$50,000, were reviewed with the following issues:

- A “shop supplies” rate of 7.5% is typically charged on all service repairs and the master agreement with the county does not contain a provision for this charge. Of the invoices reviewed, a total of \$2,493.95 was charged under this “shop supplies” category. No other supporting detail is provided by the vendor. Staff indicated that this may be an “industry standard rate.” However, all rates should be agreed upon by both parties and included in the master agreement.
- The master agreement allows for service and travel rates per hour; however, it was noted that all hours charged were even and round hours. Staff could not verify the hours charged to actual hours worked. The invoices do not notate when the technician started and stopped work. If travel time is charged, the invoice does not notate the technician’s destination to or from locations so that a reasonableness check can be performed by county staff. Of the invoices reviewed, a total of \$12,627.00 was charged for service hours.
- The master agreement states the vendor will provide a 10% discount off the manufacturer’s list price. However, the invoices do not notate the discount or provide the manufacturer’s list pricing; therefore, it is unclear how staff could determine if the discount is applied appropriately.

Contract monitoring ensures that all parties comply with the terms of the contract. The procurement lifecycle includes not just the initiation, award, and development; but also monitoring delivery and performance, and close-out, as provided in Figure 1.

Figure 1: Procurement Lifecycle



The NIGP Best Practices<sup>2</sup> advises that self-assessments can ensure purchasing is operating with economy, efficiency, effectiveness, and in compliance with applicable laws and regulations and that documents requested are up-to-date and readily available. Self-assessments build trust and demonstrate transparency. Self-assessments may include a review of: small purchases, single/sole-source purchases, emergency purchases, competitive solicitations, procurement cards, training aids, customer services, and supplier performance.

Management is responsible for ensuring the control environment is operating as intended. The fifth element of the internal control environment<sup>3</sup> is monitoring, or a periodic assessment, to determine if controls are working as intended. Performing self-assessments, including comparing vendor invoices to contract agreements, will further strengthen the monitoring controls.

<sup>2</sup> NIGP Best Practices: Audits. [www.nigp.org](http://www.nigp.org)

<sup>3</sup> The Committee of Sponsoring Organizations (COSO) *Internal Control Framework*. [www.coso.org](http://www.coso.org)

**RECOMMENDATIONS:**

- A. Retrain staff on the importance of properly reviewing invoices and supporting documentation before approving invoices for payment.
- B. Contact the vendor and request the invoices agree to the master agreement and/or modify the master agreement to include "industry standard rates" be allowable; that invoices reflect actual times charged by indicating start/end times to ensure service hours are reasonable and appropriate; and that invoices reflect the 10% discount as agreed-upon.
- C. Implement a formal self-assessment program to ensure that controls are established, processes are followed, reporting is effective, and risks are mitigated.

**MANAGEMENT'S RESPONSE:**

- A. *We agree with the above and the using division has addressed and retrained staff on the importance of proper invoice review prior to processing. Purchasing will work with Accounts Payables to develop periodic reviews of invoices, including a sampling of construction invoices, to ensure payment requests match the purchase order/master agreement.*
- B. *We agree and this single source contract was just recently updated with current rates. The using division staff has been retrained to verify all charges and ensure they match the master agreement rates and discounts prior to submitting for payment and to contact the vendor if any discrepancies are found for corrected invoice.*
- C. *We agree and the Purchasing and Contracts Staff has developed an internal review process for master agreements and the resulting delivery orders to be conducted on a quarterly basis beginning in the fourth quarter of FY 2021 (July 1). 10% of total delivery orders issued in quarter 3 of FY 2021. This process will be ongoing and added to our policies and procedures manual. Purchasing and Contracts will also work with Accounts Payable to develop a similar review of payments for both purchase orders and delivery orders. Purchasing and Contracts will emphasize the importance of proper invoice review and comparison to contract, purchase orders, and master agreements during our internal trainings: CGI Initiator & Approver Training, Purchasing 101 and Construction/Professional Services Contracting 101.*

## CONCERNS:

### 1. COST-BENEFIT OR BREAK-EVEN ANALYSIS NOT PERFORMED ON PAYMENT KIOSK PURCHASE

The County utilized Federal CARES Act funds to purchase two payment kiosks for \$161,952 during the COVID-19 pandemic and a cost-benefit or break-even analysis was not performed. On September 29, 2020, Council approved the purchase of two kiosks at two library locations to facilitate more effective social distancing for customers making utility payments. The two payment kiosks cost approximately \$4,500 a month. The first 90 days of operations, the kiosks brought in an average of \$2,900 of payments.

Due to social distancing protocols for the pandemic, utility customers were expected to wait in lines along with tag and title customers. Oftentimes these lines were outside, in the summer heat, and caused safety concerns due to customers standing in parking lots. To alleviate customer concerns and provide quality customer service, staff utilized CARES Act funds to quickly find a solution for speedier utility payments. These kiosks were to assist with these concerns. The kiosks currently take utility payments but may also be configured in the future to take other revenue sources, such as beach passes.

The county had the option to lease the kiosks at \$2,500 each, or \$5,000 for 36 months (total cost, \$180,000) or purchase the kiosks with a 36 month maintenance plan. The costs included \$150,000 for the equipment and \$11,952 for system integration. By purchasing the kiosk outright, the county saved approximately \$20,000, or four months of lease payments ( $\$5,000 \times 32 \text{ months} = \$160,000$ ).

During the first 90 days of operation, there were a total of 160 payments made between the two kiosks (first month, 54; second month, 55; and third month, 51). According to the Treasury and Billing Director, water and utility payments range from \$50-\$60 per payment. For this analysis, it was averaged at \$55 per payment with an average of 53 payments received each month. This is roughly \$2,900 in kiosk payments.

The kiosks cost the county approximately \$4,500 per month (\$161,952 over 36 months). If the average payment received is \$55, at least 82 payments would need to be received each month to cover the cost of the kiosks.

Such a cost-benefit, or a break-even, analysis was not performed by staff or presented to Council. Without performing an analysis, taxpayer monies may be more prone to waste and inefficiencies.

The *Government Auditing Standards*<sup>4</sup> produced by the Federal Government Accountability Office (GAO) provides for five concepts describing how public officials are to provide functions and services: effectively, efficiently, economically, ethically, and equitably. An activity is defined as economical when it “minimizes the costs of resources used in performing its functions while meeting timeliness and quality considerations for those resources.” An activity is defined as efficient when “it gets the most value from available resources.”

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<sup>4</sup> *Government Auditing Standards* 2018, GAO. [www.gao.gov/yellowbook](http://www.gao.gov/yellowbook)

#### **RECOMMENDATION:**

Perform cost-benefit analysis to ensure purchases obtain the most value from the available resources.

#### **MANAGEMENT'S RESPONSE:**

*We partially agree. In a normal time where there were not so many unknowns and the vendor field was open and competitive, and timing was not an issue, we would agree more analysis would be appropriate prior to the purchase of the kiosk, including incorporating our own staffing as an option. However, this was not the case- we were looking for options to alleviate crowds, lines and frustration at our tag and title offices, especially the offices that had the responsibility of accepting utility payments. The safety of the public made this a viable option in two of the locations that accepted utility payments. The purchase was also made piggybacking an existing competitively bid contract, so there was the comfort of knowing that an open market bid was performed. In addition, we were working through companies that were also impacted by the shutdown with limited resources and people. As we move forward, the Treasury and Billing division is looking at other options to add to the kiosk to enhance the value of the system. In conclusion, you can only analyze what you have available to you at the time of an emergency, and the team did this in the best interest of the community.*

## **2. FEW INSTANCES OF P-CARD POLICIES NOT BEING FOLLOWED**

During the P-card transaction testing, there were issues noted and summarized in Table 3. Further discussion and recommendations follow.

Table 3: P-card Test Results Summary

Division	Split Transaction, Count	Split Transaction, Amount	Itemized Receipt, Count	Itemized Receipt, Amount	Sales Tax Charged, Count	Sales Tax Charged, Amount
Airport	-	\$ -	3	\$ 3,340.43	-	\$ -
Purchasing	-	-	-	-	1	15.49
Environmental Mgt.	-	-	7	2,224.90	-	-
Planning & Devl.	-	-	-	-	1	10.13
Human Resources *	-	-	1	89.99	-	-
Ocean Center	1	1,336.00	4	514.00	-	-
Animal Services	1	2,999.97	-	-	-	-
Beach Safety	-	-	2	1,078.18	-	-
Fire Services	1	1,592.40	-	-	-	-
Mosquito Control	1	1,843.30	-	-	-	-
<b>Total Purchase Issues</b>	<b>4</b>	<b>\$ 7,771.67</b>	<b>17</b>	<b>\$ 7,247.50</b>	<b>2</b>	<b>\$ 25.62</b>

\* Receipt provided by merchant after staff were questioned by auditor

### **2.A. TRANSACTIONS SPLIT INTO TWO OR MORE TO AVOID THRESHOLDS**

4 P-card purchases (or 1.1% of the 559 tested) totaling \$7,771.67, were split into two or more transactions to avoid P-card spending levels set by policy. Employees stated they were unaware of the policy. They did not know they could request a temporary increase with approval of their supervisor and purchasing staff. It was noted that these split transactions were done by different employees and does not appear to be an on-going, or recurring employee issue.

- 1 transaction was split to purchase pet food for Animal Services in preparation of a hurricane, totaling \$2,999.97. The employee was new and unaware of the policy. Purchasing staff were alerted of this splitting and informed the employee of the policy.
- 1 transaction was split to purchase 5 different office desks, totaling \$1,843.30 for Mosquito Control. The employee was unaware that they could request a temporary spending increase.
- 1 transaction was split to purchase smoke detectors for fire prevention training, totaling \$1,592.40. The employee's supervisor notated this during their month-end review and retrained the employee on the county's policy.
- 1 transaction was split to purchase directional flags for a marathon race outside of the Ocean Center, totaling \$1,336.00. The employee was unaware they could request a temporary spending increase.

Limits are established to ensure cardholders make purchases up to the threshold approved by their supervisor. Departments may request a temporary increase to their single transaction limit to allow a specific purchase. These temporary increases are approved by the supervisor, the P-card Administrator, and the Purchasing and Contracts Director.

**RECOMMENDATION:**

Retrain employees on the policy on splitting payments and the procedures to request temporary spending limit increases.

**MANAGEMENT'S RESPONSE:**

*We agree and the Purchasing Card Administrator has reviewed this with the using division and they understand and will not do this again. They will send request for temporary increase to the Purchasing Card Administrator for the approval of the Purchasing Director.*

**2.B. DETAILED, ITEMIZED RECEIPTS NOT OBTAINED OR RETAINED**

Itemized and detailed receipts for 17 (or 3.0% of the transactions tested), totaling \$7,247.50 were not obtained or retained.

- For food and entertainment expenditures, credit authorization slips were turned in; however, these are not itemized and detailed receipts.
  - Ocean Center, 4 transactions, totaling \$514.00
  - Airport, 2 transactions, totaling \$2,611.71
- Summarized receipts were turned in but were not itemized and detailed (i.e., quantity, cost per item, sales tax).
  - Growth & Resource Management (Marine Science Center) purchased inventory items for the gift shop, 7 transactions, totaling \$2,224.90
  - Airport, 1 transaction for signage, only packing slip turned in, totaling \$728.72

- Human Resources, purchased COVID-related equipment, 1 transaction, totaling \$89.99 (itemized receipt was obtained from the merchant after questioned by auditor)
  - Public Protection, purchased supplies, 1 transaction, totaling \$79.18
- 1 transaction for \$999.00 for equipment for Public Protection had a receipt turned in, but was damaged and could not be reviewed by the auditor.

Expenditures should have sufficient detail so each transaction can stand on its own well after the fact to demonstrate the benefit to the County.

**RECOMMENDATION:**

Retrain employees on policy and reasons for receiving and maintaining itemized and detailed receipts.

**MANAGEMENT'S RESPONSE:**

*We agree and the Purchasing Card Administrator has reviewed this with the using division. They understand and will request and maintain appropriate itemized receipts for all transactions.*

**2.C. SALES TAX CHARGED INAPPROPRIATELY**

Sales tax was charged inappropriately on 2 transactions (or 0.4% of the transactions tested), totaling \$25.62. After being alerted by the auditor, Purchasing staff reached out to the merchant who refunded \$15.49 for the sales tax. Planning and Development staff also reached out to the merchant, who could not refund the sales tax that was charged of \$10.13.

Florida statutes exempt state sales tax from official business purchases.

**RECOMMENDATION:**

Retrain employees on policy on sales tax exemption and ensure sales tax is not charged.

**MANAGEMENT'S RESPONSE:**

*We agree. The purchase for the Purchasing division was for two of the same items and a request was made for a sales tax refund and only one was received. We have retrained staff to request and track the receipt of sales tax refunds. Note, vendors are not required to accept our tax exemption.*

**2.D. P-CARD POLICY & PROCEDURES ENHANCEMENT**

The P-card policy and procedures could be updated and enhanced.

- A. The P-card authorization form is destroyed after three years and not maintained. The authorization form is signed by each cardholder stating they have read and agreed to the policies and procedures. It states that if they fail to use the card in accordance with the policies that it may result in disciplinary measures up to and including termination. By discarding these forms after three years, it could hinder any disciplinary action needed to enforce the policy.

- B. Invoices and backup documentation supporting the transaction is managed and maintained by each division. Some divisions scan the documentation into OnBase (the records management software), scan to the division's network drive, or maintain paper documentation in filing cabinets. A consistent approach and methodology to P-card retention would help ensure invoices and documents are not lost or inefficient for Purchasing or Finance staff to review invoices.
- C. The policy does not specifically restrict employees from shipping supplies or orders to their home addresses. Employees could be using county P-cards for unauthorized purchases and by not having a policy, could hinder disciplinary action. It was noted during the testing of the transactions, that none of the transactions were shipped to employee's homes.

#### RECOMMENDATIONS:

- A. Retain authorization forms for all active cardholders and create a policy for the length of time to maintain the form after the cardholder has become inactivated in the P-card system.
- B. Consider division staff scanning P-card backup invoices and documentation into electronic format for easier retrieval, proper records management, and reducing paper storage.
- C. Update policy manual to restrict goods from being shipped to the employee's home address.

#### MANAGEMENT'S RESPONSE:

- A. *We agree and the Purchasing Card Administrator will maintain all authorization forms for all active cardholders indefinitely while the cardholder is active, and will maintain forms for inactivate cardholders for five years after cancellation of card.*
- B. *We agree and the Purchasing Card Administrator will work with the County's Records Manager to establish a consistent policy regarding the electronic format for the divisions to maintain all P-card backup invoices and documentation.*
- C. *We agree and this update was made in the revisions approved on March 16, 2021 while the audit was in-process.*

### **3. CONFLICT OF INTEREST POLICY AND TRAINING NEEDS UPDATING**

The Purchasing Policy and Procedures Manual and training materials regarding conflict of interest are vague and do not specifically reference statutes or provide examples of what constitutes a conflict of interest. Many county staff are involved in the procurement process from the purchasing analyst, to divisional end-user staff, to evaluation committees.

Unclear definitions and training may lead to misunderstandings. Staff involved in the procurement process may intentionally, or unintentionally, have a conflict of interest. Ethics are the principles which define behavior as right, good, and appropriate. Employees in public service are bound to uphold certain

values. The NIGP *Best Practices on Ethical Procurement*<sup>5</sup> defines ethical procurement as “prohibits breach of the public’s trust by discouraging a public employee from attempting to realize personal gain (monetary or non-monetary) through conduct inconsistent with the proper discharge of the employee’s duties.”

A procurement policy manual should provide guidance in regards to ethics and code of conduct for everyone involved in the procurement process, as well as remedies for violation of the policy. This will assist in safeguarding the integrity of the procurement process and protect against corruption, waste, fraud, and abuse<sup>6</sup>.

#### **RECOMMENDATION:**

Update the policy and procedures manual to specifically cite statutes that define conflicts of interest. Update the training materials to enhance understanding and provide clarity to those in the procurement process.

#### **MANAGEMENT’S RESPONSE:**

*We agree and are currently drafting revisions to our policy and procedure manual to make an addition in the Ethics sections to define and further explain Conflict of Interest including citing County Ordinance Section 2-283, Florida Statute Chapter 112.311-12 and 287.057 (17), and/or Federal Statutes as applicable and update Conflict of Interest under Purchasing Committees item 6. Membership. These changes will be reviewed by County Legal and approved by County Manager prior to being added to the Manual.*

*Purchasing and Contract will work in conjunction with County Legal to update training and forms regarding Conflict of Interest in relation to the procurement process. Purchasing and Contracts has updated the Conflict of Interest Form signed by all evaluation committee members to reference the Purchasing Policy and Procedure Manual and to make additional language updates to reflect the above-mentioned ordinances and statutes. Purchasing and Contracts will also review with County Legal the current conflict of interest form included and required in all solicitations to ensure it meets County Ordinances, State Statutes and Federal Laws, as required.*

#### **4. STAKEHOLDER RELATIONSHIP PROGRAM AND KEY PERFORMANCE INDICATORS CAN BE ENHANCED**

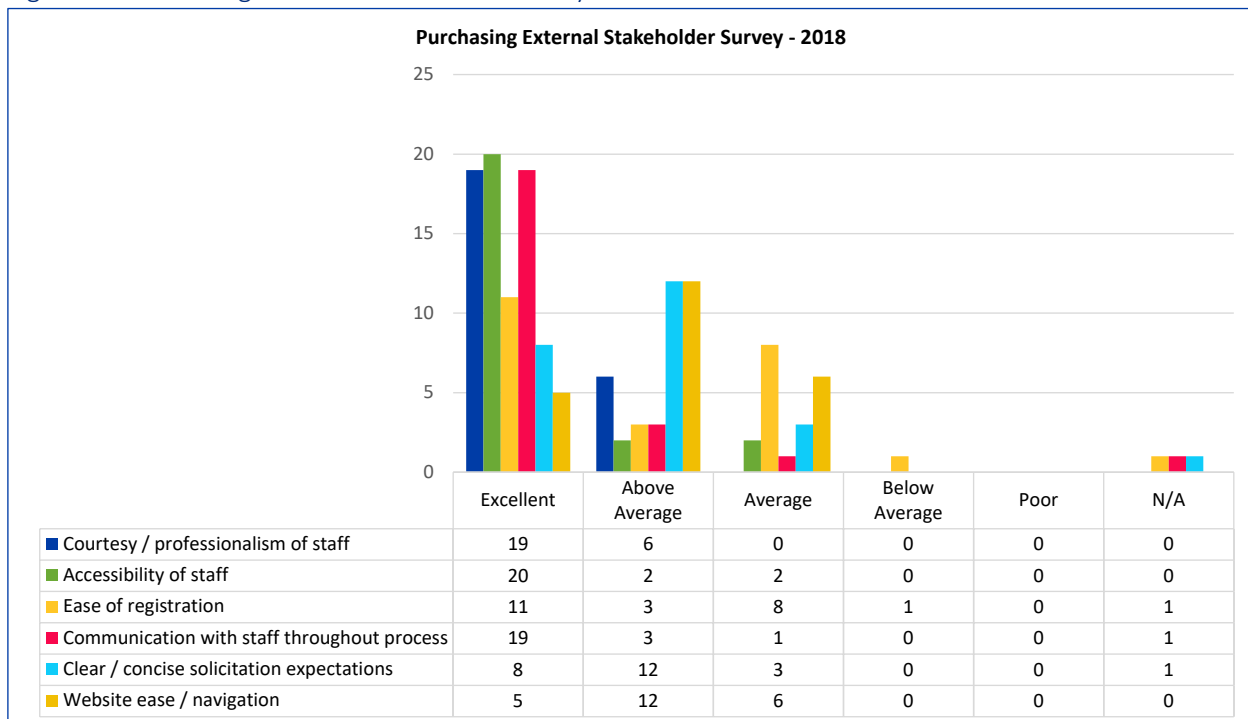
Some elements of a stakeholder relationship program are performed, with purchasing staff attending relevant meetings, being engaged with departmental staff, training, coordinating with other internal service departments (such as facilities, budget, I.T.); however, surveys of internal stakeholders have not been performed in some time. A survey of external stakeholders was conducted in 2018. The results of the survey, which reflect positively on purchasing, are in Figure 2.

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<sup>5</sup> NIGP Best Practices: Ethical Procurement. [www.nigp.org](http://www.nigp.org)

<sup>6</sup> NIGP Best Practices: Developing a Procurement Policy Manual. [www.nigp.org](http://www.nigp.org)

Figure 2: Purchasing External Stakeholder Survey



Purchasing's ability to contribute to the achievement of the county's goals are realized through<sup>7</sup>:

- Establishing and strengthening effective relationships with stakeholders
- Achieving success on individual procurements, such as total cost of ownership considerations, sustainability, overly restrictive requirements
- Elevating the purchasing function across the county, such as regular stakeholder meetings to determine if purchasing is meeting their expectations and goals, how to provide more effective customer service, and educate decision-makers to assist in making informed decisions
- Continuous improvement efforts, such as customer surveys, being open to suggestions, revising policies and training materials

Purchasing staff report four performance measures in the annual county budget. Table 4 contains the measures, goals, and outcomes.

<sup>7</sup> NIGP Best Practices: Stakeholder Relationships. [www.nigp.org](http://www.nigp.org)

Table 4: Purchasing Performance Measures from FY 21 County Budget

Measures	FY 19 Actual	FY 20 Estimated	FY 21 Budget
Number of formal & informal solicitations	166	170	180
Number of master agreements	947	1,100	1,100
Number of training hours conducted	48	48	48
Number of vendor training / outreach	12	12	12

Measures and metrics can be evaluated by the following: is it meaningful; relevant; focused on customer needs and demands; accurate and reliable; simple enough to be understood; cost effective to collect and report the data; and comparable over time. The measures currently being reported above can be enhanced to further evaluate the purchasing function.

Performance management is an ongoing, systematic approach to improving results through evidence-based decision making, continuous organizational learning, and a focus on accountability for performance<sup>8</sup>.

NIGP Best Practices recommend several performance management measures and metrics that can be used as key performance indicators for a purchasing function. Some recommended metrics include: cost savings/cost avoidance; supplier and industry development; supplier performance; efficiency of internal purchasing systems and processes; and professional development and employee retention.

Such a program helps demonstrate its value to all stakeholders in terms of verified improvements and accomplishments. When done properly, the performance management program will continuously improve the effectiveness and efficiency of purchasing; thereby improving service to the public and stakeholders.

#### RECOMMENDATIONS:

- A. Enhance internal and external stakeholder relationship efforts to include regular feedback in forms of formal or informal conversations and surveys.
- B. Implement a formal performance management program that allows for continuous cycle of improvement and added value, including defined performance measures and metrics. Include regular reporting to County Council, County Manager, the annual budget, and on the county website.

#### MANAGEMENT'S RESPONSE:

- A. *We agree and currently have regular scheduled meetings with Public Works, Votran, Daytona Beach International Airport, and County Legal to review current and upcoming projects. Purchasing also tracks all capital outlay and improvement projects and works with each division to ensure their projects are completed in a timely manner. Purchasing has an open door policy with all of our customers (internal and external) to stop by anytime to address any questions, concerns, projects, etc. We offer training to all divisions and vendors. Purchasing is in the process of developing two new surveys, one for our internal customers and one for our external customers*

<sup>8</sup> NIGP Best Practices: Performance Management and Performance Metrics. [www.nigp.org](http://www.nigp.org)

*(vendors). Both will focus on customer service and the external survey will focus on feedback for our new e-procurement platform Negometrix USA.*

*B. We agree and suggest the following KPI's for the Purchasing and Contracts Division*

- 1. Number of Formal Solicitations issued and awarded*
  - Number of RFQ*
  - Number of ITB*
  - Number of RFP*
  - Number of RSQ*
  - Number of Capital Improvement Projects Awarded*
  - Number of Contracts created based on above solicitations*
- 2. Average time from issuance solicitation to award of contract*
  - RFQ Average Number of Days*
  - ITB Average Number of Days*
  - RFP Average Number of Days*
  - RSQ Average Number of Days*
- 3. Number of Transactions*
  - Purchase Orders*
  - Master Agreements*
  - P-Card*
  - Single Sources*
  - Emergency Purchase Orders*
  - After the Facts*
- 4. Number of FTE Hours for Purchasing and Contracts*
  - Procurement Managers*
  - Procurement Analyst*
  - Support Staff*
- 5. Training*
  - Training Hours taken by staff*
    - Average by FTE*
    - Certifications achieved*
    - Dollars Budgeted*
  - Training Hours provided to Internal Customers*
  - Training Hours provided to External Customers*

## **5. POLICY CONSIDERATIONS AND DIRECTION FROM COUNCIL**

Council should consider and provide direction on policies regarding outdated sustainability policies; enhancements to the disadvantaged, small and/or women business enterprises as the goal Council set is not being met; and provide guidance on how many renewals of long-term contracts is appropriate without going to the open marketplace to competitively solicit responses.

#### **5.A. OUTDATED SUSTAINABILITY POLICIES**

The County Purchasing and Procedures Handbook regarding “reduce, reuse, and recycle” has not been updated since 1993. The Handbook states the County is firmly committed to the principles of protecting the environment through sound business practices by reducing the waste stream, and by reusing materials when feasible and as much material as possible. The policy was adopted in December 1993 in response to a Florida state 1989 recycling program to reduce waste streams by 30% by 1994.

The concept of sustainable procurement has changed since the 1990s to include the economic and social aspects in addition to the environmental aspect. Currently, staff are not regulating, monitoring, or tracking vendors and contracts in regards to current sustainable procurement practices.

The NIGP defines sustainable procurement as a purchasing and investment process that takes into account the economic, environmental, and social impacts of the entity’s spending. It allows organizations to meet their needs for goods, services, construction work and utilities, in a way that achieves value for money on a whole-life basis in terms of generating benefits not only to the organization; but also to society and the economy, while remaining within the carrying capacity of the environment<sup>9</sup>.

#### **RECOMMENDATION:**

Update the Handbook to adopt current sustainable procurement practices by serving as the lead for developing, implementing, and maintaining sustainable procurement policy and programs. To accomplish this, clearly identify staff’s roles and responsibilities, provide appropriate training, develop performance goals and objectives, and produce regular reporting on the achievements of the program.

#### **MANAGEMENT’S RESPONSE:**

*We agree and are currently researching best practices on Sustainability and engaging County Staff for input. This is interdivisional endeavor, will involve multiple stakeholders, and is not a primary function of the procurement division.*

#### **5.B. ENHANCEMENTS TO THE DBE PROGRAM**

The County is not meeting their goal of 10% of the aggregate of the county’s annual contracts to disadvantaged, small and/or women business enterprises (DBE). The County Purchasing Ordinance, Sec. 2-269, states “*the county is firmly committed to the principles of equal opportunity and affirmative action and, in keeping with these principles, hereby establishes goals and procedures by which disadvantaged, small and women-owned business enterprises shall be assured equal access to providing supplies and professional and contractual services required by the county.*” It also states that from time-to-time Council may set and adjust the goals.

The Economic Development Division of the County handles the certification of the enterprises to ensure they meet the criteria. This division of authority assists the Purchasing staff in maintaining impartiality in the purchasing process. The vendors, as part of their registration, can self-certify or update at a later time. Reports can be produced using this data.

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<sup>9</sup> NIGP Best Practices: Sustainable Procurement Practice. [www.nigp.org](http://www.nigp.org)

Purchasing staff conduct regular in-person and virtual “How to do Business with Volusia County” training sessions to solicit more vendors. Additionally, purchasing staff will advertise in DBE-owned publications as an outreach effort. Currently, staff are working with a consultant to produce a video that can be viewed online and at different trade shows.

In August 2011, Council held a workshop to discuss purchasing in regards to DBE and on local vendor preference. The ordinance was updated to give a two percent preference of the bid price or quote if the work was to be done by vendors who qualify as a local vendor.

Table 5 includes the number of vendors by DBE type and the amount spent for FY 20 and FY 19.

Table 5: DBE and Local Vendors FY 19 and FY 20

DBE Type	FY 20 Spend	FY 20 Count	FY 20 % of Spend	FY 20 % Count	FY 19 Spend	FY 19 Count	FY 19 % of Spend	FY 19 % Count
African American	\$ 468,156	2	0.21%	0.13%	\$ 464,791	2	0.22%	0.12%
Asian American	587,830	6	0.26%	0.38%	2,059,316	4	0.98%	0.24%
Hispanic American	69,528	3	0.03%	0.19%	51,089	3	0.02%	0.18%
Veteran's Disabled	720	1	0.00%	0.06%	3,084	2	0.00%	0.12%
Woman Owned	1,456,874	12	0.64%	0.77%	1,515,754	18	0.72%	1.07%
<b>Total DBE</b>	<b>2,583,108</b>	<b>24</b>	<b>1.14%</b>	<b>1.53%</b>	<b>4,094,034</b>	<b>29</b>	<b>1.94%</b>	<b>1.73%</b>
Local Vendors	77,824,298	442	34.4%	28.2%	62,973,263	487	30.0%	29.0%
<b>Total Vendors</b>	<b>\$ 226,172,789</b>	<b>1,565</b>			<b>\$ 210,923,009</b>	<b>1,675</b>		

As noted above, the goal for DBE expenditures is 10%. The County is not meeting this goal. A total of 1.14% was spent in FY 20 and a total of 1.94% was spent in FY 19.

Some general areas for consideration to also enhance the DBE program:

- Set goals and program activities and responsibilities
  - Clearly define goals
  - Assign authority and responsibility to review and ensure compliance
  - Align program activities with goals
  - Clearly communicate the program to internal and external stakeholders
- Identify current deficiencies
- Recruit diverse supplier base, which must be intentional and ongoing
  - Continue current practices and outreach
  - Work with end-users and encourage dialogue as they may be aware of suppliers in their field that are not being utilized
- Develop and implement performance measures
- Cost versus benefit considerations of DBE outreach programs

Figure 3 contains possible goals, activities and performance measures that can be considered in a DBE program.

Figure 3: DBE Goals, Activities and Performance Measures to Consider

Possible Goal	Possible Activities	Possible Performance Measures
<b>Equity</b>  Purpose: address current & historic inequities	<ul style="list-style-type: none"> <li>• Analysis of potential inequities among demographic groups</li> <li>• Obtain data about barriers faced by those groups</li> <li>• Develop policies and procedures to address identified barriers</li> <li>• Measure impact of revised policies and procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Percentage of contract dollars received by these groups</li> <li>• Percentage of contracts awarded to these groups</li> </ul>
<b>Diversity</b>  Purpose: increase the number and breadth of contractors	<ul style="list-style-type: none"> <li>• Outreach to minority, woman and emerging small, or LGBTQ+ businesses</li> <li>• Develop policies and procedures to encourage utilization of new contractors</li> </ul>	<ul style="list-style-type: none"> <li>• Number of firms submitting bids/proposals</li> <li>• Percentage of contracts awarded to new contractors</li> <li>• Percentage of contract dollars received by new contractors</li> </ul>
<b>Small business development</b>  Purpose: assist small businesses to grow	<ul style="list-style-type: none"> <li>• Create curriculum for technical assistance and mentorship programs</li> <li>• Recruit businesses to participate in programs</li> <li>• Assess impact of curriculum on business growth</li> </ul>	<ul style="list-style-type: none"> <li>• Employment and/or revenue growth of participating businesses</li> <li>• Number of businesses completing program</li> </ul>

**RECOMMENDATIONS:**

- A. Reevaluate the 10% goal, continue outreach efforts and regularly report the goal and efforts to Council, the County Manager, and the public. Continue the division of authority for the outreach efforts with the Economic Development Division with input and assistance of the Purchasing staff.
- B. Obtain input and direction from Council on the DBE program with the current best practices of these types of programs.

**MANAGEMENT'S RESPONSE:**

- A. *We agree and Purchasing will work with Economic Development to evaluate the 10% goal and program policies; and present our findings to Council. We will also support Economic Development who may be able to further County DBE outreach efforts. Purchasing will continue to do outreach with our vendor community and communicate with Economic Development as needed.*
- B. *Purchasing is also relaunching, later this summer, a new and improved "Doing Business with Volusia County Training Program" which is geared towards local and small businesses.*

#### **5.C. LONG-TERM CONTRACT RENEWED SEVERAL TIMES WITHOUT GOING TO MARKET**

The contract awarded for food and beverage services was renewed several times without releasing a new solicitation. In October 2007, a Request for Proposals (RFP) was released for a food and beverage services provider at the Ocean Center. The result was a change from the previous long-term provider. The Council agenda item stated the contract award was for an initial 5 year term, with a one, 5 year renewal permissible. In December 2012, a six month extension was approved to allow for additional financial analysis to be performed by staff to continue negotiations between the provider and the county. In May 2013 the contract was negotiated and renewed for an additional 5 years with a one, 5 year renewal option. In May 2017, another 5 year renewal was approved with an additional one, 5 year renewal. In March 2021, the contract was renewed again for an additional 5 years, with the option for another 5 years. The current contract expires in 2027, with the extension expiring in 2032. If the current contract is renewed to 2032, it will have been 25 years since an RFP was issued.

Staff indicated that contract renewals are recommended when it is in the “best interest of the county” to continue. Additionally, this particular provider has a substantial investment in the kitchen areas of the Ocean Center. It is understood that for practical reasons, it is common to have longer-term contracts in place to attract quality providers.

The purchasing ordinance nor the handbook state how long contracts may be renewed without releasing a RFP or a RSQ. It also does not define “best interest of the county.” By not releasing a RFP or a RSQ on a periodic basis, the County may not be receiving the best value for the services being provided. Releasing an RFP or RSQ into the marketplace provides competition among providers.

The handbook states “the County Council and the County Manager recognize that open and fair competition is a basic tenet of public procurement. This reduces the appearance and opportunity for favoritism and inspires public confidence that Volusia County contracts are awarded equitably and economically. Complete openness and candor are important means of curbing any improprieties and establishing confidence in the process by which commodities and services are procured.”

The NIGP recommends a policy handbook that should (among many elements):

- Build public confidence in public procurement
- Maximize to the fullest extent the purchasing power of the entity
- Foster effective, broad-based competition from all segments of the supplier community
- Safeguard the integrity of the procurement system and protect against corruption, waste, fraud, and abuse
- Clearly define the use of the terms as they are used in the policy

**RECOMMENDATION:**

Update the Handbook to clearly define “best interest of the county” and provide guidance on how many renewals of long-term contracts or investments can be used without releasing an RFP/RSQ to protect against corruption, waste, fraud, or abuse.

**MANAGEMENT’S RESPONSE:**

*We somewhat agree, it is difficult and restricting to come up with a formal definition of best interest of the county, due to uniqueness of each contract or services. Purchasing and Contracts reviews all contracts with the using division and legal prior to extending or amending all contracts. Some of the factors that come in to play with long term contracts include: continuity of services, capital investment and re-investment by the vendor and/or County, and marketplace factors. Purchasing recommends the following: contracts with a combined length of 10 years or more shall require Senior Management approval prior to extending and new solicitations requesting a contract term of 10 years or greater (including renewal terms) shall require Senior Management Approval prior to release.*

## Appendix 1 – Common Fraud Schemes, Red Flags & County Controls

Staff involved in the purchasing function are aware of several common purchasing fraud schemes and the associated red flags. County purchasing staff keep up-to-date with trainings and have implemented controls and safeguards to assist in combating purchasing fraud. It is understood that fraud is a matter of “when, not if” and even the best safeguards and controls in place may not completely rid the occurrence of fraud. However, the county has implemented controls to minimize fraud from occurring and to help prevent, deter, and detect. The items following is not an all-inclusive listing, but are common fraud schemes, red flags, and controls staff have implemented to assist in combatting fraud.

Initiation Phase		
Schemes	<ul style="list-style-type: none"> <li>• Bid rigging limits competition where purchasers use competitive process in appearance but there is an agreement among would-be competitors not to compete</li> <li>• Bid rotation where 2 or more contractors conspire to alternate business on a rotating basis (i.e., subcontracts awarded to losing bidders or agreement to share a certain percentage of winning company’s profits)</li> <li>• Complementary bidding where competitors submit token bids that are not serious attempts to win (i.e., bids are intentionally set to be unsuccessful and appear to be competitive in price but deliberately fail to meet other requirements, or bids that contain special terms that they know will not be acceptable to the buyer so that another conspirator wins)</li> <li>• Bid suppression designed to ensure a particular competitor’s bid will be accepted (i.e., contractors agree that at least one will refrain from bidding or withdraw a previously submitted bid)</li> <li>• Market division where competitors divide markets among themselves and refrain from competing in each other’s designated portion of the market (i.e., geographic areas, customer areas)</li> </ul>	
	<ul style="list-style-type: none"> <li>✎ Unusual purchases</li> <li>✎ Overly specific or vague specifications</li> <li>✎ Requirement-splitting</li> <li>✎ Multiple/phased contracts to avoid thresholds</li> <li>✎ Multiple awards just below thresholds</li> <li>✎ “Urgent need” stipulations</li> <li>✎ “Bogus” single/sole source justification</li> <li>✎ Collusion between buyer and contractor</li> </ul>	<ul style="list-style-type: none"> <li>✎ Low bidder withdraws and becomes subcontractor</li> <li>✎ Bids fail to meet obvious requirements</li> <li>✎ Rotational pattern to winning bids</li> <li>✎ New contractor enters market and bid prices begin to fall</li> <li>✎ Competitors submit identical bids</li> <li>✎ More than one losing bidder submits identical line item on non-standard line items</li> <li>✎ Competitors change price in similar amounts around same time</li> </ul>
Red Flags		

Internal Controls and Safeguards

- ✓ Expand list of bidders by publicly posting solicitations, utilizing Negometrix, and actively promoting how to do business with Volusia County
- ✓ Education and training of purchasing staff and end-user training
- ✓ Separation of duties from the “needs recognizer” to the purchasing analyst
- ✓ Division or department manager sign-off on all procurement requests
- ✓ Deputy County Manager sign-off on evaluation committee members
- ✓ Evaluators sign a no conflict of interest statement
- ✓ Independent review of specifications by purchasing analyst to ensure scope is not too specific or too broad
- ✓ If consultant provided specifications, not allowed to compete
- ✓ Bids must contain dollar and percentage of work/cost for every subcontractor otherwise bid is deemed non-responsive
- ✓ Purchasing analyst validates every bidder through FL Dept. of State business listing, or County Attorney will assist to ensure business is legitimate
- ✓ Purchasing staff review bid lists and Purchasing and Contracts Director, if warranted, will analyze for trends and investigate
- ✓ Pyramiding or phasing of contracts to avoid thresholds are not allowed
- ✓ Spending thresholds are reset and are on a 12-month rolling basis
- ✓ Purchasing analysts will vet single/sole-source and conduct independent research
- ✓ Purchasing Managers and Purchasing and Contracts Director each sign-off on single/sole-source justifications
- ✓ Purchasing thresholds are reset for change orders and will go before County Manager and Council when threshold is upcoming

Award and Development Phases

Schemes

- Collusion between buyer or evaluator and contractor
- Leak of source selection information
- Failure to modify specifications while letting favored contractor know about need for post-award changes
- Unbalanced bids allowing bidder to submit a very low price for the line item and to be overall low bidder and/or inflate prices on other items

Red Flags

- |   |   |
|---|---|
| ⌘ Weak controls over source selection process | ⌘ Last minute bid due date extensions     |
| ⌘ Contract changes right after award          | ⌘ Poor controls over bid receipts         |
| ⌘ Unbalanced evaluation scores                | ⌘ “Mistakes” in bids                      |
|   | ⌘ Bidders withdraw before final selection |
|   | ⌘ Qualified contractors stop bidding      |

Internal Controls and Safeguards

- ✓ Separation of duties between technical evaluation and award authorities
- ✓ Expound on evaluations and source selection team members
- ✓ Encourage widest possible competition
- ✓ Debrief unsuccessful bidders if requested
- ✓ Meeting notes are available to public
- ✓ Evaluation notes are reviewed and approved by Purchasing and Contracts Director to ensure decisions are fair and match the scoring
- ✓ May re-issue solicitation if low number of responses are received
- ✓ Last minute extensions are very rare, public questions cut-off 14 days prior to public opening, staff provide answers within 7 days
- ✓ Electronic submission with Negometrix alleviates extensions due to weather events
- ✓ Contractor bids are economy-based and Purchasing Managers monitor local economy and will reach out to prior successful contractors to determine why they stopped bidding

Monitoring Delivery & Performance and Close-Out Phases

Schemes

- Product substitution
- False claims/statements
- Inflated/front-loaded invoices
- Double billings
- Defective pricing
- Bait and switch
- Excessive change orders
- Bribes, gratuities, and kickbacks

Red Flags

- ✎ Unusual cost transfers
- ✎ Component failure
- ✎ Substandard performance
- ✎ Large estimated to actual cost variances
- ✎ Poor timekeeping systems
- ✎ Scheduling problems
- ✎ Large number of change orders
- ✎ Change orders without sufficient technical or cost support
- ✎ Claims that do not make sense
- ✎ Claims clearly without factual basis
- ✎ Subcontractor complaints or disputes
- ✎ "Mistakes" in claim calculations

Internal Controls and Safeguards

- ✓ Purchasing analyst, with the assistance of the project manager, thoroughly documents all contractual actions, especially change orders
- ✓ Monitor product substitution by end-user with Purchasing analyst assistance available
- ✓ Project managers inspect and perform quality assurance reviews throughout project
- ✓ Project manager monitor status of projects and schedules
- ✓ Construction Purchasing Manager performs contract and retainage reviews at 50% completion
- ✓ Construction Purchasing Manager validate and perform close-out procedures and review documentation for purchasing files