

## **PURCHASING/CONTRACTING – ARE WE GETTING OUR MONEY’S WORTH?**

### **SUMMARY**

As Benjamin Franklin said, “A penny saved is a penny earned.” In fiscal year 2003, Marin County plans to spend \$85 million, or 28% of its general fund budget, on services and supplies. Board of Supervisor approval is required for the majority of the dollars expended for goods and services. However, most purchasing transactions fall under \$5,000, and this report focuses on those transactions.

The Grand Jury investigated the county’s purchasing and contracting procedures, and it recommends some changes in those procedures that could result in substantial savings.

The Grand Jury found that many county employees are uncertain about how to purchase goods and services for their departments. It recommends that the county develop and distribute to all county departments “A Guide to Purchasing/Contracting in the County of Marin.” This guide should expand on the document “A Guide to Services” now in use.<sup>1</sup> The county should consider sending Purchasing Division employees to seminars of the Institute for Supply Management to improve their purchasing and contracting skills.

The Grand Jury recommends that the county expand the use of vendor agreements so that most goods and services can be purchased under such agreements with pre-approved vendors. Vendor agreements define volume, pricing, delivery, and other agency needs. Purchases such as medical supplies and pharmaceuticals and hardware and tools are prime candidates for vendor agreements.

Vendor agreements should be publicized using the on-line county information network so that they will be readily available to all county departments and to other county government jurisdictions, namely cities and towns, schools, and special districts.

With pre-approved vendor agreements diligently enforced, the purchasing authority of each county department could be increased to \$5,000 from the current \$1,000 limit, with little, if any, chance of abuse. Since more than 50% of purchase orders are in the \$1,000 to \$5,000 range, this change could save both time and money by ending the current practice of shopping around for a better price, as well as easing the burden on the Department of Public Works staff.

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<sup>1</sup> During the course of this investigation it became obvious to both the Grand Jury and county personnel that the document “A Guide to Services” was obsolete. That document has since been updated although it does not reflect changes recommended by the Grand Jury. Still, the Grand Jury is pleased that the county has moved so quickly to update this important information.

County procedures require that all purchase orders bear an authorized signature, and this serves as a main source of internal control. To increase control and afford greater security, the Grand Jury recommends rotating the internal auditors from the Auditor/Controller’s Office each year among departments. In addition to other duties, internal auditors should verify the existence of all vendors in the vendor master file and all new vendors.

## BACKGROUND

With more than 2,000 employees and a budget of over \$300 million, Marin County is one of the largest organizations in the county. The Department of Public Works provides customary public works functions, as well as building maintenance, telephone, and mail processing, but also is responsible for centralized purchasing for the county. Prior grand juries have investigated specific contracts entered into by the county. The object of this Grand Jury’s investigation was to review the policies and procedures for purchasing and contracting rather than evaluate the actual purchases.

Table 1 is a summary of the County of Marin’s general fund budget for fiscal year 2003.

	Category	\$ Millions	% to Total
001	Salaries & Benefits	\$171.6	57%
002	Services & Supplies	85.0	28%
003	Other Charges	36.1	12%
004	Projects & Fixed Assets	8.1	2%
005	Interdepartmental Charges	-0.4	0%
006	Contingencies & Reserves	2.2	1%
	Total General Fund	\$302.6	100%

As noted, “Services & Supplies,” amounts to \$85 million or 28% of the total. Although the majority of dollars spent for services and supplies require Board of Supervisors’ approval, the number of purchases up to \$5,000 make up the bulk of transactions. Therefore, this report focuses on those transactions. Such a large budget affords an opportunity to make important savings by reducing prices, improving terms, streamlining the process, and consolidating purchasing power. The Grand Jury felt that the potential for significant savings warranted a close look at the process. For example, and the Grand Jury recognizes that comparisons are difficult to make, San Mateo county estimates that its use of vendor agreements and purchase order procedures saved it about 15% on commodity purchases in fiscal year 2000-2001, or about \$6.9 million.

## **METHODOLOGY**

The Grand Jury followed the purchasing of goods and services from the desire to purchase or contract through to the payment of the invoice, reviewing procedures, controls, and staffing.

The investigation included personal interviews, review of county published material, and Internet research. The Grand Jury interviewed staff from the following county departments: Administrator, Auditor/Controller, County Counsel, Health and Human Services, and Public Works. The Grand Jury also interviewed personnel from the Town of Corte Madera and the Dixie School District to review the extent to which the county was performing purchasing services on behalf of towns and school districts in the county.

The Grand Jury reviewed three basic sources: Marin County Code, Chapter 3.08, Purchasing, (see Appendix); "A Guide To Services"; and "Purchasing Procedures," dated March 9, 1998, published by the Department of Public Works. (It should be noted that certain dollar limits have been changed since the "Purchasing Procedures" were published.) The Grand Jury reviewed the financial data from the Marin County accounting system. It examined the current purchasing rules and instructions and related documents, including purchase orders, requisitions, pay voucher requests, signature cards, and requests for bids.

The Grand Jury also reviewed purchasing budgets from Alameda, Contra Costa, Napa, San Mateo, Santa Clara, and Sonoma counties, as available on the Internet.

The Grand Jury did not review the policies and procedures by which the departments choose professional service providers. In addition the Grand Jury did not review printing services that are provided in-house. The Purchasing Division does not handle Public Works projects. The Grand Jury did not review purchases over \$25,000, which require Board of Supervisor approval.

The Grand Jury thanks the many people who were interviewed for this report and appreciates the time and effort they spent to provide the information that is the basis for this report.

## **DISCUSSION**

### **CURRENT PROCEDURES**

The current purchasing/contracting procedure in the County of Marin depends upon the dollar amount of the purchase or contract and the kind of purchase.

## **1. Staffing.**

The official purchasing agent for the county is the Director of the Department of Public Works. The director delegates authority to assistants and to the staff of the Purchasing Division, which consists of a supervising purchaser and two other purchasers. The Grand Jury found that the staff is frequently asked to work significant overtime. In FY 2002, for example, overtime costs were \$15,010.

## **2. Training.**

The one common theme heard was that training is woefully lacking in all departments. This involves all facets of the purchasing process including where to buy and how to interface with the Purchasing Division and the Auditor/Controller. New hires have difficulty learning the process. Information received from one individual sometimes conflicts with information from another. The manual "A Guide to Services" is out of date and incomplete.

The reality is that individual departments are doing a great deal of purchasing. However, the Grand Jury found that there is a lot of confusion and a lack of purchasing knowledge among employees in many county departments. They are generally left to their own devices when selecting vendors and negotiating prices, potentially a very expensive practice. There is no training for county employees who routinely make purchases on behalf of the county; the need for one is apparent.

## **3. Purchasing Authority.**

Purchasing of goods and services under \$1,000 is the responsibility of individual departments and no purchase order is needed. The Purchasing Division does not become involved, with the exception of printing, which is done in-house. The reasoning is that for smaller purchases, the savings in personnel time, paper work, and acquisition time can exceed any potential price savings. Departments will, however, sometimes ask the division for good sources. As discussed below, for office supplies and some other items, the Purchasing Division has entered into vendor agreements. This saves time and effort for the individual departments, when they take advantage of them. However, for most other items, there are no vendor agreements, and there is limited direction by the Purchasing Division.

But even with vendor agreements in force, individuals within a department will buy outside the agreements. When asked why, department responses ranged from "getting a better price" to "it's more convenient to shop on our own." The Grand Jury made no attempt to validate these common answers.

For goods and services over \$1,000 and up to \$25,000, the requesting department prepares a purchase requisition form. That form is sent to the Purchasing Division, which selects the vendor and creates a purchase order. This gives control of larger

purchases to Purchasing Division staff, who seek the best combination of price, quality, and service. These benefits should exceed the greater overhead involved.

Due to limited staffing, the Purchasing Division in practice spends little time researching potential suppliers and comparing prices, and there is often a delay in processing orders. Consequently, departments will sometimes divide their orders into several smaller orders of less than \$1,000 each. In this way, the departments can order the goods directly and bypass the Purchasing Division.

For goods and services over \$25,000 and up to \$100,000, in addition to the procedure described in the preceding paragraph, the Purchasing Division will informally solicit at least three bids and award the purchase to the lowest responsible bidder. Usually, the bids are solicited by telephone from suppliers that the division has found to be satisfactory. Sometimes, the division posts a flyer. New potential suppliers must take the initiative to contact the Purchasing Division in order to have the opportunity to bid. Suppliers located in Marin enjoy a price preference over out-of-county suppliers; their bids may be as much as 5% greater and still result in contract award.

Formal bidding is required for goods and services over \$100,000. The Purchasing Division prepares a request for proposal and sends it to potential suppliers. The Purchasing Division receives the proposals, evaluates them, and makes a recommendation to the Board of Supervisors for approval. Once approved, the division issues the purchase order. Again, local suppliers are given a 5% price preference.

Contracts for personal and professional services are negotiated by the individual departments using a contract form prepared by the County Counsel. Contracts under \$25,000 are approved by the County Administrator. Contracts over \$25,000 require the approval of the Board of Supervisors.

#### **4. Vendor Agreements.**

A vendor agreement is a method by which a vendor provides goods or services for a contracted price in return for volume purchasing and repeated ordering. Once such an agreement is in force, any authorized user can order goods or services from that vendor, with a minimum of personnel time. A vendor agreement may also provide for a blanket purchase order. Such an order applies to all purchases under the agreement, and eliminates the need to create a separate purchase order for each purchase with obvious savings of time and energy.

The Purchasing Division currently has negotiated 11 vendor agreements, mainly for office supplies and some commodities and services. Except for the vendor agreement for office supplies, the agreements are not published and do not appear to be used by most departments. As previously noted, the Grand Jury found that contrary to policy, office supplies were sometimes purchased outside of the vendor agreement. Table 2 is a list of items for which agreements exist.

<b>Item</b>	<b>Primary User</b>
Office Supplies	All County departments
Food	Jail & Juvenile Hall
Milk	Jail & Juvenile Hall
Bread & Pastries	Jail & Juvenile Hall
Oil/Gas/Diesel	County Garage
Laundry Services	Jail & Juvenile Hall
Furniture	All County departments
Courier	Library
Janitorial	Civic Center
Janitorial	Outside Buildings
Landscape Maintenance	11 County-Owned Properties

The manual “A Guide to Services” declares in capital letters, “ALL COUNTY DEPARTMENTS SHALL USE THE DESIGNATED VENDOR FOR OFFICE SUPPLY ITEMS.” Currently there is only one vendor agreement in place for office supplies. However, in practice, 20% of purchase transactions for office supplies are purchased outside the vendor agreement. Table 3 below illustrates a sample of suppliers.

<b>Vendor Code</b>	<b># purchases under \$1,000</b>	<b>Total \$ purchases Under \$1,000</b>	<b># purchases \$1,000 to \$5,000</b>	<b>Total \$ purchases \$1,000 - \$5,000</b>
042896127	38	\$5,881	3	\$3,294
*222776163	1,519	291,974	73	122,914
592663954	186	39,032	16	24,424
680452125	3	1,069	0	0
940027865	52	10,437	0	0
942798841	61	13,987	24	59,720
952082946	46	8,321	4	5,062
Total	1,905	\$370,701	120	\$215,414

\* Denotes current vendor

Internal vendor codes are used to protect confidentiality. Alphabetically the currently used suppliers are Corporate Express, Ideal Office Products, Marin Office Supply, Office Depot, Prime Office, Staples, and Viking Office Products. Some of these suppliers are located in Marin County and may be deemed more convenient for departments to fulfill their purchasing needs.

The Grand Jury found that in fiscal year 2002, 483 separate purchases under \$5,000 were made from 15 different vendors of hardware, tools, and lumber. Vendor agreements would probably be worthwhile here. Table 4 below shows these purchases.

<b>Table 4 - Hardware, Tools, and Lumber Purchases in FY 2002 (partial list) <sup>2</sup></b>				
<b>Vendor Code</b>	<b># purchases under \$1,000</b>	<b>Total \$ Purchases under \$1,000</b>	<b># purchases \$1,000 To \$5,000</b>	<b>Total \$ Purchases \$1,000 - \$5,000</b>
060548860	12	\$1,432		
411405311	3	673		
581853319	27	4,613	1	\$1,198
582069671	12	4,336		
621365142	5	850		
680084293	17	5,457	3	5,800
680102486	83	11,380		
941574537			1	1,079
941611162	25	1392		
941669730	129	30,777	5	6,394
941701768	35	3,156		
941733607	31	3,404		
941745873	14	3,759		
942314690	55	6,784	1	1,238
954214111	24	3,032		
Totals	472	\$81,045	11	\$15,709

Another area uncovered by the Grand Jury worth exploring for the use of vendor agreements is pharmaceuticals and medical supplies, where there is a myriad of suppliers to the county.

### 5. Receipt of Goods or Services.

Once a purchase order is sent to a vendor, the ordering department is responsible to follow up on the receipt of the goods or services and determine whether the delivered product meets the specifications. After goods are received or services supplied, the ordering department prepares a Payment Voucher Request (PVQ) form in the computer, and the budget category is checked for sufficient funds. If funds are not available, the department head is authorized to shift funds from one category to another within the same budget section. This shifting of budgeted funds is almost automatic. The ordering department then submits the PVQ to the Auditor/Controller’s office for payment.

<sup>2</sup> The Grand Jury has used vendor codes to protect the confidentiality of the suppliers, but here they are, listed alphabetically: Building Supply Center, Fairfax Lumber and Hardware, Golden State Lumber, Home Depot, Jackson’s Hardware, Mac Tools, Northern Tool & Equipment, Novato Builders Supply, Orchard Supply Hardware, Pacific Lumber & Hardware, Pini Hardware, Snap-On Tools, Vine Hill Hardware, Western Tool Supply, and Yardbirds.

## **6. Other Governmental Jurisdictions in Marin County.**

Under county code section 3.08.020C, cities and towns, school districts, special districts, and other governmental jurisdictions in the county may use the services of the Purchasing Division. This includes all the functions that the Purchasing Division performs for county departments and allows access to the suppliers for which there are vendor agreements. Most, if not all, of the other county jurisdictions are unaware that this service is available to them. Interestingly, the Purchasing Division is not sufficiently staffed to be able to handle the extra work so the practice is not encouraged.

## **7. Audit Control over Purchase Function.**

Each auditor in the Auditor/Controller's office is assigned a number of departments for checking the accuracy of the PVQ packages. A PVQ package consists of a PVQ computer printed form with an original signature in colored ink, an original invoice, and a purchase order, if one is required. Authorized signatures are on file in the Auditor/Controller's office. Packages that are incomplete or contain other errors are returned to the ordering department.

The internal auditors rely on an authorized signature and a complete PVQ package before authorizing payment. The Grand Jury found that the auditors were not checking that goods were actually received, that services were actually performed, or that vendors actually existed. Without an improved internal audit process, the Grand Jury believes that it would be possible to use an authorized signature to embezzle county funds. In addition, under the current practice, the same auditor handles the same departments year after year. The Grand Jury believes that rotating auditors is a prudent business practice.

## **PRESENT PURCHASING PRACTICES**

### **The Goal**

The goal of a purchasing policy should be to minimize price, staff time, and delivery time. Getting the best deal for your purchasing dollar requires skills. They include negotiating with vendors, understanding shipping charges and discounts, creating requests for proposals, and maintaining controls and records, among others. By delegating purchasing/contracting functions to trained specialists, organizations can save purchasing dollars and gain personnel efficiency. The downside to centralized purchasing is the extra paper work and potential processing delays. The challenge is to maximize the benefits while minimizing the downside. Organizations that do a large amount of outside purchasing usually provide for centralized purchasing.

### **The Reality**

The reality is that individual departments are doing a great deal of purchasing. However, the Grand Jury found that there is a lot of confusion and a lack of purchasing knowledge among employees in many county departments. They are generally left to their own devices when selecting vendors and negotiating prices, potentially a very

expensive practice. There is no training for county employees who routinely make purchases on behalf of the county; the need for one is apparent.

According to the Grand Jury's analysis, more than 50% of the work of the Purchasing Division's purchase orders is for goods and services in the \$1,000 to \$5,000 range. The division does little or no checking of what is ordered, but tries to locate a responsible, low-cost supplier. The Purchasing Division relies on the purchasing staff's judgment to recognize valid orders.

With vendor agreements in place and diligently enforced, the purchasing limits of individual departments could be raised to \$5,000 per purchase. This would reduce the burden on the division's staff considerably and accelerate the purchasing process for the departments involved. With additional time, the purchasing staff could devote more time to negotiating prices and expanding potential vendors lists. The division should be able to operate within its current staffing, and in addition, provide purchasing support to other government jurisdictions in the county.

## **FINDINGS**

1. The one common theme heard was that training is woefully lacking in the departments. This involves all facets of the purchasing process including where to buy and how to interface with the Purchasing Division and the Auditor/Controller. New hires have difficulty learning the process. Information received from one individual sometimes conflicted with information from another. The manual "A Guide to Services" is out of date and incomplete.
2. Under county code section 3.08.020C, other governmental jurisdictions in the county such as cities and towns, school districts and special districts may use the services of the Purchasing Division. Based upon the present systems, other jurisdictions have little incentive to do so—the process is too much of a hassle. Also, due to the lack of available personnel in the Purchasing Division, assisting other agencies is not encouraged.
3. The Purchasing Division currently has some agreements with vendors. These are for office supplies, and a few commodities and services such as janitorial service. Except for office supplies, these agreements, while available, are not published and do not appear to be used by most departments. Even the policy that requires the use of the office supply vendor agreement is violated 20% of the time.
4. Major needs exist for vendor agreements for medical supplies and pharmaceuticals, as well as for hardware and tools.
5. Delays are inherent in the processing of the required paper work necessary for purchases of over \$1,000. Departments that use the Purchasing Division can

experience delays in ordering of three to ten days. Ordering departments generally are unhappy about this. A department may even separate items to be purchased in order to get under the \$1,000 limit, which requires no purchase order.

6. The internal auditors in the Auditor/Controller's office rely on an authorized signature and completeness of PVQ package in order to authorize payment. The Grand Jury found no independent checking is being done to assure that the goods were actually received, that the service was actually performed, or that the vendor actually exists. Scenarios could be envisioned which would lead to embezzlement.

## **RECOMMENDATIONS**

1. The Department of Public Works should create a training manual titled "A Guide to Purchasing/Contracting in the County of Marin." It should include procedures for purchasing, dollar limits of purchasing authority, personal service contracts, and instructions for the completion of forms. The document would serve as a reference guide and training manual.

2. The Department of Public Works should investigate the feasibility of getting employee training in programs of the Institute for Supply Management. It has periodic seminars and on-line courses for upgrading skills and negotiating techniques. The internet address is [www.napm.org](http://www.napm.org).

3. The Department of Public Works should develop more vendor agreements and use blanket purchase orders for discounted purchases of goods and services. It should create specifications and RFP's for items commonly purchased throughout Marin County, particularly for medical supplies and pharmaceuticals and hardware and tools.

4. The Department of Public Works should determine the reasons that 20% of office supply items are purchased outside the vendor agreement. The answers may provide some guidelines for the development of and compliance with future agreements.

5. For goods and services ordered through vendor agreements and blanket purchase orders, the Department of Public Works should increase the departmental purchasing authority limit to \$5,000.

6. The Department of Public Works should create Intranet pages in the Marin Information Network "MINE" advising of the availability of the vendor agreements and the items included therein.

7. The Department of Public Works should make other governmental jurisdictions in Marin aware of the availability of the vendor agreements for their use. They also need sufficient information of the available goods and services to make sound purchasing decisions.

8. While the Grand Jury found no evidence of any mishandling of funds, the Grand Jury recommends that the Auditor/Controller periodically rotate the auditors for the departments whose PVQ's they service.

9. The Auditor/Controller should verify the existence of each vendor in the computer Master Vendor File, and random checks should be made of purchases, especially from new vendors.

## **REQUEST FOR RESPONSES**

Pursuant to California Penal Code Section 933.05, the Grand Jury respectfully requests responses as follows:

- From the Board of Supervisors for all Findings and Recommendations.
- From the Auditor/Controller for Finding 6 and Recommendations 8 and 9.

The Grand Jury also invites responses from:

- The Director of Public Works for Findings 1 through 5 and Recommendations 1 through 8.
- The Director of Health and Human Services for Finding 4 and Recommendation 3.