



County of Allegheny

Office of the Controller

ALLEGHENY COUNTY ADMINISTRATIVE SERVICES
DIVISION OF PURCHASING AND SUPPLIES
REPORT ON ADMINISTRATIVE CODE COMPLIANCE
FOR THE PERIOD JANUARY 1, 2009
THROUGH DECEMBER 31, 2010

(Non-Audit Service)

DECEMBER 9, 2011

**County of Allegheny
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December 9, 2011

Mr. Timothy H. Johnson
Director
Allegheny County
Department of Administrative Services
436 Grant Street
Room 202 Courthouse
Pittsburgh, PA 15219

**SUBJECT: Procedures Applied to Assess the Department of
Administrative Services' Division of Purchasing and Supplies'
Compliance with the Allegheny County Administrative Code
for the Period January 1, 2009 through December 31, 2010**

Dear Mr. Johnson:

We have applied procedures to assess the Department of Administrative Services' Division of Purchasing and Supplies compliance with the Allegheny County Administrative Code for the period January 1, 2009 through December 31, 2010 and to identify performance improvement opportunities. Our engagement was performed as a non-audit service, and therefore was not conducted in accordance with *Government Auditing Standards*.

The application of our compliance procedures revealed that monitoring of delegated purchasing should be significantly increased, that a formal approval process should be instituted for piggyback contracts, that there are a number of measures that should be taken to improve the P-Card program, that the Purchasing Manual does not contain adequate policies and procedures pertaining to delegated purchasing and is otherwise not as comprehensive as it could be, and that procurement file documentation should be improved.


Mr. Timothy Johnson
December 9, 2011

The Department of Administrative Services' Division of Purchasing and Supplies should develop and implement a plan to provide for structured monitoring of delegated purchasing, institute a formal approval process for piggyback contracts, take the measures we have identified to improve the P-Card program, make the Purchasing Manual more comprehensive, and improve the documentation maintained in its procurement files.

We believe that the implementation of our recommendations will facilitate the Department of Administrative Services' Division of Purchasing and Supplies' compliance with the Allegheny County Administrative Code and improve its operating effectiveness. The results of the application of our compliance procedures are provided in the attached report.

We would like to thank the management and staff of the Department of Administrative Services and its Division of Purchasing and Supplies for their courtesy and cooperation during the performance of our procedures.

Very truly yours,



Lori A. Churilla
Assistant Deputy Controller, Auditing



Mark Patrick Flaherty
Controller

cc: Honorable James Burn, Jr., President, Allegheny County Council
Honorable William Russell Robinson, Allegheny County Council
Honorable Dan Onorato, Allegheny County Chief Executive
Mr. James M. Flynn, Jr., Allegheny County Manager
Ms. Amy Griser, Budget Director, Allegheny County
Mr. Joseph Catanese, Director of Constituent Services, Allegheny County Council
Ms. Jennifer Liptak, Budget Director, Allegheny County Council
Mr. John Deighan, Chief Purchasing Officer, Allegheny County
Mr. Robert J. Lentz, Assistant Deputy Controller, Accounting, Controller's Office
Mr. Guy A. Tumolo, Deputy Controller, Controller's Office
Ms. Pamela Goldsmith, Communications Director, Controller's Office

EXECUTIVE SUMMARY

Purpose of Procedures:

We performed compliance procedures to assess whether the Department of Administrative Services' Division of Purchasing and Supplies was in compliance with the Allegheny County Administrative Code for the period January 1, 2009 through December 31, 2010.

Background:

The Division of Purchasing and Supplies ("Purchasing") is a Division within the Allegheny County Department of Administrative Services. It seeks to procure supplies, equipment, and services in the most efficient, cost-effective, and timely manner possible. Purchasing currently has nine employees, including a Chief Purchasing Officer and a Deputy Chief Purchasing Officer.

Purchasing is responsible for contracting for the purchase or lease of all materials, supplies, furnishings, equipment, insurance and surety and fidelity bonds or other personal property and non-professional services as stated in the Allegheny County Administrative Code, Article IX. The Chief Purchasing Officer has the ability to delegate purchasing authority to other County departments (subject to training and monitoring requirements).

Results in Brief:

While performing our procedures, we found that monitoring of delegated purchasing should be significantly increased, that a formal approval process should be instituted for piggyback contracts, that procurement file documentation should be improved, and that there are a number of measures that should be taken to improve the P-Card program. Specifically, we found that:

Finding #1

- A structured program of detailed monitoring of delegated purchasing is not in place.

Finding #2

- There is no formal approval process in place for piggyback contracts.

Finding #3

- The language in the P-Card manual pertaining to prohibited purchases is ambiguous.

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- The P-Card manual does not specifically state the amount of time that P-Card program documentation is required to be maintained.
- Training logs are not maintained to evidence which individuals have received the required training and when.
- Training is provided before P-Card use is authorized, but formal training is not provided on an ongoing basis.
- Documentation pertaining to waivers granted that permit P-Card users to deviate from purchasing using the approved vendor list has not been maintained.
- The 3-day removal of P-Card purchasing restrictions associated with waivers is not always strictly enforced.
- Purchasing does not perform monitoring procedures to ensure that P-Card users retain all required P-Card program documentation.
- Purchasing does not perform a detailed review of P-Card expenditures on a monthly basis, including P-Card expenditures incurred by Purchasing.
- Purchasing has not taken adequate measures to address the use of "back-ups" for authorized P-Card users that are being utilized by some departments.

Finding #4

- The Purchasing Manual lacks policies and procedures pertaining to delegated purchasing and is otherwise not as comprehensive as it could be.

Finding #5

- The status of the procurement process is not documented in procurement files.
- The extent to which other departments have taken responsibility for proposer evaluation and contractor selection is not routinely documented in procurement files.

EXECUTIVE SUMMARY

- Procurement files typically do not explain why a contract was not issued in connection with a procurement.
- Purchasing agents do not routinely review and sign off on bid tabulations as required

Recommendations:

We recommend that the Division of Purchasing and Supplies:

Recommendation #1

- Identify all departments that have been delegated purchasing authority and the volume of delegated purchasing, and use that information to develop and implement a structured program of detailed monitoring for delegated purchasing.
- Proceed with the planned biannual group training sessions for purchasing partners, and provide other retraining as necessary to facilitate adherence to the established purchasing regulations and guidelines.
- Consider revoking the delegation of purchasing authority to purchasing partners or departments that continually fail to adhere to the established purchasing regulations and guidelines.

Recommendation #2

- Develop and implement the usage of a piggyback contract evaluation form. The form, which could be a single page, should provide space to document any analyses performed or other rationale that supports piggybacking, and should require a signed acknowledgement of the purchasing agent and Chief Purchasing Officer that a good faith effort was applied to that specific procurement.
- Establish and enforce appropriate limits for procurements made under piggyback contracts.

Recommendation #3

- Clarify the language in the P-Card Manual pertaining to prohibited purchases.

EXECUTIVE SUMMARY

- Specifically state the amount of time that P-Card program documentation is required to be maintained.
- Maintain training logs to track which individuals have been trained and when.
- Mandate retraining when P-Card users fail to adhere to P-Card program requirements.
- Maintain documentation pertaining to waivers granted to P-Card users that permit them to deviate from the approved vendor list.
- Take steps to ensure that the 3-day removal of P-Card purchasing restrictions associated with waivers is strictly enforced.
- Apply procedures to determine (on a test basis) that P-Card users are retaining all required P-Card program documentation and retaining it for the duration of the required time period.
- Perform a detailed review of P-Card program expenditures on a monthly basis. The review should involve analysis of expenditures in relation to budget, identification of items prohibited for specific departments, and an analysis of Purchasing's P-Card program expenditures that is conducted by an individual not authorized to use a P-Card.
- Prohibit County departments from using "back-ups" for authorized P-Card users.
- Communicate to P-Card users the importance of not faxing their P-Card account numbers.

Recommendation #4

- Post the December 2009 version, which is the most current version of the Purchasing Manual, on the County website.
- Revise the Purchasing Manual as planned. Ensure that policies and procedures are included in the Manual to address sweatshop conditions and prohibit contracts with indemnification or hold harmless provisions.

EXECUTIVE SUMMARY

Recommendation #5

- Include a status sheet in all procurement files to be updated each time a significant development occurs.
- Document in the procurement files the extent to which other departments have taken responsibility for proposer evaluation and contractor selection.
- Document in procurement files the rationale for not awarding a contract if a decision is made not to award a contract in connection with the procurement.
- Take steps to ensure that purchasing agents review and sign off on bid tabulations as required.

I. Introduction

Background

The Division of Purchasing and Supplies (“Purchasing”) is a Division within the Allegheny County Department of Administrative Services. It seeks to procure supplies, equipment, and services in the most efficient, cost-effective, and timely manner possible. Purchasing currently has nine employees, including a Chief Purchasing Officer and a Deputy Chief Purchasing Officer.

Purchasing is responsible for contracting for the purchase or lease of all materials, supplies, furnishings, equipment, insurance and surety and fidelity bonds or other personal property and non-professional services as stated in the Allegheny County Administrative Code, Article IX. The Chief Purchasing Officer has the ability to delegate purchasing authority to other County departments (subject to training and monitoring requirements).

Purchases are classified into three categories: Under \$10,000 (micro purchases), purchases between \$10,000 and \$30,000 (small purchases), and purchases greater than \$30,000 (those requiring a formal procurement process). Purchasing partners are designated by the Chief Purchasing Officer and exist within each County department to create requisitions within the system. Authorized purchasing card (“P-Card”) users may also make purchases less than \$10,000 on their P-Cards (subject to budgetary and other restrictions).

Micro purchases are made at the discretion of the customer and are paid via the voucher process if no involvement from Purchasing is requested. Customers are able to solicit quotes and place orders directly with suppliers. If customers require the assistance of Purchasing when ordering from a supplier, a purchase requisition must be completed and submitted to the purchasing agent, who then uses his or her discretion to place the order or obtain additional quotes. When making purchases, purchasing agents consider cost, quality, and performance to determine whether a fair and reasonable price has been obtained.

For purchases between \$10,000 and \$30,000, customers are required to submit specifications and identify potential suppliers to the Chief Purchasing Officer. Purchasing must then attempt to obtain three quotes and are encouraged to negotiate with suppliers in order to obtain the lowest quote for the purchase. Purchasing maintains a record of all quotations received, and once an award has been made, the order is placed with a County Purchase Order.

I. Introduction

For purchases greater than \$30,000, Purchasing utilizes a standard process involving requisitioning, public bid solicitation, bid receipt, evaluation and contract award. An Invitation for Bid (IFB) or a Request for Proposal (RFP) is required to be utilized for such procurements. IFB's must be published at least once not less than seven days prior to the date fixed for the opening of bids or the closing of proposals. Specifications must be clearly defined and bids must be structured to not eliminate vendors or unfairly favor specific vendors. Currently, the Division of Purchasing and Supplies posts all IFB's on BIDNET, a central bid notification system, as well as advertising them in the Pittsburgh Tribune Review. Sealed bids must be received by the County per the terms of the IFB if they are to be considered in the award determination process. Purchasing reviews all purchase requisitions to ensure that contracts and purchases are not divided or separated to avoid the financial threshold for the competitive bidding process.

The Division of Purchasing and Supplies may also prepare and post RFPs for other departments. Specifications are communicated to Purchasing by the end-user. Once the RFP has been issued, the end-user department receives all proposals and evaluates the proposals based on the terms in the RFP. The end user department then has the discretion to select the awardee of the contract, once the bids have been received and evaluated. Purchasing is notified regarding the evaluation and award process.

Emergency competitive bid procedures are used in lieu of the formal competitive bid procedures if an emergency purchase exceeds \$30,000. The emergency bid procedures can only be enacted if there is a present, immediate and existing emergency which could not reasonably be foreseen. The Chief Executive is required to document the nature of the emergency. After the emergency is communicated to Purchasing, bids are solicited from suppliers, including oral bids.

Sole source procurements are not subject to a bidding process. Sole source procurements are permitted when there is only one supplier who can provide the desired goods or services. To complete a sole source procurement, the Director of the applicable County Department must complete a sole source procurement justification form, and then have the form approved by the Chief Purchasing Officer, Deputy Director of Administrative Services, and the County Manager.

Purchasing also piggybacks various existing governmental agency contracts to eliminate the cost and time associated with

I. Introduction

putting out an IFB or RFP. Piggyback opportunities are identified via departmental users, purchasing agents, or marketed to the Purchasing office by potential contractors.

Revenue contracts are contracts that involve the payment of compensation to the County. The County enters into revenue contracts, which consist primarily of concession contracts at the various County parks. Specifications, guidelines, procedures and criteria to be used in awarding revenue contracts are drafted by the agency proposing the contract and submitted to the Chief Purchasing Officer for review and approval. The Chief Purchasing Officer will then select a vendor and award the contract.

II. Scope and Methodology

We applied compliance procedures to assess the Department of Administrative Services' Division of Purchasing and Supplies' ("Purchasing's") compliance with the Allegheny County Administrative Code. Our compliance procedures covered the period from January 1, 2009 through December 31, 2010.

Specifically, we performed the following procedures:

- Reviewed the applicable sections of the Allegheny County Administrative Code, the Purchasing Manual, the Purchasing Card Procedure Manual, and other relevant documents to gain an understanding of Purchasing's policies and procedures and the nature of its operations.
- Interviewed Purchasing personnel to gain an understanding of the processes and controls in place to ensure compliance with the Allegheny County Administrative Code.
- Interviewed Purchasing's management to gain an understanding of the monitoring activities performed to identify deficiencies in the operation of internal controls and compliance with the Allegheny County Administrative Code.
- Examined Purchasing's procurement files for purchases between \$10,000 and \$30,000 and purchases in excess of \$30,000 including sole source procurements (test basis) to assess compliance with the Allegheny County Administrative Code.
- Examined P-Card account statements, transaction logs, and other documentation supporting P-Card expenditures (test basis) to evaluate the operation of the P-Card program.
- Examined the procurement files and other documents of other Allegheny County Departments (on a test basis) to assess Purchasing's compliance with the Allegheny County Administrative Code with respect to the requirements for delegated purchasing.
- Attempted to identify performance improvement opportunities.

We provided a draft copy of this report to the Chief Purchasing Officer for comment (see page 31).

III. Findings and Recommendations

Finding #1

Monitoring of Delegated Purchasing Should be Significantly Increased

Section 5-901.04 paragraph D of the Allegheny County Administrative Code states that “the Purchasing Officer may delegate purchasing authority and prepare policies and procedures governing the delegation of purchasing authority, including the manner in which such activities shall be monitored and controlled by the Purchasing Officer”. That section of the Code also prescribes minimum requirements for the policies and procedures for delegated purchasing.

The utilization of a centralized purchasing function provides the greatest opportunity to facilitate adherence to established purchasing policies and procedures and compliance with any applicable laws and regulations. However, the delegation of purchasing authority can be beneficial, or essential, under certain circumstances. For example, while purchasing agents may be the best at procuring various commodities, Allegheny County Department of Human Services employees involved in social services may be better suited to select contractors to perform social services. The very large volume of Allegheny County procurement transactions and the allocation of personnel resources to centralized purchasing make some delegation of purchasing authority essential to ensuring the effectiveness and timeliness of the procurement process on a County-wide basis. Consequently, there are procurements for which other County departments take responsibility for evaluating proposals received and selecting the vendors that will provide the goods and services that they seek.

While the delegation of some purchasing authority to County departments is essential, the Chief Purchasing Officer retains the responsibility under the aforementioned Administrative Code Section to ensure that the objectives of the purchasing process are effectively being met on a County-wide basis. The Code indicates that the Chief Purchasing Officer should employ both training and monitoring of delegated purchasing to accomplish this.

Purchasing utilizes a network of “purchasing partners,” particular individuals who are provided with training so that they can perform purchasing functions on behalf of their departments. Purchasing was not able to produce sign-in sheets for the group training session that occurred during the period to which we applied our procedures. However, Purchasing was able to provide

III. Findings and Recommendations

us with a list of purchasing partners it has represented attended the training session. While it appears that most purchasing partners were trained when they initially took on purchasing responsibilities in their departments, training is not currently provided on an ongoing basis. The Chief Purchasing Officer indicated that Purchasing plans to conduct mandatory group training sessions for purchasing partners in 2012 and every two years thereafter.

We also determined via discussion with Purchasing's management and review of the procurement documentation retained by other Allegheny County departments (test basis) that while some basic monitoring procedures are generally performed, a structured program of detailed monitoring of delegated purchasing is not in place. We examined six procurement files maintained by other County departments for procurements where the other departments had significant involvement in the procurement process. For four of the six procurements, we determined that the department's purchasing partner was not involved in the procurement process. One of these four procurements, which involved procurement of social services, was particularly problematic. We identified the following conditions associated with it:

- The proposal evaluation process was led by a contracted (non-County) employee.
- The electronic scoring sheets utilized to grade the proposers were designed such that they did not clearly state the number of points allocated to certain grading categories, which resulted in some evaluation team members scoring the proposers improperly.
- The improper scoring was not identified, even after an electronic summary scoring sheet was put together.
- The electronic summary scoring sheet contained calculation errors attributable to bad cell formulas.
- The department's procurement file contained an evaluation team member's completed scoring sheet which did not match the scoring data reported on the electronic summary scoring sheet for any of the evaluation team members, which suggests that the scoring data was not properly transcribed to the electronic summary scoring sheet.
- The Request for Proposal (RFP) stated that a short list of proposers would be selected for interviews/presentations, but did not indicate how many proposers would comprise the short list.

III. Findings and Recommendations

- In practice, a short list was not utilized. All proposers were interviewed or made presentations.
- Two contracts were ultimately issued as a result of the procurement process, and it appears that the contract awards made were based entirely on the interview/presentation process since one of the proposers selected to receive a contract was initially scored the lowest by the evaluation team.
- The contract issued to the proposer that was initially scored the lowest by the evaluation team was later terminated by the department due to the contractor's poor performance.

During the performance of our testwork, we also determined that a Parks Department employee regularly issued a "Notice to Proceed" to potential contractors that had responded to the Parks Department with proposals to operate concessions in the County Parks. These Notices basically instructed the proposers to begin to operate the concessions even though an executed contract was not yet in place. The Parks Department employee often issued a Notice to Proceed when there were concerns about whether the concession contracts would be drafted and provided for execution in a timely fashion by Purchasing. (Purchasing has indicated to us that when other departments need to engage in procurements that are of a time-sensitive nature, they should make sure that they provide Purchasing with as much lead time as possible to help ensure that their timing needs are met.) Whether or not concerns about the timely execution of Parks concession contracts were legitimate, the issuance of a Notice to Proceed has legal implications. If for some reason the County elected not to issue a contract to a proposer after a Notice to Proceed had been issued to the proposer, the County would likely be held liable for any expenditures incurred by the proposer in connection with the operations of the concession after the proposer received the Notice. In addition, although bid specifications may establish certain requirements for the procurements, bid specifications may not identify all of the significant terms and conditions intended to be included in the contract to be executed, which would likely make the enforcement of those terms and conditions very difficult until a contract were ultimately executed. The Chief Purchasing Officer advised us that he has worked with the management of the Parks Department to abolish the practice of issuing such Notices to Proceed. We determined that the issuance of the Notices was not officially approved by the Parks Department's management, but believe that this condition and the other aforementioned conditions

III. Findings and Recommendations

underscore the need for effective structured detailed monitoring of delegated purchasing on a County-wide basis.

It appears that a structured program of detailed monitoring of delegated purchasing is not in place for several reasons. The most significant of these is limited personnel resources. In 2005, as a result of negotiations between Allegheny County's management and the City of Pittsburgh, Purchasing also became responsible for certain aspects of the City of Pittsburgh's purchasing. We were advised that although the agreement ultimately reached involved compensation to Allegheny County for the provision of the services to be provided, no significant personnel resources were added at that time to address the additional purchasing responsibilities. In addition to limited personnel resources, management advised us that many departments resist Purchasing's efforts to be involved in their procurement processes.

Since a structured program of detailed monitoring of delegated purchasing is not in place, weaknesses in the procurement processes for delegated purchasing are unlikely to be identified until a problem occurs. This is important because procurements that are not conducted in a fair and proper manner subject Allegheny County to an unnecessary risk of loss. Because procurement information is generally available to the public, utilizing an appropriate procurement process on a County-wide basis is essential to minimizing Allegheny County's exposure to the risk of loss. In addition to the risk of financial loss, there is also the risk that other specific objectives of the purchasing process will not be accomplished. For example, Allegheny County supports the provision of opportunities to minority-owned and women-owned businesses. There is currently limited assurance that these objectives are being accomplished to the extent envisioned. In addition to the aforementioned effects of the lack of structured monitoring of delegating purchasing, Purchasing is also not in compliance with section 5-901.04 paragraph D of the Allegheny County Administrative Code.

Recommendations

We recommend that the Division of Purchasing and Supplies:

- Identify all departments that have been delegated purchasing authority and the volume of delegated purchasing, and use that information to develop and implement a structured program of detailed monitoring for delegated purchasing.

III. Findings and Recommendations

- Proceed with the planned biannual group training sessions for purchasing partners, and provide additional retraining as necessary to facilitate adherence to the established purchasing regulations and guidelines.
- Consider revoking the delegation of purchasing authority to purchasing partners or departments that continually fail to adhere to the established purchasing regulations and guidelines.

Management's Responses

- The role of Purchasing Partner is primarily clerical in nature and no formal purchasing authority has been delegated to the Purchasing Partners or other individuals in the County.
- We agree with the value and need for ongoing staff training and it is the intention of the Purchasing Division to move forward with training sessions as discussed with the Internal Audit Staff.
- In the past, the Purchasing Division in collaboration with the Controller's Office has revoked the Purchasing Partner designation and system access from several individuals who were unable or unwilling to adequately fulfill the role of a Purchasing Partner. It is our intention to continue this practice in the future.

III. Findings and Recommendations

Finding #2

A Formal Approval Process Should Be Instituted For Piggyback Contracts

Piggyback contracts are contracts that incorporate the terms and pricing contained in contracts that have already been negotiated and entered into by other parties for comparable products and services. Governments like Allegheny County engage in piggyback contracting with the intent of reducing the amount of time and cost associated with the procurement process while taking advantage of favorable terms and pricing that have already been negotiated and obtained from suppliers by other governments. While governments may benefit from engaging in piggyback contracts, there are also risks associated with utilizing such contracts. By entering into a piggyback contract, a government is electing to forego the utilization of its normal procurement process, which involves an attempt at identifying the best price available in the open market for the sought product or service. It is possible that as a result of volume discounts the pricing associated with a particular piggyback contract might be better than the pricing that could be obtained by a government in the open market. However, not all contracts entered into by other governments contain favorable terms and pricing. Consequently, it is essential for a government to perform at least a limited analysis of the terms and pricing of the contract that may be piggybacked and the time and costs associated with identifying the best available price in the open market to determine whether entering into the piggyback contract will actually benefit the government. In addition, other governments with inadequate controls over the authorization of piggyback contracts and purchase limits for those contracts have been impacted by procurement fraud associated with piggybacked contracts. Because entering into piggyback contracts is typically much easier than utilizing a government's normal procurement process, controls should be in place to help ensure that piggyback contracts are only utilized when and to the extent that it is in the government's best interest to do so.

Purchasing agents often identify contracts that they believe will benefit the County to piggyback. The Chief Purchasing Officer does not formally approve piggyback contracts. While the Chief Purchasing Officer is typically aware of the intent to enter into such arrangements, neither the purchasing agents nor the Chief Purchasing Officer routinely document any analyses performed or the specific rationale for entering into particular piggyback contracts in the procurement files. As previously stated, at least a

III. Findings and Recommendations

limited analysis should be performed to determine whether piggybacking a specific contract is in the County's best interest, and those types of analyses should be included in the procurement files to evidence that proper consideration was given to selecting the most appropriate procurement method.

Purchasing agents are each assigned to exclusively purchase a few specific commodities, which results in the purchasing agents gaining a better understanding of those commodities and the markets for those commodities. The Chief Purchasing Officer indicated that this is the reason that purchasing agents are involved in identifying contracts that it may benefit the County to piggyback. When we discussed the approval process for piggyback contracts with the Chief Purchasing Officer, he advised us that he had concerns about "signing off" on piggyback contracts. He suggested that because piggybacking means foregoing the County's normal procurement process, there is always an element of uncertainty associated with whether or not entering into a particular piggyback contract will ultimately benefit the County.

While we concur that Purchasing cannot guarantee that entering specific piggyback contracts will ultimately benefit the County, we believe it is important for Purchasing to document the basic evaluation procedures that should be performed before piggyback contracts are entered into. Including in the procurement files a clear explanation of the evaluation procedures that were performed and the conclusions reached should help mitigate the risk that others may misinterpret the extent to which Purchasing is providing assurance regarding the benefits to be derived from the procurements.

The effect of this condition is that with respect to piggybacked contracts, Purchasing cannot substantiate that it gave proper consideration to selecting the most appropriate procurement method because any analyses performed or the rationale for entering into specific piggyback contracts has not been documented in the procurement files. The controls in place to mitigate potential procurement fraud attributable to piggyback contracts are also not as strong as they could be.

III. Findings and Recommendations

Recommendations

We recommend that the Division of Purchasing and Supplies:

- Develop and implement the usage of a piggyback contract evaluation form. The form, which could be a single page, should provide space to document any analyses performed or other rationale that supports piggybacking, and should require a signed acknowledgement of the purchasing agent and Chief Purchasing Officer that a good faith effort was applied to that specific procurement.
- Develop, with the County Manager, an efficient procedure to ensure that the County Manager is made aware of all contracts that will be piggybacked and approves the piggybacking via an Executive Action.

Management's Responses

- The process of piggybacking a contract is not a procurement "transaction" and does not result in a contractual commitment on behalf of the County. However, we understand and agree with the logic of reviewing piggyback opportunities to ensure they are the best option available for the County. The Chief Purchasing Officer will develop and implement a form and review process as recommended in the audit report.
- It is the understanding of the Chief Purchasing Officer that prior to his arrival an Executive Action was created that requested permission from the County Manager for blanket approval for the Purchasing Division to utilize piggyback contracts. Also, the process currently in place for piggyback contracts was approved by the Controller's Office. The Chief Purchasing Officer is prepared to implement a change in the piggyback approval process as directed by the County Manager.

III. Findings and Recommendations

Finding #3

P-Card Program Improvement Opportunities

To facilitate our determination as to whether the P-Card program administered by the Division of Purchasing and Supplies (“Purchasing”) complies with the requirements of the Allegheny County Administrative Code, and to provide the greatest opportunity for identification of performance improvement opportunities, we utilized a structured approach. We began by evaluating the P-Card Program Manual, and then attempted to observe how the P-Card program was actually being administered and utilized. We accomplished this by making inquiries of Purchasing personnel and examining program records on a test basis, which included testing of expenditures incurred and supporting documentation maintained by eight P-Card users for selected months during 2009 and 2010.

P-Card Manual

We noted that the language in the section of the P-Card Manual that addresses the purchase of prohibited items is somewhat ambiguous. The Manual states that “purchases will vary by department... however the following goods are prohibited on most County of Allegheny Purchasing Cards” (a list follows). The Manual does not identify which P-Cards are exempt from some or all of the purchasing restrictions. Purchasing personnel explained to us that if a department purchases a good or service that is essential to that department’s function (i.e. Division of Computer Services purchase of computer hardware/software), that good or service will not be considered a prohibited purchase for that department. However, this rationale is not documented anywhere within the Manual. We also noted that the Manual instructs P-Card users to maintain all P-Card monthly statements and documentation supporting their P-Card expenditures as the information may be requested for internal audit purposes. However, the Manual does not state the length of time this information is required to be kept. Not clearly stating in the P-Card Manual which purchases are allowable and how long P-Card purchase documentation is required to be retained limits Purchasing’s ability to maintain accountability for P-Card program purchases.

III. Findings and Recommendations

Program Administration

We attempted to gain an understanding of how the P-Card program is being administered by making inquiries of Purchasing personnel and analyzing program-related documents. We focused on the process for training P-Card users and the processes for controlling and monitoring P-Card program expenditures.

We observed that the training materials being utilized appear to address the key topics. However, we determined that once initial P-Card program training is provided, no additional training is currently being provided unless it is sought by P-Card users who believe they have a need for retraining. Also, Purchasing was unable to locate for our review sign-in sheets that identify the group training program attendees for the period to which we applied our procedures. This impairs Purchasing's ability to determine that (or prove that) specific individuals received training. Similar to the conditions pertaining to the P-Card Manual previously identified, these conditions also limit Purchasing's ability to maintain accountability for P-Card program expenditures.

Purchasing maintains a list of 30 vendors who are considered to be authorized merchants for P-Card purchases. P-Cards are managed such that cardholders are normally unable to purchase goods or services from vendors who are not on the list. If a cardholder would like to make a purchase from a vendor not on the list, he or she must contact Purchasing for a waiver. If Purchasing deems the vendor and purchase appropriate, an e-mail is sent to the Controller's Office requesting further approval. If the Controller's Office gives approval to procure from the vendor in question, Purchasing waives the requirement to purchase from the approved vendor list. This involves removing all P-Card purchasing restrictions from the user's P-Card for a period of three days. During our testing, we attempted to review waivers that had been issued during the period to which we applied our procedures, but were informed that those had not been maintained. We also inquired of Purchasing personnel as to whether there were any instances in which the purchasing restrictions were not reapplied to such P-Cards after the three day period had expired, and it was acknowledged that this had occurred. Not maintaining adequate control over P-Card purchasing restrictions increases the likelihood that expenditures will be incurred for prohibited items.

During discussion with Purchasing personnel, we determined that Purchasing is not applying any monitoring procedures to ensure that P-Card users are retaining all of the documentation

III. Findings and Recommendations

required to be maintained pertaining to their P-Card transactions. We also observed that only a cursory review of P-Card program expenditures is being performed by Purchasing on a monthly basis. The review process being employed involves scanning for and investigating any large unusual purchases or purchases of universally prohibited items (i.e. personal property that would not regularly be utilized in County operations). The review does not involve an analysis of actual departmental P-Card expenditures versus the established budgets, or a review for expenditures that are prohibited expenditures for specific departments. The Accounting Division of the Controller's Office does not perform a detailed review of P-Card program transactions since Purchasing has taken responsibility for administration of the P-Card program. Based on this, the fact that Purchasing does not perform a more comprehensive review of P-Card transactions does not reduce to an acceptably low level the risk that errors, fraud, and/or abuse will not be prevented or detected and corrected in a timely fashion.

We further noted that there is no routine review of Purchasing's own P-Card transactions. The Chief Purchasing Officer and the two individuals involved in the administration of the P-Card program have all been issued and utilize P-Cards. The individual involved in the process of monitoring P-Card expenditures on a monthly basis routinely uses a P-Card to purchase office supplies needed for Purchasing's day-to-day operations. This condition also does not reduce to an acceptably low level the risk that errors, fraud, and/or abuse will not be prevented or detected and corrected in a timely fashion.

Program Utilization

To assess whether the P-Card program was being utilized effectively during the period to which we applied our procedures, we tested expenditures incurred and supporting documentation maintained by eight P-Card users for selected months during 2009 and 2010.

During our testing we determined that two County departments utilize "back-ups" for P-Card users, individuals who use the P-Card to incur expenditures for the department when the authorized P-Card users have days off or are otherwise unavailable. While P-Cards are typically subject to more purchasing restrictions than credit cards, they are similar to credit cards in the sense that they are issued to a particular individual who is to be accountable for the expenditures incurred. Before P-Cards are issued to specific individuals, they must sign a P-Card user agreement which is

III. Findings and Recommendations

retained by Purchasing, and undergo training. The “back-ups” utilized by some County departments have not been required to sign P-Card user agreements or undergo training. This condition limits Purchasing’s ability to maintain accountability for P-Card program expenditures.

We also observed that five of the eight P-Card users in our sample (63%) did not complete transaction logs, one P-Card user (13%) prepared transaction logs using the prescribed form but did not have their transaction logs approved by the department manager as required, and one P-Card user (13%) prepared makeshift transaction logs which were also not approved by the department manager. Further, we determined that two of the eight P-Card users included in our sample (25%) had no documentation available (P-Card account statements, transaction logs, or purchase receipts /credit slips) for several of the months included in our sample. One of the P-Card users had no documentation for the two months in 2009 we selected to review because they were unaware of the required retention period for the documentation and discarded the documentation. The other of the two P-Card users had no documentation for three of the four months included in our testing sample. In addition, we noted that two of the P-Card users (25%) faxed their P-Card account numbers to vendors, a practice which increases the risk that unauthorized expenditures will be incurred and is therefore prohibited by the P-Card Manual.

Recommendations

We recommend that the Division of Purchasing and Supplies:

- Clarify the language in the P-Card Manual pertaining to prohibited purchases.
- Specifically state the amount of time that P-Card program documentation is required to be maintained.
- Maintain training logs to track which individuals have been trained and when.
- Mandate retraining when P-Card users fail to adhere to P-Card program requirements.
- Maintain documentation pertaining to waivers granted to P-Card users that permit them to deviate from the approved vendor list.

III. Findings and Recommendations

- Take steps to ensure that the 3-day removal of P-Card purchasing restrictions associated with waivers is strictly enforced.
- Apply procedures to determine (on a test basis) that P-Card users are retaining all required P-Card program documentation and retaining it for the duration of the required time period.
- Perform a more detailed review of P-Card program expenditures on a monthly basis. The review should involve analysis of expenditures in relation to budget, identification of items prohibited for specific departments, and an analysis of Purchasing's P-Card program expenditures that is conducted by an individual not authorized to use a P-Card.
- Prohibit County departments from using "back-ups" for authorized P-Card users.
- Communicate to P-Card users the importance of not faxing their P-Card account numbers.

Management's Responses

- Part of the value of the Purchasing Card program is the ability to customize restrictions based on the needs of specific departments. The language in the PCard Manual was intended to establish restrictions while allowing flexibility regarding which items can and cannot be purchased by individual departments. The Purchasing Division understands the need to establish clear and consistent controls and will update the manual as recommended.
- The P-Card Manual will be updated as recommended.
- Training logs are currently maintained and will continue to be maintained in the future. This process was started prior to the Internal Audit.
- Retraining will be mandated as recommended.
- This documentation (pertaining to waivers) has been maintained for several years and will continue to be maintained in the future. We have modified our process to include retention of the e-mail request from the cardholder as suggested by the internal auditors.

III. Findings and Recommendations

- A process (pertaining to the 3-day removal of P-Card restrictions) was developed and implemented several years ago. However, as suggested by the internal auditors, we will contact our card provider to determine if it is possible to automate this process.
- Test procedures (designed to ensure that P-Card users are retaining all required P-Card program documentation) will be developed and implemented as recommended.
- Based upon a request by the Controller's Office that detailed spend information accompany the monthly P-Card payment voucher it was the understanding of the Purchasing Division that the Controller's Office was conducting a monthly expenditure review. Since that is not the case as determined by the audit, the Purchasing Division will develop a formal monthly expenditure review policy and procedure.
- The Purchasing Division consistently discourages the utilization of backups. This issue is covered during user training and is addressed in Section 4 of the Card Usage Agreement which reads "You are the only person entitled to use this card and are responsible for all charges made against the card". The Purchasing Division will remind all cardholders and their managers of this restriction and will continue to stress the issue during cardholder training.
- This issue (importance of not faxing P-Card account numbers) is addressed during cardholder training. The P-Card Manual will be updated to include language regarding this matter.

III. Findings and Recommendations

Finding #4

The Purchasing Manual Should Be More Comprehensive

We reviewed the Purchasing Manual to gain an understanding of Purchasing's policies and procedures prior to performing our testwork as well as to determine whether the Purchasing Manual could be improved. Section 5-901.03 paragraph C of the Allegheny County Administrative Code states that the Purchasing Manual shall be "reviewed and periodically revised by the Purchasing Officer in consultation with the Law Department." We observed that the version of the Purchasing Manual contained within the Allegheny County website was last updated in April of 2004. When we discussed this with the Chief Purchasing Officer, we were advised that the Purchasing Manual was revised in December 2009 and distributed to the purchasing partners, and is currently in the process of being revised again. The December 2009 revised version was not included on the County's website. Since the most recent proposed revisions to the Purchasing Manual have not yet been finalized, we will identify additional areas which we believe should be improved.

We noted that the Purchasing Manual states that the Chief Purchasing Officer may delegate purchasing authority, and that training and policies will be developed to institute such a delegation. By this time, training and policies pertaining to delegated purchasing should have been developed and implemented and included in the Purchasing Manual. Section 5-901.04 paragraph D of the Administrative Code indicates that policies and procedures pertaining to delegated purchasing should cover, at a minimum:

1. The identification of timing and needs;
2. The preparation of appropriate purchasing forms;
3. The selection of vendors and contractors and the award of contracts;
4. The inspection of commodities, supplies and materials;
5. The use of blanket purchase orders and price agreements;
6. The receipt and payment process; and
7. The prompt payment of all obligations incurred in the purchasing process.

It is likely that the policies and procedures pertaining to delegated purchasing that are ultimately included in the Purchasing

III. Findings and Recommendations

Manual will refer readers to other sections of the Purchasing Manual. Since others should then be reviewing and utilizing the Purchasing Manual to a greater extent, it is important that the Manual include purchasing policies and procedures that Purchasing may have integrated into its operations but that others may not be familiar with. For example, for purchases in excess of \$30,000, vendors and subcontractors are required to comply with all applicable local laws and workplace regulations. Purchasing routinely obtains an acknowledgement from proposers that they are unaware of circumstances or facts that lead them to believe that sweatshop conditions exist in their manufacturing facilities. Others may not be aware that Purchasing routinely performs this procedure for purchases in excess of \$30,000. Also, Section 5-911.03 paragraph A of the Administrative Code contains a prohibition from entering contracts with provisions that require the County to indemnify or hold harmless any contractor. While Purchasing is aware of this requirement, others may not be.

Recommendation

We recommend that the Division of Purchasing and Supplies:

- Ensure that the most current version of the Purchasing Manual is posted on the County website.
- Revise the Purchasing Manual as planned. Ensure that policies and procedures are included in the Manual to address sweatshop conditions and prohibit contracts with indemnification or hold harmless provisions.

Management's Responses

- The Purchasing Manual was updated on several occasions, however, due to a clerical error the updated version was not posted on the County intranet site. This error will be corrected and steps will be taken to ensure it does not occur in the future.
- Sweatshop language is currently included in all solicitations issued by the Purchasing Division. All contracts require legal review at which point indemnification and hold harmless language is reviewed. The Purchasing Manual will be updated to address these matters as recommended.

III. Findings and Recommendations

Finding #5

Procurement File Documentation Should Be Improved

Maintaining an appropriate level of documentation in procurement files is essential for a variety of reasons. Documenting the status of the procurement process in the file improves transparency, helps to keep the procurement process moving, and reduces the likelihood that mistakes will be made. Adequate file documentation facilitates the retrieval of information about the procurements when it is necessary. Since procurement files may be subject to inspection at any given time and information in the files could be required to be made available to the public, procurement files should also contain adequate evidence that the procurements were conducted in a fair and competitive manner and in compliance with applicable requirements. An inability to substantiate that procurements were conducted in a fair and competitive manner could result in the County incurring financial losses.

During our analysis of Purchasing's procurement files, we observed that the files routinely did not indicate the status of the procurement or the extent to which Purchasing was to be involved in the procurement process. We observed that six procurement files included in our samples contained only a Request for Proposals ("RFP") or Request for Quotations ("RFQ"). Upon further inquiry, we were advised that for three of those six procurements, Purchasing only prepared the RFP for those procurements. For those procurements, another County department had handled or was handling the rest of the procurement process (Purchasing assumes the other department has maintained or will maintain appropriate procurement records). We also observed that four procurement files (the other three files described above plus one additional procurement file) did not contain documentation to indicate why no contract had been awarded in connection with the procurements. We determined that purchasing agents or the Chief Purchasing Officer were ultimately able to provide an explanation of the status of the procurement processes based on their recollection or research. We also determined that 10 of 30 bid tabulations (33%) were not signed off by the purchasing agents as required by the Purchasing Manual.

It appears that these conditions are attributable to Purchasing not perceiving a need to document more in the procurement files than is currently being documented. Purchasing's procurement files are not regularly reviewed by others, so as long as the files

III. Findings and Recommendations

contain enough information to enable purchasing to perform its functions, Purchasing appears to be satisfied with the documentation contained therein. To add more file documentation takes time, which some may argue could be spent more productively completing other procurements. We observed that most of the time, the purchasing agents assigned to the procurements included in our samples for testing were able to provide us with additional information about the procurements based on their recollection of the processes. However, Purchasing should not be relying on the recollection of its purchasing agents. A poor recollection of events or staff turnover could impair Purchasing's ability to obtain necessary information about particular procurements. As previously stated, Purchasing could be required to provide information about procurements or produce any of its procurement files for inspection at any given time, which makes it essential for Purchasing to have an appropriate level of documentation contained in its procurement files.

The effect of this condition is that the County is being unnecessarily exposed to the risks associated with not being able to substantiate with documentation all aspects of procurement processes and not being able to retrieve pertinent information about particular procurements when necessary, including the risk of financial loss.

Recommendations

We recommend that the Division of Purchasing and Supplies:

- Include a status sheet in all procurement files to be updated each time a significant development occurs.
- Document in the procurement files the extent to which other departments have taken responsibility for proposer evaluation and contractor selection.
- Document in procurement files the rationale for not awarding a contract if a decision is made not to award a contract in connection with the procurement.
- Take steps to ensure that purchasing agents review and sign off on bid tabulations as required.

III. Findings and Recommendations

Management's Responses

- A Contract Award Summary Form was developed and implemented June 13, 2011.
- Purchasing agents will use the Contract Award Summary Form to document the participation of other departments in the proposal evaluation and supplier selection process.
- A Contract Award Summary Form was developed and implemented June 13, 2011.
- Purchasing agents will be reminded of their responsibility to review and sign off on all bid tabulations and will be held accountable for doing so.



DAN ONORATO
CHIEF EXECUTIVE

TIMOTHY H. JOHNSON
DIRECTOR

COUNTY OF ALLEGHENY

DEPARTMENT OF ADMINISTRATIVE SERVICES
DIVISION OF PURCHASING & SUPPLIES
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JOHN DEIGHAN
CHIEF PURCHASING OFFICER

December 8, 2011

Mr. Mark Patrick Flaherty
Controller, Allegheny County
436 Grant Street
Room 104 Courthouse
Pittsburgh Pa. 15219

SUBJECT: INTERNAL AUDIT REPORT RESPONSE

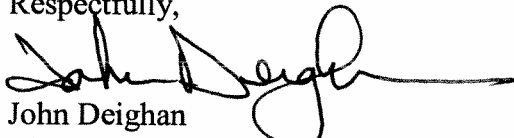
Dear Mr. Flaherty,

Please find attached the Division of Purchasing & Supplies response to the Internal Audit Report dated October 2011.

We appreciate the opportunity to respond to the report and would like to thank the Internal Audit team for their patience during the information gathering process. We respect and appreciate the professional manner in which they conducted the audit as well as their willingness to accommodate our schedules and work demands. We look forward to implementing many of their recommendations and are confident they will improve our processes and help protect the integrity of the County and the Purchasing Division.

Please do not hesitate to contact me if you or a member of the Audit Team would like to discuss all or any portion of our response.

Respectfully,


John Deighan
Chief Purchasing Officer

Cc: Tim Johnson
Audit Rpt. File

Jd/audit resp.- 2011



COUNTY OF ALLEGHENY

DEPARTMENT OF ADMINISTRATIVE SERVICES

DIVISION OF PURCHASING & SUPPLIES

RESPONSE TO INTERNAL AUDIT REVIEW

DECEMBER 9, 2011

FINDING #1

MONITORING OF DELEGATED PURCHASING

It should be clarified that Purchasing Partners do not perform traditional Purchasing functions as inferred by the Audit Report. The primary function of Purchasing Partners is clerical in nature, the Purchasing Partner title is not intended to indicate a degree of procurement skill or knowledge. Specifically, Purchasing Partners enter requisitions and receipt of supplies and equipment in the JDE / PeopleSoft system. All requisitions created by Purchasing Partners are reviewed by the Controller's Office to determine if budgetary funds are available. Approved requisitions are released by the Controller's Office to the appropriate Purchasing Agent at which time if the Purchasing Agent deems appropriate a Purchase Order is generated and released to the supplier. The task(s) performed by the Purchasing Partner does not directly result in a commitment on behalf of the County. Therefore, the role of the Purchasing Partner is that of departmental requisitioner and not an agent of the County.

In regards to the sign in sheets for a group training session referenced in the Audit Report. Although the Purchasing Division did not retain the sign sheets, we did retain a formal record of the individuals who attend the training sessions.

The Audit Report references the review of "six procurement files". By way of clarification, the referenced files were specification folders for Requests for Proposals. The Report further indicates that "for four of the six procurements....the departments purchasing partner was not involved in the process". As noted above, the primary role of the purchasing partner is clerical in nature. Therefore, it is not surprising that a department manager or director would determine that others in the department may be better qualified to participate in the evaluation of proposals. It is fundamentally necessary and in the best interest of tax payers to have the most knowledgeable and qualified individuals available on the proposal evaluation team, even if these individuals are contracted employees, assuming they are under the direct supervision of Departmental Directors or Managers.

We acknowledge there were several problems with scoring and summary sheets related to one solicitation. However, we believe this is an isolated case resulting from human error and is not indicative

of a larger more pervasive problem. We further acknowledge that more attention should be paid to future summary and scoring sheets to ensure this type of human error does not occur again.

In response to the concern raised regarding a short list of suppliers, in most Requests for Proposal scenarios it is impossible to predict how many proposals will be received. As a result it may be difficult to specify the number of proposers on the short list as the number of proposals received may be fewer than the number specified for the short list. In addition, it is possible that given a high number of quality proposals, the County may wish to interview more than the specified number of suppliers, this would then be problematic and may result in the premature elimination of a supplier. Therefore, in most cases it is in the best interest of the County that the Request for Proposal be mute regarding the number of proposals on the short list. This will provide the County with maximum flexibility when determining a short list and hopefully provide the best opportunity to identify the most advantageous proposal.

In regards to the Purchasing Divisions compliance with section 5-901.04 paragraph D of the Administrative Code. This section of the Administrative Code addresses the formal delegation of purchasing authority to individuals outside the Division of Purchasing and Supplies. Since the Chief Purchasing Officer has not formally delegated purchasing authority to any individual or group outside of the Purchasing Division, **we respectfully disagree with the conclusion that we are not in compliance with the Administrative Code.**

INTERNAL AUDIT RECOMMENDATIONS

1. Identify all departments that have been delegated purchasing authority and the volume of delegated purchasing, and use that information to develop and implement a structured program of detailed monitoring for delegated purchasing.

Response: As noted above, the role of the Purchasing Partner is primarily clerical in nature and no formal purchasing authority has been delegated to the Purchasing Partners or other individuals in the County.

2. Proceed with the planned biannual group training sessions for purchasing partners and provide additional retraining as necessary to facilitate adherence to established purchasing regulations and guidelines.

Response: We agree with the value and need for ongoing staff training and it is the intention of the Purchasing Division to move forward with training sessions as discussed with the Internal Audit Staff.

3. Consider revoking the delegation of purchasing authority to purchasing partners or departments that continually fail to adhere to established purchasing regulations and guidelines.

Response: In the past, the Purchasing Division in collaboration with the Controller's Office has revoked the purchasing partner designation and system access from several individuals who were unable or unwilling to adequately fulfill the role of a purchasing partner. It is our intention to continue this practice in the future.

FINDING #2

A FORMAL APPROVAL PROCESS SHOULD BE INSTITUTED FOR PIGGYBACK CONTRACTS

It must be noted that before the Purchasing Division piggybacks another government agencies contract, we routinely confirm the contract was awarded via a competitive solicitation (Invitation for Bid or Request for Proposal). The exception to this process is the State of Pennsylvania COSTARS contracts which are established specifically to be piggybacked by government agencies. Therefore, the utilization of a piggyback contract does not forego our normal procurement process as suggested in the Audit Report. Instead, the piggyback process utilizes the resources and efforts of another government agency to issue a competitive solicitation. Fundamentally, competitive solicitations are not intended to guarantee the lowest available price in the market. Instead, the goal is to create competition through a transparent process which should result in a market competitive price. The utilization of competitively awarded piggyback contracts satisfies this goal.

Although the Purchasing Division utilizes piggyback contracts as permitted in section 907.01 of the Administrative Code, piggyback contracts are a relatively small percentage of our contract portfolio. During the 2009 – 2010 audit period, the Purchasing Division assigned 488 specifications, of these 82% (398) were competitive solicitations (Request for Proposal, Invitation for Bid, Request for Quotation) and 18% (90) were piggyback contracts. It should also be noted that the creation of a piggyback contract does not result in a contractual commitment or liability on behalf of the County. Typically, transactions against a piggyback contract require a requisition from the end user which is reviewed by the Controller's Office and the Purchasing Division before a Purchase Order is issued. Therefore, the contractual obligation begins at the time the Purchase Order is transmitted to the supplier.

In regards to the Chief Purchasing Officers "concerns about signing off on piggyback contracts". These concerns were based on the suggestion by the Internal Audit Staff that the Chief Purchasing Officer approve the piggyback contract as the best available price in the market place. With a few exceptions, it is difficult if not impossible for anyone to validate the results of any solicitation as the best price available in the market place. It is possible that for many reasons another entity is paying a lower price for a like or similar product. However, the Chief Purchasing Officer is prepared to review piggyback contracts to ensure they are in the best interest of the County.

INTERNAL AUDIT RECOMMENDATIONS

1. Develop and implement the usage of a piggyback contract evaluation form. The form, which could be a single page, should provide space to document any analyses performed or other rationale that supports piggybacking, and should require a signed acknowledgment from the purchasing agent and Chief Purchasing Officer that a good faith effort was applied to that specific procurement.

Response: As noted above, the process of piggybacking a contract is not a procurement “transaction” and does not result in a contractual commitment on behalf of the County. However, we understand and agree with the logic of reviewing piggyback opportunities to ensure they are the best option available for the County. The Chief Purchasing Officer will develop and implement a form and review process as recommended in the Audit Report.

2. Develop, with the County Manager, an efficient procedure to ensure that the County Manager is made aware of all contracts that will be piggybacked and approves the piggybacking via an Executive Action.

Response: It is the understanding of the Chief Purchasing Officer that prior to his arrival; an Executive Action was created that requested permission from the County Manager for blanket approval for the Purchasing Division to utilize piggyback contracts. Also, the process currently in place for piggyback contracts was approved by the Controller’s Office. The Chief Purchasing Officer is prepared to implement a change in the piggyback approval process as directed by the County Manager.

FINDING #3

PURCHASING CARD PROGRAM IMPROVEMENT OPPORTUNITIES

Allegheny County’s Purchasing Card program is a valuable procurement tool used primarily for repetitive low dollar value purchases such as stationary supplies. The program reduces procurement costs and creates significant efficiency in the Procure to Pay process. Currently, the PCard program averages 8,500 transactions per year. These transactions eliminate the need to issue a purchase order and process an invoice for each transaction. The National Association of Purchasing Card Professionals estimates the cost of a traditional procure to pay process (Requisition – Purchase Order – Receipt – Invoice – Check) to cost somewhere between \$50 and \$200 per purchase order depending on the organizations internal processes. As a result, it is not unusual in a traditional procurement process for the cost of purchasing an item to exceed the actual value of the item purchased. Using the cost referenced above, the County’s Purchasing Card program saves Allegheny County somewhere between \$425,000 and \$1,700,000 per year in processing expense.

Many individuals believe that PCard programs are open to abuse and a traditional Purchase Order process is more secure. In reality, Purchasing Cards provide controls not available in a Purchase Order scenario and studies show that fraud occurs no more frequently in a properly managed Pcard program than a Purchase Order environment.

The Audit Report indicates that if approval is given for a transaction from a supplier not on the approved supplier list that all PCard Purchasing restrictions are removed from the users PCard for a period of three days. This is incorrect, the specific restrictions related to the approved transaction are removed; all other restrictions remain in place.

INTERNAL AUDIT RECOMMENDATIONS

1. Clarify the language in the PCard Manual pertaining to prohibited purchases.

Response: Part of the value of the Purchasing Card program is the ability to customize restrictions based on the needs of specific departments. The language in the PCard manual was intended to establish restrictions while allowing flexibility regarding which items can and cannot be purchased by individual departments. The Purchasing Division understands the need to establish clear and consistent controls and will update this section of the manual as recommended.

2. Specifically state the amount of time that PCard program documentation is required to be maintained.

Response: The PCard Manual will be updated as recommended.

3. Maintain training logs to track which individuals have been trained and when.

Response: Training logs are currently maintained and will continue to be maintained in the future. This process was started prior to the Internal Audit.

4. Mandate retraining when PCard users fail to adhere to PCard program requirements.

Response: Retraining will be mandated as recommended.

5. Maintain documentation pertaining to waivers granted to PCard users that permit them to deviate from the approved vendor list.

Response: This documentation has been maintained for several years and will continue to be maintained in the future. We have modified our process to include retention of the email request from the cardholder as suggested by the internal auditors.

6. Take steps to ensure that the 3 –day removal of PCard purchasing restrictions associated with waivers is strictly enforced.

Response: A process was developed and implemented several years ago. However, as suggested by the internal auditors, we will contact our card provider to determine if it is possible to automate this process.

7. Apply procedures to determine (on a test basis) that PCard users are retaining all required PCard program documentation and retaining it for the duration of the required time period.

Response: Test procedures will be developed and implemented as recommended.

8. Perform a more detailed review of PCard program expenditures on a monthly basis. The review should involve analysis of expenditures in relation to budget, identification of items prohibited for specific departments and an analysis of Purchasing’s PCard expenditures that is conducted by an individual who is not authorized to use a PCard.

Response: Based upon a request by the Controller’s Office that detailed spend information accompany the monthly PCard payment voucher; it was the understanding of the Purchasing Division that the Controller’s Office was conducting a monthly expenditure review. Since that is not the case as determined by the audit, the Purchasing Division will develop a formal monthly expenditure review policy and procedure.

9. Prohibit County departments from using “back ups” for authorized PCard users.

Response: The Purchasing Division consistently discourages the utilization of “back up’s”. This issue is covered during user training and is addressed in section 4 of the Card Usage Agreement which reads “You are the only person entitled to use this card and are responsible for all charges made against the card”. The Purchasing Division will remind all cardholders and their managers of this restriction and will continue to stress this issue during cardholder training.

10. Communicate to PCard users the importance of not faxing their PCard account numbers.

Response: This issue is addressed during cardholder training. The PCard Manual will be updated to included language regarding this matter.

FINDING #4

PURCHASING MANUAL SHOULD BE MORE COMPREHENSIVE

As noted in our response to Finding #1, the Chief Purchasing Officer has not delegated purchasing authority to other individuals or groups. Therefore, we do not agree with the audit comments regarding "training and policies pertaining to delegated purchasing". However, we understand and agree with the auditors concerns regarding this matter and will ensure these issues are addressed in the Purchasing Manual if and when Purchasing Authority is formally delegated to individuals or groups.

INTERNAL AUDIT RECOMMENDATIONS

1. Ensure that the most current version of the Purchasing Manual is posted on the County Website

Response: The Purchasing Manual was updated on several occasions, however, due to a clerical error the updated version was not posted on the County intranet site. This error will be corrected and steps will be taken to ensure it does not occur in the future.

2. Revise the Purchasing Manual as planned. Ensure that policies and procedure are included in the Manual to address sweatshop conditions and prohibit contracts with indemnification or hold harmless provisions.

Response: Sweatshop language is currently included in all solicitations issued by the Purchasing Division. All contracts require legal review at which point indemnification and hold harmless language is reviewed. The Purchasing Manual will be updated to address these matters as recommended.

FINDING #5

PROCUREMENT FILE DOCUMENTATION SHOULD BE IMPROVED

The Audit report refers to a Request for Proposal (RFP) and Request for Quotation (RFQ) as "Procurements". It must be clarified that these are solicitations and do not represent a commitment to purchase or a liability on behalf of the County. All solicitations contain language indicating it is not intended to be nor should it be considered a commitment to purchase. Therefore, referring to these documents as "Procurements" is misleading.

INTERNAL AUDIT RECOMMENDATIONS

1. Include a status sheet in all procurement files to be updated each time a significant development occurs.

Response: A Contract Award Summary Form was developed and implemented June 13, 2011.

2. Document in the procurement files the extent to which other departments have taken responsibility for proposer evaluation and contractor selection.

Response: Purchasing Agents will use the Contract Award Summary Form to document the participation of other departments in the proposal evaluation and supplier selection process.

3. Document in procurement files the rationale for not awarding a contract if a decision is made not to award a contract.

Response: A Contract Award Summary Form was developed and implemented June 13, 2011.

4. Take steps to ensure that purchasing agents review and sign off on bid tabulations as required.

Response: Purchasing Agents will be reminded of their responsibility to review and sign off on all bid tabulations and will be held accountable for doing so.