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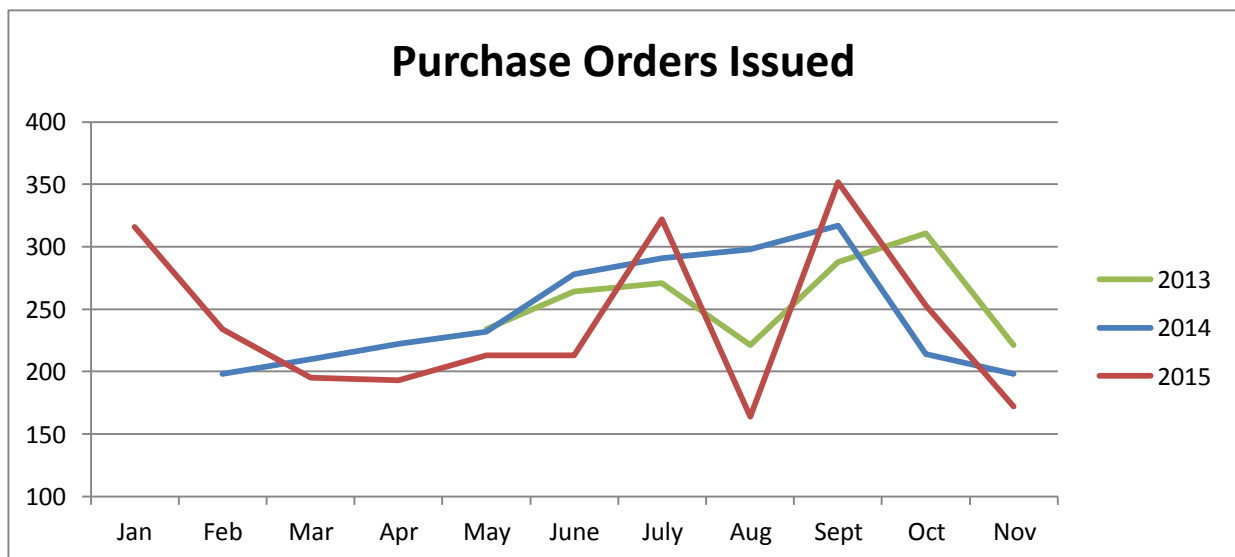
June 2, 2016

**Purchasing Internal Performance Audit**

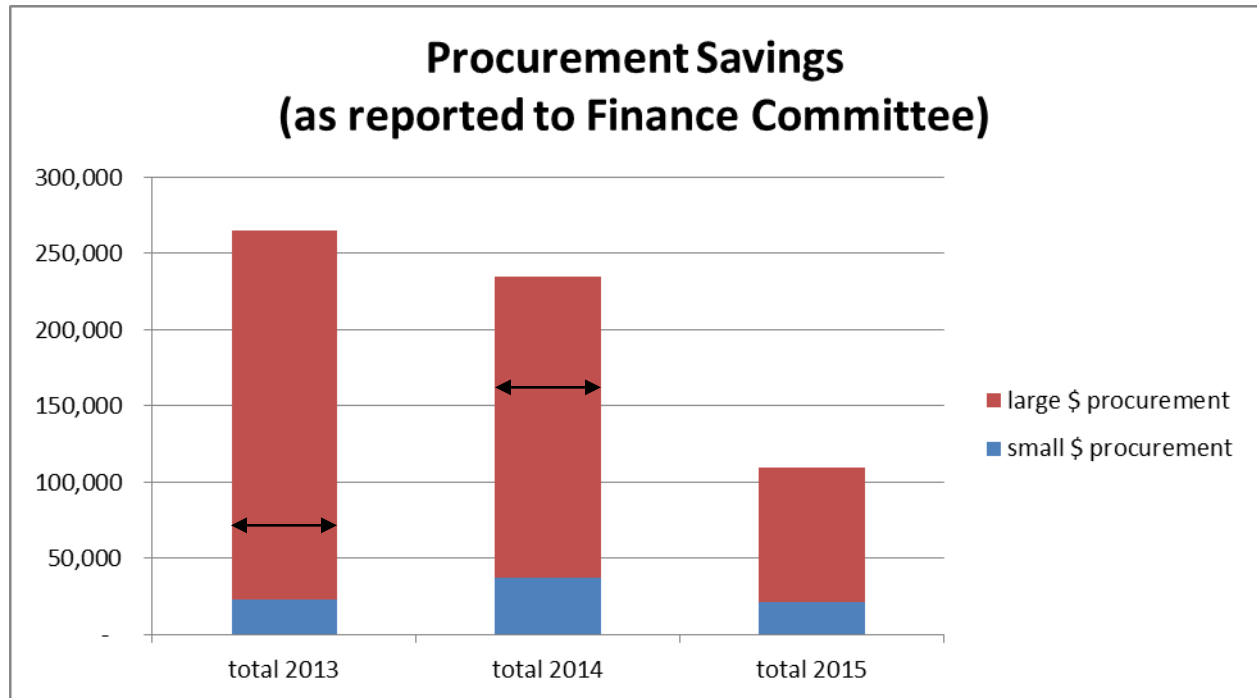
**Background**

The Kane County (County) Purchasing Department consists of three employees – Director, Assistant Director and a Buyer. The Purchasing Department rolls up under the Finance Department and is responsible for managing the County’s procurement process in compliance with all applicable laws and ensuring fair and equitable treatment is provided to all parties involved in County purchasing activities. Purchasing performs bidding and evaluates the results, processes purchase orders, manages surplus property (e.g., office furniture, vehicle auctions), and administers the procurement card (pcard or credit card) program. Per the budget book, the number of bids processed annually has remained at 53 per year for 2013, 2014 and 2015.

Following is the number of purchase orders issued as reported monthly to the Finance Committee for 2013, 2014 and 2015 (no data was available for the first four months of 2013 in the Finance Committee reports).



Procurement also reports savings to the Finance Committee on a monthly basis. Below is an accumulation of the monthly reports. Small procurement spend is less than \$30k; large procurement spend is greater than \$30k.



Fiscal year 2013 includes electric contract projected savings of \$194k. Fiscal year 2014 includes natural gas contract projected savings of \$73k. Adjusting out the one-off savings would give an adjusted procurement savings of \$71k and \$162k for fiscal years 2013 and 2014, respectively (indicated by black line).

The County’s purchasing policy is located in the County Code Chapter 2, Article VI. In summary, the purchasing ordinance calls for the following:

- Purchases < \$3k (Micro purchases) may be purchased by the department head with no requirement for quotes. The micro purchase threshold was reduced to \$3k from \$5k beginning this year.
- Purchases \$3k - \$29,999 (Small purchases) may be awarded by the department head where at least three quotes have been obtained.
- Purchases > \$30k require the Purchasing Department to obtain competitive bids/proposals for the departments.
- Purchasing responsibility may be delegated and has been delegated to the Kane County Department of Transportation (KDOT).
- Elected officials are encouraged to utilize quotes and bids, but are exempt from the requirements; however, elected offices are required to use the County’s purchasing module in the finance system (i.e., should have purchase orders in New World System (NWS) for all purchases greater than \$3k).
- Similarly, department heads are required to use the County’s purchasing module in the finance system.

Additionally, current practice is for departments/offices to obtain certificates of insurance, contractor disclosure forms and prevailing wage certified payroll.

## Summary of Procedures Performed

For purposes of this audit, the following have been excluded from scope:

- The Purchasing Department is not a stand-alone budget. The upcoming audit of the Finance Department will include the budget and actual performance analysis of the Purchasing Department as a component part.
- Pcard controls, processes and transactions as pcard policies and procedures are part of a separate, on-going audit.
- Transportation purchases as under section 3.5.4 of the Purchasing Ordinance, KDOT's front end purchasing function is performed by KDOT, not the County's Purchasing Department, and will be included in the next KDOT audit. The County's Purchasing Department does enter the purchase orders into NWS and performs limited quotes/bidding on non-infrastructure KDOT items (e.g., on-site fuel, video wall, security fence and office furniture).

The following procedures were performed:

- Met with management to review roles and responsibilities, controls and processes and general background information.
- Obtained NWS "item" list from IT and reviewed applicability of the list to intended use. This is a drop down list on all invoices which accounts payable coordinators must select in processing invoices for payment. NWS provides reports by item illustrating County purchases by commodity (i.e., item).
- Pulled 2015 payments by vendor and reviewed all vendors with spend greater than \$30k for bids, contracts, approvals and expiration date.
- For 2015 payments, reviewed the percent of spend by department/office for which purchase orders are utilized in accordance with the Kane County Purchasing Ordinance.
- Compared Kane County vendor list with federal "debarred" vendor list.
- Obtained the quote log and recalculated selected savings as reported monthly to the Finance Committee.

## Recommendations and Management Response

**Recommendation 1** – As noted in the background section of this audit, the Purchasing Ordinance states that all purchases, for department heads and elected officials, must have a purchase order (PO) in the financial system.

Specifically,

Article III, 3.3 Purchasing Regulations and Operational Procedures states:

*... As a matter of accounting procedure to ensure the County has accurate real time accounting records, Department Heads are required to use the purchasing module of the County's finance system for requisitioning Materials, Supplies, Equipment, Services, Construction, Construction related Services and Professional Services, in order for the Purchasing Department to issue purchase orders for these transactions.)*

Article III, 3.5.3 Specific Delegation - Elected Officials states:

*Elected Officials having "purchasing authority" pursuant to an internal control statute are encouraged to use the support services of the County's Director of Purchasing wherever possible. In all cases where the County's Purchasing Department is not a part of the purchasing transaction, and as a part of the County's duty to provide timely financial information, the duty to follow the provisions of section 3.3 of this ordinance and all other provisions regarding the requisition of goods and services is hereby delegated to each and every such Elected Official.*

*As a matter of accounting procedure to ensure the County has accurate real time accounting records, **Elected Officials are required to use the purchasing module of the County's finance system** for requisitioning Materials, Supplies, Equipment, Services, Construction, Construction related Services and Professional Services.*

The fundamental concept is that PO's add control to the purchasing process. For example, the best validation of an invoice is to have a three-way match. Under ideal conditions the PO, receiving report and invoice are all compared to ensure that the materials and/or services ordered match the product ordered for characteristics and price. Since the County does not utilize receiving reports, a three way match is not possible. The two-way match comparing the PO to the invoice is a less certain method, and has recognized inherent weaknesses. At this point, the cost to implement the best practices is considered to outweigh the potential benefits provided. However, invoice approval, either hard copy or electronic, implies that the goods or services have been received. PO's are useful in other ways such as encumbering funds to better manage a budget or manage payment progress of a project (where PO represents the total project, and the vendor is issuing progress invoices).

For 2015 payments, the County utilized PO's for approximately 15% of the total eligible spend (adjusted for KDOT, debt service, IMRF, etc.) (KDOT performs own purchasing function with approximately 100% PO compliance.) Some departments/offices do not have a single PO in 2015. **Recommend that the Purchasing Department pursue bringing current PO practice in line with the Purchasing Ordinance.** Possible alternatives, but not all inclusive, would include changing the Purchasing Ordinance to not require PO's in the financial system (not recommended for control purposes), centralizing staff currently performing the purchasing function in the departments/offices to the Purchasing Department to handle the increase in volume, and/or

changing current processes. For example, to handle the increase in PO volume, the Purchasing Department could implement procedures to issue a PO based on department/office awards (departments for < \$30k only) without re-performing and/or pursuing additional quotes. These are just examples of potential strategy changes to bring the County into compliance with the Purchasing Ordinance.

**Management Response** – Management agrees with the requirement for purchase orders and will continue to do what it can to encourage compliance. Management acknowledges that full compliance with the requirement for purchase orders will result in a significant increase of purchase orders to be processed. Such an increase in workload will likely exceed the capacity of the current staffing level. Since management is responsible for ensuring that all small procurements processed by the Purchasing Department meet the minimum requirement of 3 quotes, eliminating the pursuit of additional quotes will not be an option. Therefore other creative solutions to handle the increased volume will need to be sought.

**Recommendation 2** – **Recommend that the Purchasing Department have a survey conducted of departments/offices to better understand how to improve services to the departments/offices in order to increase the use of the Purchasing Department, compliance with the Purchasing Ordinance and cost savings.**

**Management Response** - Management agrees with this recommendation and will conduct the survey as soon as time permits.

**Recommendation 3** – Purchasing is largely a repetitive process. **Recommend that the Purchasing Department develop a process workflow/checklist (e.g., obtain the certificate of insurance, check the federal vendor debarment list, check state pricing and/or co-op's, add to list of contracts in order to use expiration dates for planning purposes, etc.) to increase efficiency and consistency, improve department/office understanding of the process and responsibilities, provide guidance for new and existing staff, and reduce any potential errors.** The workflow could be published on the Purchasing Department internal website and also include responsible party for each step to be performed in the process (e.g., does the Purchasing Department or initiating department/office obtain the final certificate of insurance). Outlining the process as well as identifying the responsible party for each step would increase understanding of the process with the departments/offices.

**Management Response** – Management agrees with this recommendation. In fact, such a checklist has already been under discussion and development prior to this audit, and we plan to implement this as soon as possible.

**Recommendation 4** - The County has made a commitment to hold the County's portion of property tax levy flat. To assist in that effort and to help offset inflationary costs, the Purchasing Department could consider providing a regular report to identify potential cost saving areas to consider, with full respect to any applicable

internal controls afforded elected officials. In the review of vendor payments for fiscal year 2015, noted areas of opportunity for (1) potential cross department/office savings, (2) pursuing spend that has not been bid lately and (3) establishing base contracts with terms and conditions. **Recommend that the Purchasing Department periodically review the following reports to identify potential cost saving areas:**

- **New World System (NWS) Item Transaction Report and/or Item Analysis Report to understand spend by category (uniforms, utilities, etc.). The Purchasing Department should take ownership of the “item” list in NWS in order to maximize the reporting results.**
- **Annual spend by vendor.**

Current examples and related spend to potentially pursue include the following:

#### Cross-department/office savings

- IT work procured independently of IT by the departments/offices – \$645k (2015)
- Online and hard copy legal search engine and publications – \$222k (2015)
- Auto maintenance and repair, including insurance repairs – > \$50k (2015)
- Departments/offices not using Countywide contracts (e.g., toner cartridges) - \$52k (2015)
- Detainee (adult and juvenile) clothing - \$28k (2015) (\$62k in 2014)

#### Pursuing older bids/contracts

- Off-site fuel purchases - \$164k (2015)
- Jury meals – \$134k (2015)

#### Establishing a base contract of terms and conditions

- Residential placement facilities – \$1.1M (average for 2012-2014)
- Pathologist – \$167k (2015)
- Copy paper - \$73k (2015)
- Forensic labs – \$47k (2015)

**Management Response** – Management wholeheartedly agrees with this concept and will support this initiative to the degree it has capacity to do so. The success of such county-wide procurement programs depends on how willing offices and departments are to participate, and how willing they are to compromise regarding their required specifications. Attempts to address some of the specific procurements mentioned above have already been made.

**Recommendation 5** – Overall, the Purchasing Department could refine the overall departmental strategy, prioritize the tasks, and communicate the process and roles and responsibilities to departments/offices in order for the County to comply with the Purchasing Ordinance while working within the existing budget and headcount of the Purchasing Department. Specific recommendations above are:

- (1) Bring current actual PO practice into compliance with the Purchasing Ordinance (Recommendation 1)
- (2) Survey customers to understand expectations and current gaps (Recommendation 2)
- (3) Document process workflows and roles and responsibilities (internal and external) (Recommendation 3)
- (4) Utilize NWS data to pursue potential cost saving areas (Recommendation 4)

In addition, the following should be considered:

- **Explore utilizing an outside bid service (free service) to alleviate administrative tasks associated with bidding**
- **Develop a centralized certificate of insurance repository and reach out to current vendors periodically for updates. Set guidelines for which spend requires a certificate of insurance.**
- **Train the departments/offices on prevailing wage requirements and retention**
- **Include the new vendor packet when a new vendor is selected through bidding to expedite invoice processing**
- **Eliminate “evergreen” clauses (continuous renewal) to prevent payment for unwanted services/products**
- **Explore purchasing software to manage the process flow**
- **Develop standard purchase order terms**
- **Raise awareness for PO’s in NWS for applicable pcard purchases (e.g., excludes training, etc.) greater than \$3k**

**Management Response** – Management will consider each of these suggestions and will consider implementing those which are feasible.

**Recommendation 6** – The Purchasing Ordinance, Article III, 3.5.5 Purchasing Records states:

*All records relating to a purchase shall be maintained by the County Agency to which Procurement authority has been delegated and a copy of all such records shall be provided to the Purchasing Department upon selection of a vendor.*

Illinois state statute 55 ILCS 5/3-2012 Sec. 3-2012 states:

*Custody of records; public inspection. The county clerk shall have the care and custody of all the records, books and papers appertaining to and filed or deposited in their respective offices, and the same, except as otherwise provided in the Vital Records Act, shall be open to the inspection of all persons without reward. (Source: P.A. 86-962; 87-895.)*

Illinois state statute 55 ILCS 5/3-1004 Sec. 3-1005 states:

*The Duties of the county auditor shall be to: ... (d) Maintain a file of all contracts entered into by the county board and all authorized county officers, for or on behalf of the county.*

Essentially, the Purchasing Department, County Clerk and the Auditor's Office all maintain copies of contracts. The County Clerk files the signed contracts electronically in Laserfiche. **Recommend that electronic filing of copies be combined to the extent possible to reduce redundancies but maintain an acceptable level of backup. If possible, recommend that the County Clerk resolution and contract repository be available to internal users of Laserfiche. Internal access would not only reduce overlap of contract storage, but it would also allow internal users to pull signed resolutions and/or contract copies.**

**Management Response** - Management agrees with the concept of having a centralized repository of all contracts. However the Purchasing Department does not have the capacity to take the lead in such an initiative. In fact, it is our understanding that Information Technology is already working on such an initiative.

**Recommendation 7** – Every month, savings through contracts, bids and quotes are reported to the Finance Committee as part of the Purchasing Report. If the Purchasing Department has obtained pricing favorable to the initial requisition, the transaction and related quotes and savings are logged. In recalculating the reported savings, noted the following:

- Columns are not used consistently. For example, the “total cost as requisition” sometimes represents the original requisition and other times represents the final purchase order cost.
- Savings for existing contracts are included. For example, contractual discounts for Warehouse Direct office supplies are included.
- The “Savings” column is not a consistent formula. If columns were available for all quotes, the “Savings” column could contain a formula to automatically and consistently calculate the savings.
- The “Savings” column represents cost savings as well as cost avoidance. Savings implies that current expense has been reduced which could drive a budget reduction while avoidance implies that incremental costs were not incurred.



**Recommend documenting what savings to be captured, and ultimately reported, and enhancing the log spreadsheet to consistently capture the data.**

**Management Response** - Management agrees with this assessment. The spreadsheet was only intended to be used as an internal tool to approximate savings, and was not designed to be a perfect reflection of all types of savings. Management will continue to work on improving the spreadsheet.

**Recommendation 8** – Under the Purchasing Ordinance, Article III, 3.2 Duties, the Director of Purchasing is responsible for:

... 5. *Sell, trade, transfer, or otherwise dispose of surplus County property.*

Additionally, the “Surplus Property Disposal Form” is located on the intranet under Purchasing Information. Currently, departments/offices are required to fill out the form for any disposals regardless of materiality. Pictures of used office equipment are often provided to the Purchasing Department, and the Purchasing Department forwards the available surplus photos to the NWS user email distribution. **Recommend re-evaluation of current procedures to reach a greater audience for reuse and simplify the process.** For example, recommend:

- Setting up a sort of internal Craig’s list allowing departments to trade surplus property. The internal site would be open to all employees - not just the NWS distribution list. Employees would be able to post and trade immaterial items without the involvement of the Purchasing Department.
- Establish a materiality level (e.g., \$1k based on current estimated value). Departments/offices would be allowed to trade or dispose of surplus property after a set period of time for posting. Items greater than the set materiality would be reviewed by the Purchasing Department for potential external sale or donation to a charitable organization before discarding.
- Establish contract(s) with scrap vendors in order to facilitate timely removal of scrap.

**Management Response** – Management will consider these suggestions as it has capacity to do so, and will implement those which are feasible.

**Recommendation 9** – The online County Code is not current in regard to the Purchasing Ordinance or vehicle replacement. The new Purchasing Ordinance was approved by the County Board on December 8, 2015. The online County Code has the old Purchasing Ordinance with a link to changes. The vehicle replacement policy approved in Resolution 08-294 on October 14, 2008 conflicts with some portions of the County Code – Chapter 2, Article III, Division 1, 2-80 Use of County Owned Vehicles. Not having the current policies or conflicting policies in the online version of the County Code is misleading to users. **Recommend working with (1) the County Clerk’s Office to update the online version of the Purchasing Ordinance and (2) the**

**Administrative Committee to bring the County Code section pertaining to Use of County Owned Vehicles in line with the replacement policy.**

**Management Response –**

- (1) It is the responsibility of the County Board Office to work with Sterling Codifiers and the County Clerk's office to update the County Code with any changes that have been made after each Board meeting.
- (2) The Executive Director of Finance has been working with the State's Attorney's Office to revise the vehicle replacement policy and will be submitting a revision when time permits.

We would like to thank the Director of Purchasing and the Purchasing Department for their assistance in the audit.



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