Audit of the Procurement Process Redesign

Audit #99-12

Prepared by
Office of Inspector General

Allen Vann, Inspector General
John Lynch, Information Systems Audit Manager
Jena Harvey, Audit Intern

SOUTH FLORIDA WATER MANAGEMENT DISTRICT

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MGT 08-06F

March 1, 2000

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Re: Final Report-Audit of the
Procurement Process Redesign,
Audit #99-12

This audit was performed pursuant to the Inspector General's authority set forth in Chapter 20.055, F.S. The audit focused on assessing the implementation of the redesigned procurement process as recommended in the "Procurement System Team - Final Report" and reporting any improvements in efficiency and/or effectiveness of the redesign efforts. This report was prepared by John T. Lynch.

Sincerely,

Allen Vann
Inspector General

AV/jl
Enclosure

c: Frank Finch
James E. Blount
Jock Merriam

TABLE OF CONTENTS

Introduction

The Office of Inspector General's Information Systems Audit Manager performed this Audit of the implementation of the procurement process redesign effort in order to update the status and review the impact of the recommended changes to the District Procurement System.

Background

Pursuant to Executive Office direction in September of 1995 an internal group was established to systematically examine the Agency and make recommendations to improve performance. The areas identified by the group for examination and redesign were:

- Procurement of goods and services,
- District-wide maintenance management,
- Information Management**:**
  - Technical
  - Data Acquisition
  - Process
  - External/Internal Information Access,
- Regulatory Process, and
- Human Resources.

Subsequently, in October of 1996 the District formed an employee team with representatives from the user departments and the former Office of Enterprise Engineering (OEE), to model the way we were doing business within the "procurement of goods and services." The effort was completed in January 1997 with the development of both a contracting and purchasing model referred to as the "as-is" models.

These models outlined the steps involved in both processes and used data from the Fiscal Year (FY) 96 fourth quarter report from procurement for calibration purposes. The fourth quarter report indicated:

- at the end of FY 96 the District had 884 active contracts with a total dollar value of $147,065,853,
- in FY 96 there were 244 contracts, 224 amendments/change orders, and 370 work orders, executed with a total dollar value of $53,882,381, and
- there were 22,229 purchase orders issued in FY 96 with a total dollar value of $29,150,081.

The models reflected that the process from Statement of Work (SOW) to an approved contract averaged 104 calendar days and purchase orders from approved request to issuance, on the average took, 12.5 calendar days.

In February of 1997 another team was established to redesign the District's procurement process with the intent of reducing the processing time for the procurement of goods and services. This team was chaired by a representative from OEE and included representatives from the user departments, Procurement, Office of Counsel, and the Inspector General's Office. A consultant was used to gather benchmark information and interview District customers.

This team developed the new process models for contracting and purchase orders referred to as the "to-be" models. A report was developed (Procurement System Redesign Team - Final Report) and presented for acceptance to the Executive Management Group on April 14, 1997. The report included ten specific recommendations, which are the basis for this review. The implementation of these "to-be" models was projected to reduce the average processing time for contracting to 55 calendar days and for purchase orders to 5.5 calendar days without compromising the procurement policy or internal controls.

The ten elements of the procurement redesign were:

I. *Planning: Originating departments will develop Statements of Work (SOW) and project schedules and assign Project Managers as part of the budget development process beginning in FY98. Contract Administrators will also be assigned during budget development by the Procurement Division.*

II. *Proactive input: Procurement and other support departments (Risk Management, Office of Counsel, and Supplier Diversity and Outreach) will provide input up front, at the start of the procurement process.*

III. *Integrated communications: Integrate information from the Contract Agreement Award Request Form (CAARF), Contract Request Form (CRF) and Budget Transfer Form into the contracting process using a "communications form". This form will expand the budget one-page summary to include contract information.*

IV. *Raise approval thresholds: Raise the Governing Board approval threshold to $300,000 for contracts; and $500,000 or 10% of original contract amount, whichever is less, for change orders and amendments. These thresholds will enable the Board to focus its review on those contracts historically accounting for 75% of the budgeted contract dollars.*

V. *Defined roles and Responsibilities Departments involved in the procurement of goods and/or services will have well defined roles and responsibilities. Approval of documents will rest with the originator or one level above for those items requiring Governing Board approval. This will eliminate multiple reviews and approvals while increasing the level of accountability.*

VI. Standardized contracts: Standard contract terms and conditions will play an essential role in streamlining the process. A new contract order form will be used in place of the existing contract generator system. Use of standard terms and conditions will be expanded to include interagency agreements as well as agreements with educational institutions. Terms and conditions applicable to contracting categories such as Competitive Contract Negotiating Act (CCNA), commodities, research and development will be rewritten for uniform utilization.

VII. Revised risk levels: Establish a committee to revisit the District's insurance and requirements by considering categories of low risk contracting as candidates for waiving of insurance requirements, such as educational contracts and training. Incorporate the committee's recommendations into a standard insurance matrix, similar in format to the matrix provided by Southwest Florida Water Management District.

VIII. Technological Improvements: Incorporate technological advancements such as: an integrated contract management system that monitors, tracks and reports on contract status; an automated system for obtaining solicitation documents; electronic central filing of contracts; use of the Intranet and Internet for accepting proposals and posting award notifications.

IX. Procurement cards: Establish a committee to implement a procurement card for small purchases. A recommended limit is $750 for field purchases, (the existing limit for decentralized purchases); and up to $1,000 for other purchases.

X. Increase purchase order usage: Establish a committee to develop criteria for shifting appropriate small dollar contracts (less than $50,000) to purchase order.

Objectives/Scope/Methodology

The purpose of our review was to assess the implementation of the redesigned procurement process and to report on any improvements in efficiency and/or the effectiveness of the systems.

Our review included assessing the extent that elements contained in the "Procurement System Redesign Team - Final Report" dated April 14, 1997 were adopted by management and the impact on the effectiveness and/or efficiency of the procurement processes for contracting and purchase orders. This report focused on the procurement process from budget to contract (or purchase order) approval.

In conducting our audit the following steps were taken:

1. Review "The Procurement System Redesign Team: Final Report,"
2. Verify the historical time considerations for the procurement processes,
3. Interview responsible staff to validate implementation status, benefits, and
4. Obtain supporting documentation to verify the current status of the new systems.

Except as noted below, this audit was conducted in accordance with "generally accepted government auditing standards" as promulgated by the Comptroller General of the United States. In addition, we were guided by the "Standards for Information Systems Auditing" as developed by The Information Systems Audit and Control Foundation Standards Board.

The auditor in charge of this review provided the technical computer expertise as part of the District teams in developing and calibrating the both the "as-is" and "to-be" models. However, he did not participate in the writing of the "Final Report", presentation of the recommendations, or in the implementation the recommendations. As contained in "Appendix C" of this report, another District auditor provided comments on the analysis of the internal controls found in the (to-be) procurement system redesign report.

Executive Summary

With the exception of raising the procurement authority threshold, which was rejected by the Governing Board, the recommendations contained in the "Procurement System Redesign Team - Final Report", dated April 14, 1997, have been partially or fully implemented. Additionally, there have been staffing and workload changes in the procurement division since the report was issued.

There has been an increase in contract administrators from seven (7) in FY 96 to eleven (11) in FY 99. Two of these new positions are specifically for the Everglades Construction Project. The number of new contracts has increased from 244 to 302. Correspondingly, there has been an increase in total dollar value of new contracts from $39,493,089 to $68,704,805.

There has been a reduction in processing time for competitive contracts from an average of 145 calendar days in FY 96 to 113 calendar days in FY 99. The average number of calendar days for a non-competitive contract processing has also been reduced from 83 days to 72 days.

Although many of the elements from the redesign report are in place, the redesign report did not include staffing and it used the FY 96 resourcing and workload in projecting the impact of a redesigned system. Therefore, it is difficult to identify the overall impact and contribution of specific changes to the process.

Nevertheless, we have concluded that the implementation of the recommendations has had a positive impact on the procurement process. This report addresses each of the recommendations and attempts to build upon these opportunities for improvement.

Findings/Recommendations

I. Planning: *Originating departments will develop Statements of Work (SOW) and project schedules and assign Project Managers as part of the budget development process beginning in FY98. Contract Administrators will also be assigned during budget development by the Procurement Division.*

The Departments are required to develop basic information about proposed contracts during the budget process. This includes a project summary, statement of work (SOW), time frame, amount of contract (including future years funding), and alternatives. This information is fed into the Oracle based budget system. This is now a requirement of the budget process and forces proactive planning in the development of contracted projects. By developing this information during the budget process, the information necessary to develop the contract document is prepared in advance of the actual contracting process.

When the budget is approved, financial data is automatically downloaded to the District financial system from the budget system. This is done by exporting data from the budget oracle database to the AMS local government financial software system files. However, approved contract information is not downloaded from the budget system to the contract system (ICMS). In a duplicate effort, at the beginning of each fiscal year, data on approved contracts is reentered by staff into ICMS to initiate the contracting process. Both the budget system and the contacting system are Oracle based databases.

Recommendation

(1) The format for data entered into the budget system should be made compatible with the data requirements in the contract system (ICMS) so that budget data for contracts is entered once and downloaded directly in the contract system after budget approval.

Management Response: Procurement has been aware of the need for this compatibility and has been advocating this change for some time. The proposed changes to the Oracle budget system will require computer programming/system enhancements. The project will first need to be identified as a District information technology priority, after which an assessment can be made and implemented.

Responsible Department/Office: Information Technology/Finance, Facilities & Business Services.

Estimated Completion Date: 2-3 months following project assessment.

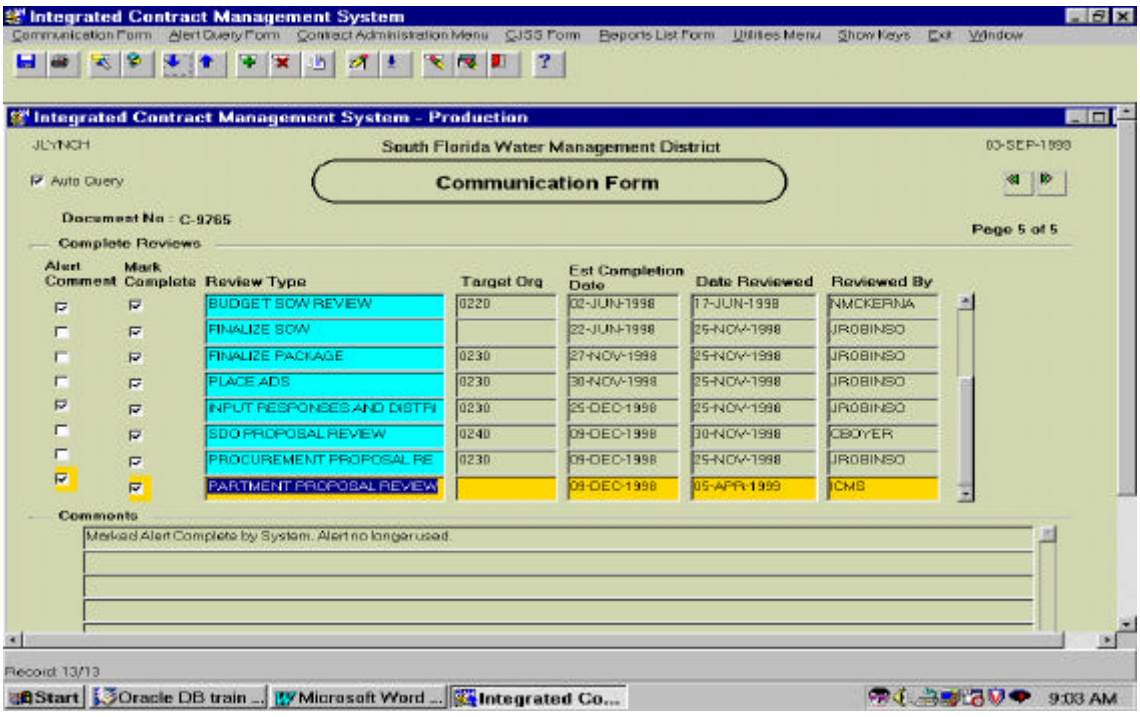
II. Proactive Input: *Procurement and other support departments (Risk Management, Office of Counsel, and Supplier Diversity and Outreach) will provide input up front, at the start of the procurement process.*

This was addressed by the required input screens (forms) in the Integrated Contract Management System (ICMS) being completed by the requesting Department/Office to initiate the contracting process. As the contract moves toward approval each department completes the sections which require their input.

III. Integrated Communications: *Integrate information from the Contract Agreement Award Request Form (CAARF), Contract Request Form (CRF) and Budget Transfer Form into the contracting process using a "communications form". This form will expand the budget one-page summary to include contract information.*

a. ***Hard Copy Form-***
With the exception of land acquisition, the use of the hard copy forms for contracting has been eliminated. Land acquisition contracts are still presented in the older CAARF format.

b. ***Electronic Form w/signatures -***
The five screens of input used by the ICMS database replace the multiple hard copy forms previously used for contract processing and approval. Electronic approval "signatures", in the form of "alerts check boxes", are assigned through the system to the appropriated authorized user in the responsible department.



The alert screen provides immediate feedback on the current status of any contract. The system users are able to see what actions have been taken, what contracting activities are pending, and the estimated completion date for each activity, at their own work location.

Recommendation

(2) The ICMS database should be reviewed and expanded to include the requirements for land acquisition contracts.

Management Response: A District team is being formed to review the computer programming/technology conversions that will be required to implement this project.

Responsible Department/Office: Information Technology/Water Resource Management
Estimated Completion Date: June 30, 2000

IV. Raise Approval Thresholds: *Raise the Governing Board approval threshold to $300,000 for contracts; and $500,000 or 10% of original contract amount, whichever is less, for change orders and amendments. These thresholds will enable the Board to focus its review on those contracts historically accounting for 75% of the budgeted contract dollars.*

a. *Policy revision approval, contract threshold amount-*
The redesign report recommended raising the threshold from $50,000 to $150,000 for service contracts and from $150,000 to $300,000 for construction contracts. This change would reduce the number of contracts requiring Governing Board action by approximately 50%.

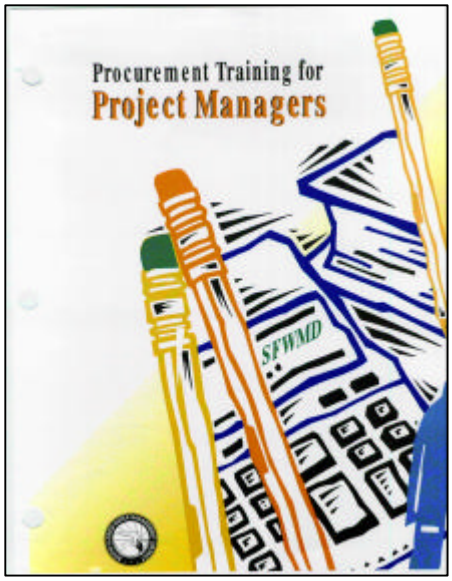
Management brought proposals to the Governing Board in 1998 and again in 1999 to raise contract threshold amounts for items requiring Board action. In both cases the Governing Board rejected raising the threshold approval amount.

b. *Signature Authority-*
In accordance with the District Procurement Policy, pursuant to section 17.10016, the Executive Director delegated execution authority for contracts and agreements authorized by the Governing Board to the Director of Procurement in January of 1999.

c. *Status Report Format-*
With each contract approval request, the Governing Board receives the Contract Justification Summary Sheet (CJSS) generated by the ICMS database system. The only exception is the continued use of the older CAARF form for land acquisitions.

A new Contract Status Summary Report has been developed and will be provided to the Governing to the Board on a regular basis starting in January 2000.

V. Defined roles and Responsibilities: *Departments involved in the procurement of goods and/or services will have well defined roles and responsibilities. Approval of documents will rest with the originator or one level above for those items requiring Governing Board approval. This will eliminate multiple reviews and approvals while increasing the level of accountability.*



The District's Employee Development Division and Business Resources Office developed a comprehensive training program for project managers. The course is made up of six (6) four (4) hour modules that cover the following areas:

- Budget & Goal Setting,
- Integrated Contract Management System (ICMS),
- Statement of Work (SOW),
- Contract Process & Solicitation,
- Evaluation & Negotiation,
- Contract Types,
- Supplier Diversity & Outreach,
- Risk Management Insurance & Bonding Requirements,
- Office of Counsel,
- Contract Approval Process
- Amendments, Change Orders, Work Orders,
- Contract Monitoring & Payment Process.

Experts from each area serve as instructors. This includes experienced staff from Procurement, Supplier Diversity and Outreach, Counsel, Budget, and Risk Management. In order to become a District certified project manager you must attend all six modules. The "goals" identified in the training program provide for an understanding of the processes, identifying the standards (including policy, rule, & guidelines), and the roles/responsibilities of staff involved in the procurement process.

This training has been offered District-wide with 148 employees participating in the classes. The participants represent managers' (16), supervisors' (17), professionals' (92), and administrative staff (23).

In order to graduate, the "students" must attend all six (6) four (4) hour class modules. The first class of "students" graduated in March 1999. Thirty-nine (39) District employees have received their certification as project managers.

VI. Standardized contracts: *Standard contract terms and conditions will play an essential role in streamlining the process. A new contract order form will be used in place of the existing contract generator system. Use of standard terms and conditions will be expanded to include interagency agreements as well as agreements with educational institutions. Terms and conditions applicable to contracting categories such as Competitive Contract Negotiating Act (CCNA), commodities, research and development will be rewritten for uniform utilization*

The procurement staff utilizes a standard "boiler plate" contract generating process. The District's legal staff has endorsed the original boilerplate documents including the standard exhibits. This process gives the Contract Administrators the ability to electronically develop the contract document on their personal computer as part of their normal course of work.

Prior to this change the District's legal staff reviewed all contracts. With this change, contracts only require a legal review if there are any special provisions, referred to as an "Exhibit A," included in the contract development process.

However, all construction contracts still require a review by the legal staff, as they did with the previous contracting process.

ORIGINAL

SOUTH FLORIDA WATER MANAGEMENT DISTRICT
CONTRACT

THE SOUTH FLORIDA WATER MANAGEMENT DISTRICT (hereinafter referred to as DISTRICT) HEREBY ENTERS INTO THIS CONTRACT WITH:
Name: CH2M HILL
Address: Hillsboro Executive Center North, 800 Fairway Drive, Suite 350, Deerfield Beach, FL 33441-1831
Project Manager: Steve Gong
Telephone No: (954) 426-4008
Fax No: (954) 698- 6010
Hereinafter referred to as: CONSULTANT

This number must appear on all Invoices and Correspondence
C-E8624
M/WBE Goal: 23%

PROJECT TITLE: RESEARCH & DEMONSTRATION OF PERIPHYTON-BASED STORMWATER TREATMENT AREAS

The following Exhibits are attached hereto and made a part of this CONTRACT:

Exhibit "A" - Special Provisions	Exhibit "H" - Insurance Requirements
Exhibit "B" - General Terms and Conditions	Exhibit "I" - Work Order Form
Exhibit "C" - Statement of Work	Exhibit "J" - Not Applicable
Exhibit "D" - Payment and Deliverable Schedule	Exhibit "K" - Not Applicable
Exhibit "E" - M/WBE Utilization Report	Exhibit "L" - Not Applicable
Exhibit "F" - Final M/WBE Utilization Report	Exhibit "M" - Not Applicable
Exhibit "G" - Key Personnel	

TOTAL CONTRACT AMOUNT: $2,786,816.00 CONTRACT TYPE: Not-to-Exceed

Multi-Year Funding (If Applicable)

Fiscal Year:	October 1, 1997-September 30, 1998	$ 871,816.00	Fiscal Year:
Fiscal Year:	October 1, 1998-September 30, 1999	$1,000,000.00*	Fiscal Year:
Fiscal Year:	October 1, 1999-September 30, 2000	$ 915,000.00*	Fiscal Year:

*Subject to District Governing Board Annual Budget Approval

CONTRACT TERM: THREE (3) YEARS EFFECTIVE DATE: Last Date of Execution by the Parties

District Project Manager: SUSAN GRAY
Telephone No: (561) 682-6919
Fax No. (561) 682-6442

District Contract Administrator:
Mary Meier (561) 682-6384
Fax No.: (561) 682-6397 or (561) 681-6275

SUBMIT INVOICES AND NOTICES TO THE DISTRICT AT:
South Florida Water Management District
3301 Gun Club Road
West Palm Beach, Florida 33416-4680
Attention: Procurement Division

SUBMIT NOTICES TO THE CONSULTANT AT:
CH2M HILL
Hillsboro Executive Center North
800 Fairway Drive, Suite 350
Deerfield Beach, FL 33441-1831
Attention: Steve Gong

IN WITNESS WHEREOF, the authorized representative hereby executes this CONTRACT on this date, and accepts all Terms and Conditions under which it is issued.

CH2M HILL
Accepted By: Signature of Authorized Representative
Title: Vice President Area Manager
Date: 7/2/98

SOUTH FLORIDA WATER MANAGEMENT DISTRICT
BY ITS GOVERNING BOARD
Accepted By: Michael Slayton, Deputy Executive Director
Date: 7/7/98
SFWMD OFFICE OF COUNSEL APPROVED
By: Thomas R. Mc... Date: 6/29-98
SFWMD PROCUREMENT APPROVED
By: Date: 6/26/98

VII. Revised risk levels: *Establish a committee to revisit the District's insurance and requirements by considering categories of low risk contracting as candidates for waiving of insurance requirements, such as educational contracts and training. Incorporate the committee's recommendations into a standard insurance matrix,*

similar in format to the matrix provided by Southwest Florida Water Management District.

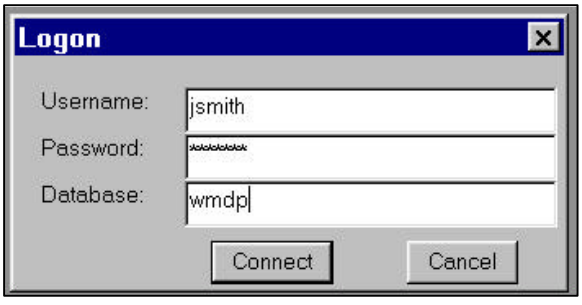
Contract risk requirements for insurance and/or bonding for all contracts were developed by the District's Risk Manager. The District's Risk Manager has provided the Contract Administrators with training on the standards for risk management. Utilizing a standard risk matrix, the Contract Administrators are now responsible for assessing the risk and determining the insurance and/or bonding requirements for standard contracts.

The insurance and/or bonding requirements for all construction contracts are still assessed and reviewed by the District's Risk Manager.

VIII. Technological Improvements: *Incorporate technological advancements such as: an integrated contract management system that monitors, tracks and reports on contract status; an automated system for obtaining solicitation documents; electronic central filing of contracts; use of the Intranet and Internet for accepting proposals and posting award notifications.*

a. ***Integrated Contract Management System-*** (ICMS)
An Integrated Contract Management System was developed as an Oracle database. Phase 1 of the ICMS database was completed in February 1998. The database tracks contracts from budget to approval. The system contains five screens of information per contract. It includes all the elements that were contained in the former CAARF, CRF and Budget Transfer forms. In addition, depending on the nature of the contract, a series of electronic approvals called "alerts" are added to the last screen. These electronic approvals are used to move a contract document through the required steps in the District's contract approval process.

Security for these approvals is restricted by the users organizational unit code. In order to access the system a user must fill out an Information Systems Account Request Form. The employee's supervisor and/or unit manager approves these forms. The responsible Staff Systems Analyst/Programmer in the Information Technology Department establishes an Oracle account and sets up a user name and initial default password.



We found that there is no requirement to change the default password. In testing the user list of 535 ICMS registered users, we found that we could access the system by using default passwords for 55% of these users. Also, we determined that of the 535 users 25 (5%) were no longer District employees and 144 (28%) users had transferred to another organizational unit.

This represents a serious weakness in internal controls similar to other security concerns addressed in our Audit of the District's Information Systems Security (#98-03). Unauthorized changes or approvals could be made to this database by anyone with access to the District's computer network.

Because of the nature of this weakness, this security issue was brought to the immediate attention of management during the fieldwork phase of this audit. The staff has agreed to modify the password process to provide for improved security.

Recommendation

(3) The initial default password should be secure and the system should require the user to change his/her password on first use. Upon termination or transfer to another unit the system administrator should be notified and the user name and password should immediately be removed from the system.

Management Response: Procedures have been implemented to ensure that all new accounts are set up with non-SSN or username passwords to provide incentives to the user to change the password on first use. In addition, last fall, all ICMS users who had not changed their password from their SSN were identified and sent an E-mail that provided instructions on how to do so. However, the current version of the Oracle database does not provide the ability to require users to change their password nor has software been installed that causes the initial password to expire in ICMS. We will be discussing these issues with Information Technology and possibly designating an administrator to handle security matters for ICMS.

Responsible Department/Office: Procurement/Information Technology
Estimated Completion Date: September 30, 2000

b. *Solicitation Software-*

A software package called RightFAX has been evaluated and selected for use by the procurement staff on a "pilot" project basis. This personal computer (PC) software package can effectively be used to distribute "small" (less than 10 pages) solicitations, addendum's, and minutes of vendor conferences to perspective or current vendors using our existing computer network.

As they currently do, each staff member will need to develop a vendor fax list. However, each of the purchasing agents or contract administrators can distribute the solicitation information electronically from their local PC. This will eliminates the wait time associated with "hard copy" faxing on traditional shared hard-copy fax machines.

If the pilot test is successful, the procurement staff will be trained and then provided with a copy of the RightFAX software for their use. The Information Technology staff began the distribution of RightFAX for District wide use in early January 2000 with introductory training sessions. More advanced training classes will be held in late January 2000.

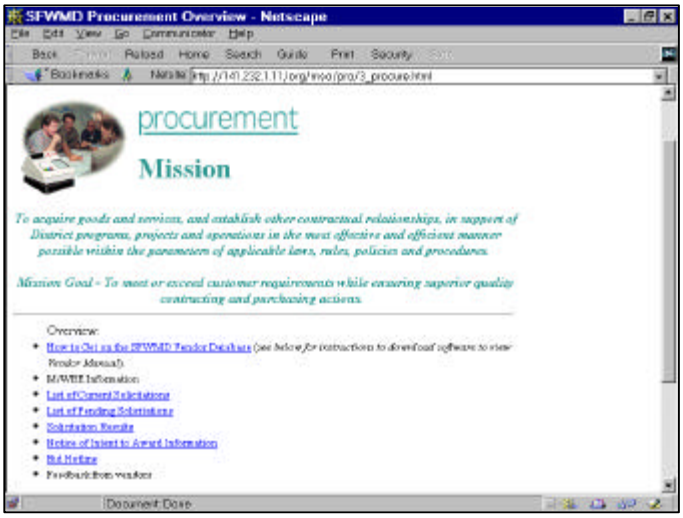
In testing the RightFAX software we found that password security was not required on Fax accounts. Staff has agreed to modify the distribution plans to require passwords on all fax accounts similar to what you would have on an e-mail system.

c. *Internet/Intranet-*

The District now maintains a series of procurement WEB pages on the external web (XWEB) site. This site is accessible on the World Wide Web (www.sfwmd.gov) to the public and contains the following type of information:

- How to do Business with the District (a six page manual),
- How to Get on the SFWMD Vendor Database,
- M/WBE Information,
- List of Current Solicitations,
- List of Pending Solicitations,
- Solicitation Results,
- Notice of Intent to Award Information,
- Bid Hotline, and
- Feedback from vendors.

The same information is also available directly from Procurement in hard copy form, on the District's "bid award" bulletin board, and on the 1-800 bid hot line phone number.



During FY 99 there were 11,126 "hits" to the main Web page "Procurement and Contracting at SFWMD" which is accessible through the District external Web site. The vast majority of the activity was between 8:00 a.m. and 5:00 p.m. on Monday through Friday. The site statistics imply that the web pages are being heavily used during normal business hours. There were 6,153 "hits" on the Web page "SFWMD-Current & Pending District Solicitations."

d. *Central/Electronic File-*

The first step in centralizing the contract files was to relocate the original files in the procurement division. The contract files were relocated from the Office of Counsel to Procurement in December of 1998.

A contract document team, with representatives from Procurement, Office of Counsel and Information Technology, has been meeting to determine the requirements and has established a plan to implement this recommendation. The plan is to:

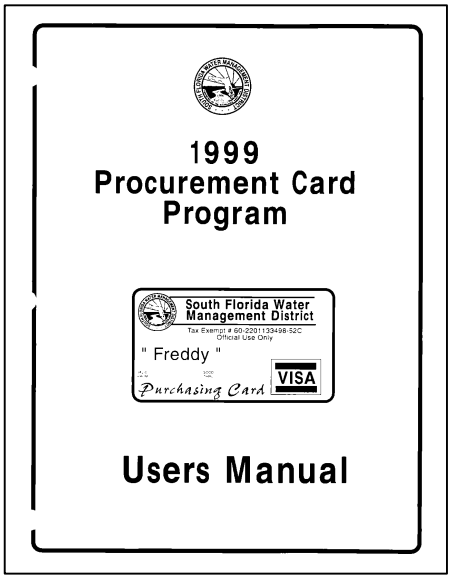
- Reformat the contract files with in-house staff,
- Scan only new and active contract files,
- Utilize the District standard Cyberdocs software for scanning, and
- Store scanned images on a Web accessible District file server.

The required scanner has been ordered, including a back-up machine. The primary and back-up administrators for this project have been identified and trained on the equipment and computer interface. All contract managers have also been trained separately. A list of other trainees is currently being prepared, which will include staff members from Procurement (Contract Specialists), Office of Counsel and the Inspector General's Office.

IX. Procurement card: *Establish a committee to implement a procurement card for small purchases. A recommended limit is $750 for field purchases, (the existing limit for decentralized purchases); and up to $1,000 for other purchases.*

In the analysis of the "as-is" model it appeared that the Purchase Order (PO) contracting system was satisfying the customer requirements. The most significant change to the PO system was the proposal to introduce a Procurement Card Program for the small dollar purchases (less than $750) being procured with decentralized purchase orders.

The District processes over 20,000 purchase orders each year. In the data utilized for the "as-is" (FY 96) model there were 22,229 purchase orders with a total dollar value of $29,150,081. Of these purchase orders, 10,652 or 48% were decentralized purchases that have a dollar limit of $750. The total dollar value for these decentralized purchases was only $1,659,470 or 6% of the overall purchase order total.



The sample chosen for comparison was the first two quarters of FY 99. During this period there were 10,647 purchase orders of which 5,859 or 55% were for decentralized purchase orders with a total dollar value of $965,658. The

procurement card has not reduced the percent of decentralized purchase orders for the sample period.

The procurement card "pilot" program was started in February of 1998. The limit on card purchases is $499.99 per transaction with a monthly limit of $15,000. The cardholders retain all sales charge slips and register receipts. After approval of the unit director all charges slips and receipts are forwarded to the District accounts payable staff for reconciliation with the card provider's monthly statement.

For the first two quarters of FY 99 there was only 1,150 procurement card transactions totaling $112,228 or an average of $97.59 per transaction.

In considering the decentralized purchase orders under $500 for the same sample period in FY 99, there were 12,917 commodity lines with a total value of $772,682 generated with an average of $59.81 per commodity line. Each of these purchases represents an opportunity for procurement card use.

The Operations and Maintenance Department generated 83% (10,712) of the under $500 decentralized purchase commodity lines for the first half of FY 99. There is a computerized interface between the Computerized Maintenance Management System (CMMS) use in the field and the District's financial system. Items purchased with decentralized purchase orders are automatically posted the CMMS work orders.

However, there is no interface between the purchase made with the procurement card and the CMMS. Items purchased with procurement cards have to be manually posted to the CMMS work orders. Therefore, there is reluctance in the Operations and Maintenance Department to use the procurement card in place of decentralized purchases.

The procurement card was intended to reduce the number of decentralized purchase orders. As previously stated, the introduction of the procurement card did not reduce the number of decentralized purchase orders for the sample period. The number of District petty cash transactions during this same period was reduced by 27%.

Recommendation

(4) The staff should review the need to provide an automated interface between the District's financial system and CMMS work orders for procurement card transactions.

Management Response: Automated interface program is in process.

Responsible Department/Office: Information Technology/Procurement
Estimated Completion Date: May 30, 2000

X. Increase purchase order usage: *Establish a committee to develop criteria for shifting appropriate small dollar contracts (less than $50,000) to purchase order.*

The procurement staff currently utilizes Purchase Orders (PO) for commodities, equipment, and services where a formal contract is not required. Contracts are used where the conditions of a service involve cooperative agreements, very complex statements of work, specialized terms and conditions, revenue, licensing agreements, etc.

A committee met and determined that the District's existing Procurement Instrument Standards (07.102), which includes a section, called "Purchase Orders vs. Contracts" (07.10230) provides the necessary criteria for determining when to use PO's for small dollar contracts.

Controls:

The overarching control in the District's procurement of good and services in the contracting and purchase order system is the District's Procurement policy.

The review of internal controls for the "to-be" model by the Inspector General's Office (appendix C) in 1997 specifically addresses the following issues:

- Risk Assessment - risk management in achievement of objectives:
  - Approval Threshold,
  - Non-responsible Vendors,
  - Insurance and Bonding Requirements, and
  - Bid Protest.
- Control Activities - following policies and procedures:
  - Approvals & Verification,
  - Review of Performance, and
  - Segregation of duties.

Risk Assessment

The *approval threshold* was addressed in a previous section of this report on page #8. With no changes to the threshold amounts there has been no increase in the risk associated with the implementation of the "to-be" model.

Since the "to-be" model includes the same review process as the "as-is" model there has been no increase in the risk of a contract being issues to a *non-responsible vendor*.

The *insurance and bonding requirements* issue was addressed in a previous section on page #10. The District's contract administrators have been trained by the District's Risk Manager and use a set of documented standards to establish insurance requirements for contracts. The coverage amounts in effect in FY 96

have not changed. Complex and construction contracts require the review of the Risk Manager, as they did prior to the redesign of the procurement system.

The number of *bid protests* has increased since 1996. The Office of Counsel indicated that the increase is not related to the redesign of the procurement process, but is a result of the adoption of an M/WBE Contracting Rule.

Control Activities

Control over the contract activities for *approval & verification* is through a series of alerts (electronic "sign-off") established in the ICMS contract database. Alerts were discussed in a previous section on pages #10-11.

The alerts follow the "to-be" flowchart based on the type of contracting process initialed, RFP, BID, CCNA, etc. The alert fields in the contract database records indicate the approval steps in the process, estimated target completion date for each step, the actual date the step was completed, and the name of the individual approver. Authority to approve alerts is assigned to the department/division that has the responsibility for the associated step in the process.

With respect to *review of performance*, The procurement division produces a detailed quarterly report with contract and purchase order actives rolled-up into year-to-date figures. In addition, the information on the procurement activities is maintained in a "Workload/Performance indicator" report that looks at performance statistics on an annual basis from as far back (in some cases) as FY 88 to the current FY.

The *segregation of duties* is maintained in the "to-be" model. Through the system of alerts, the duties have been segregated by approval delegation to the responsible department/division.

We found that Contract Administrators have ICMS database "administrator authority" to approve any alert. This could circumvent the segregation of duties. However, since contracts receive a final review by the contract administrator's supervisor prior to execution this should not be an issue. Additionally, any new contract, change order, or contract amendment requiring Governing Board approval is reviewed by the Office of Counsel prior to presentation.

Recommendation

(5) The ICMS database alert system should include an additional "alert step" to document contract administrator supervisory approval.

Management Response: This item was not included on the list of "Phase I" changes (completed in 1999) that addressed revisions to the entire alert process. We will need to discuss this project and other ICMS enhancements with Information Technology to update priorities and current system requirements.

Responsible Department/Office: Procurement/Information Technology
Estimated Completion Date: September 30, 2000

Performance Comparison:

The comparison between the two annual contract performance reports provided by the Procurement Division for FY 96 and FY 99 is as follows:

Description:	FY 96	FY 99		% Change
Contracting				
Contracts	244	302		24%
Amendments/Change Orders	224	265		18%
Work Orders	370	324		-12%
Total Dollar Value	$53,882,381	$96,038,112		78%
Staffing				
Contract Administrators	7	11		57%
Contracts per Administrator	126	101		-19%
Budget				
Procurement Division Budget	$1,291.907	$1,727,822		34%

In reviewing the actual contract data for FY 96, the first two quarters of FY 99 and the results of the process model runs, the following was concluded:

- The "as-is" model of the 1996 contracting system utilizing a workload of 251 new contracts projected an average combined (competitive plus non-competitive) contracting time of 104 calendar days per contract.
- Utilizing data provided for 183 contracts executed in FY96, the average time

Contract time in Calendar days Actual vs. Model			
FY96	Competitive	Non-Competitve	Combined
Model			104
Actual	145	83	105
FY99			
**Model			55
Actual	113	72	87
Comparison of Actual reduction in days			
Difference	32	11	18
% Change	22%	13%	17%
**The model run did not consider workload and staffing changes from FY 96 to FY 99. Only process changes.			

for the old contracting system was actually 105 calendar days per contract.

- The "to-be" model utilizing a workload of 251 new contracts predicted that the average combined contracting time could be reduced to 55 calendar days per contract with the full implementation of all the recommended changes.
- Utilizing data provided for 77 contracts executed during the first two quarters of FY 99, the average contracting time for the current contracting system is 87 calendar days.

When comparing the actual data for 1996 to the sample data for 1999 for both types of contracting combined, there is an eighteen (18) calendar day reduction in the overall processing time.

However, when taken separately there has been a thirty-two (32) day or 22% reduction in the processing time for competitive contracts and an eleven (11) day or 13% reduction in non-competitive contract processing.

It is difficult to identify the specific reason for the improved contract processing time, considering, that most of the ten recommendations have been partly or fully implemented, that there has been a 24% increase in the number of new contracts, a 57% increase in contract administrator staffing, and significant organizational changes.

ICMS Improvements:

The Integrated Contract Management Systems provides some opportunities for improvements to the contracting system. Security improvements were addressed in a previous section of this report. Also, control over required input fields was addressed in a previous report - Audit of the Computer Support Services Work Order Contracts (#99-26).

However, the contract database system needs to take into consideration the needs in other areas such as land acquisition and construction contract bid specifications. These enhancements go beyond the scope of this audit report.

Furthermore, there was a report issued by the District's vendor invoice process team titled "Procurement Re-design, Phase II, Contract Invoice Payment Process" that provides for tracking of contract payments with ICMS. The recommendations from this report are currently on "hold."

Recommendation

(6) The staff should review needs of land acquisition contracts, construction bid specifications, and the tracking of contract invoice payment as potential areas to improve the procurement process with a fully integrated contracting database.

Management Response: A District team is being formed to review the computer programming/technology conversions that will be required to implement this project.

Responsible Department/Office: Information Technology/Water Resource Management
Estimated Completion Date: June 30, 2000

Conclusion:

Changes to the procurement contracting process since the redesign report have produced positive results in delegation of authority/responsibility, communications both internal and external, training, standardization, consolidation of forms, access to contract data and improved processing time. However, the most significant change to the purchase order process, the procurement card has not been effective in reducing the number of small dollar purchase orders.

Appendix A: Redesign Actions, Audit Summary Table

#	Redesign Item		Action or Description
I	Planning	Status	Implemented.
		Benefit	Contract planning required in budget development process.
		Recommendation	Download from budget system to ICMS database.
II	Proactive Input	Status	Implemented.
		Benefit	Included with ICMS database initial input screen form requirements
		Recommendation	None.
III	Integrated Communications	Status	Partially Implemented.
		Benefit	Multiple hard copy forms integrated into a single on-line ICMS database records.
		Recommendation	Incorporate Land Management requirements into ICMS.
IV	Raise Approval Threshold	Status	Threshold change not Implemented. Implemented signature authority for approved contracts delegated to Procurement Director and improved status reporting to the Governing Board.
		Benefit	Reduced signature approval time. Improved Governing Board communications.
		Recommendation	None.
V	Define Roles and Responsibilities	Status	Implemented District wide comprehensive training program for project managers.
		Benefit	Project managers are trained by District experts in all aspects of project management with identification of standards, policy, roles and responsibilities of staff.
		Recommendation	None.
VI	Standardize Contracts	Status	Implemented.
		Benefit	A contract generator using endorsed standard terms and conditions has allowed the contract administrators to develop the contract documents.
		Recommendation	None.
VII	Revise Risk Levels	Status	Implemented.
		Benefit	Contract administrators utilize a standard risk matrix to establish contract insurance and/or bonding requirements.
		Recommendation	None.
VIII	Technological Improvements	Status	Implemented, contract database. Partially Implemented, solicitation software in pilot testing. Implemented, procurement Web site. In Process, centralized electronic contract files.
		Benefit	Contract database ICMS consolidates contract information in an on-line computer system. Solicitation software can improve the process of communication to vendors. The procurement Web site has improved communications to vendors and the public.
		Recommendation	Improve password security to the ICMS Contract database.

#	**Redesign Item**		**Action or Description**
IX	Procurement Card	Status	Implemented.
		Benefit	Has not yet been beneficial in reducing the number of low cost (under $500) purchase orders issued. Has reduced "petty cash" transactions.
		Recommendation	Automate an interface between the District's financial system and the computerized maintenance management system and procurement card transactions.
X	Increase Purchase Order Usage	Status	No action required. (Procurement Instrument Standards [07.102] already in place.)
		Benefit	Uses the simpler Purchase Order system for commodities, equipment, and services where a formal contract is not required.
		Recommendation	None.
	Other		**Description**
	Controls		Risk Assessment: Approval Threshold -unchanged. Non-responsible Vendors-unchanged Insurance & Bonding Requirements-delegated w/training. Bid Protest-increase not redesign related. Control Activities: Approvals & Verification-ICMS "alert" system & delegation, Recommend including an alert for supervisor approval. Review of Performance-reporting system in place. Segregation of duties-alerts approval in dept./div.
	Performance Comparison		Average days to process competitive contracts reduced from 145 calendar days to 113. (32 day saving.) Average day to process non-competitive contracts reduced from 83 calendar days to 72. (11 day saving.)
	ICMS Improvements		Recommend, review of Security, needs of Land Acquisition and Construction Bid Specifications, and the Invoice Payment Process (Phase II).

Appendix B: Detail Recommendations from Final Report

The model created by the team graphically displays the essential activities needed to efficiently and effectively procure goods and services while ensuring adequate internal controls are in place. The 190 steps of the "As-Is" contracting process were reviewed, analyzed, and redesigned to a new process of just 68 activities - a 64% reduction, without compromising the integrity of the process. Advertising times were not shortened; and all Statutory Requirements, Rules, Case Law, Policy and Governing Board and Executive Office Directives were maintained. Following implementation of the "To-Be" model the model predicts that the required time to execute a contract can be reduced from 104 days to 55 days - a 47% reduction.

The 72 steps of the "As Is" purchase order process were reviewed, analyzed, and redesigned to a new process of just 34 activities - a 53% reduction. Average time to issue a purchase order can be reduced from 12.5 to 5.5 days.

The team developed ten major recommendations necessary to successfully implement the redesigned procurement system, an implementation schedule for those major recommendations and several additional secondary recommendations geared towards system enhancement.

1. **Planning:** Statements of Work including project schedules and the assignment of Contract Administrators, Project Managers and contract numbers will be included in the budget document and will be completed by the requesting department beginning in FY98. Schedule information will then be available for use by the support departments in negotiating schedule changes, as appropriate to even out workflow when possible.

   Department Directors or their delegatees ensure that the Statements of Works are complete and will verify that all required components are present prior to initiating the procurement process. This verification is necessary to prevent the submittal of incomplete Statements of Work to Procurement and the support departments for their review and input. The Statement of Work Generator System must be revised to ensure compatibility with all existing software and hardware systems and so all users can benefit from the full functionality of the software. Training will be required for all personnel involved in developing and approving Statements of Work. (See Appendix M - Training Recommendations)

2. **Proactive Input:** Input of support offices (Risk Management, Office of Counsel, Supplier Diversity and Outreach, Procurement) will be completed during budget development or prior to the start of the procurement process. One of the main impediments to achieving a timely procurement process has been the frequent involvement of the support departments in a serial rather than parallel format. With the "To-Be" process, these support groups will be involved during the budget phase or prior to the start of the process, and all will be involved simultaneously. This change will be facilitated with the availability of a complete Statement of Work to ensure support departments are making informed comments.

3. **Integrated Communication:** Integrate information from the Contract Agreement Award Request Form (CAARF), Contract Request Form (CRF) and Budget Transfer Form into the contracting process using a "communications form". This form (Appendix B) will expand the budget one-page summary to include contract information currently duplicated in several forms. The "Communications Form" will begin with the budget process and be expanded through contract execution with inputs from Procurement, Supplier Diversity and Outreach, Risk Management, and Office of Counsel. Following the implementation of the technology recommendations this form will become an automated, computerized form, accessible through the intranet, that will track, monitor, and allow for on-line signatory approvals throughout the contracting process.

4. **Raise Approval Thresholds:** Raise Governing Board approval threshold to $300,000 for all contracts and $500,000 or 10% of original contract amount, whichever is less, for all change orders/amendments. These thresholds will enable the Board to focus their review on those contracts historically accounting for 75% of the budgeted contract dollars. (Appendix L contains a copy of the Draft Procurement Policy). A monthly status report for those contracts over 300,000 will be provided to the Governing Board in their back-up information for their review. The status report will be generated by the Integrated Contract Management System and will identify the status of the project from budget phase to contract execution.

5. **Defined roles and responsibilities:** Departments involved in the procurement of goods and/or services should have well defined roles of responsibility. This will allow the elimination of multiple reviews and approvals while increasing the level of accountability. One of the primary criticisms of the existing system from the departments was that no one seemed to have ownership or responsibility for executing a contract in a timely manner. Through the years many unnecessary steps have been introduced in an attempt to make the process "risk proof" creating an even an environment of "management by exception" The current process has become so burdened by these added layers that, while risk to the District has declined over the years, empowerment of, and trust in, individual professionals hired to perform a function has significantly declined. So many individuals have become part of a "review, review and review again" system that responsibility for specific steps in the process has also all but disappeared. No one individual is in fact responsible for specific steps in the process. The system has become so unwieldy that process times have become unreasonably lengthy and efficiency and effectiveness have suffered.

   It was determined by the Team that, while overall accountability and risk must be kept within acceptable levels, professional staff hired to perform a specific function must be adequately trained to be responsible and accountable in performing that function.

   By removing multiple layers of review and approval, Contract Administrators and Project Managers can be empowered to take ownership of their contracts and will be more motivated to see them through to execution. Support departments and the customer will have clearly defined roles of authority, responsibility and accountability that are limited to their areas of responsibility.

   The new model proposed by the Redesign Team contains process boxes which assign primary responsibility for ownership of that process. However, the design of the new model is predicated on a "team approach." Team members are expected to work cooperatively and consult each other during the decision making process. No one member who is assigned responsibility for a process will make a unilateral decision.

   The Redesign Team proposes to strengthen, rather than to redefine, the current segregation of responsibilities at the District between Project Managers/Departments and the Procurement professionals. In broad terms, the Procurement professionals are the owners of the business and administrative processes. The Project Managers/Departments are the owners of the technical processes. Project Management needs to become a recognized profession at the District; and Project Managers need to be highly trained in technical, administrative, and appropriate policy matters.

While too detailed a discussion to include in this document, as a part of the implementation process, the exact roles of all process players must be documented to achieve proper empowerment and levels of trust, as discussed above. Exact expectations of process owners must be documented so that when a process owner performs an assigned function or reviews and signs a document, multiple additional reviews by other process players are minimized or eliminated. Once these roles are documented, the process owner should be empowered and well-educated in the respective area of responsibility, whether that area be business, legal, technical, risk assessment, et al. For example, Project Managers must be trained in writing Statements of Work (see Appendix M for Training Recommendations), justifying outsourcing requests in the Budget, and working cooperatively with other team members to gain consensus on requirements before the start of the procurement process.

6. **Standardized contracts:** Standard contract terms and conditions will play an essential role in streamlining the process. A new contract order form (Appendix D) will be used in place of the existing contract generator system. Use of standard terms and conditions will be expanded to include interagency agreements as well as agreements with educational institutions. Terms and conditions applicable to contracting categories such as Competitive Contract Negotiating Act (CCNA), commodities, research and development will be rewritten for uniform utilization. The existing Contract Generating System is not user friendly. It is time consuming to input data and involves repetitive tasks for similar type contracts. Additionally, the Office of Counsel currently reviews contracts for adherence to their format and standard guidelines which is very time consuming, and is not value added if it were done right the first time.

7. **Revised risk levels:** Establish a committee to revisit the District's insurance requirements by considering categories of low-risk contracting as candidates for insurance requirement waivers such as educational, and training. Establish a standard insurance matrix, incorporating the insurance committee recommendations, similar in format to the matrix provided by Southwest Florida Water Management District, (Appendix E). In the existing process the Insurance/Bonding verification sub-process has the potential to create three-month delays in Contract and Purchase Order execution due to insurance/bonding companies' lack of responsiveness to follow-ups. The District's policy regarding acceptable risk levels is in need of revision. Issues for consideration include: communication directly with insurance and bonding companies via facsimile; waiving insurance requirements for government and public institutions and commodity purchases; and requiring insurance on an exception basis. Examples of those that would require insurance are construction, physical activity, Operations and Maintenance Department activities, Aircraft, Security, Wildlife Management. The committee should also investigate opportunities for providing proof of insurance rather than being named as additional insured.

8. **Technological Improvements:**

A. Integrated Contract Management System:

The team recommends a user friendly, integrated contract management system be developed that addresses the District's requirements for tracking, monitoring, notifying, and scheduling of contracts. The system should provide online information concerning contracts and their status.

B. Centralization of Files:

Under the current ("As Is") model, separate procurement files are maintained by Procurement, Office of Counsel, Project Managers, Supplier Diversity & Outreach and Departmental Business Operations staff. There is much redundancy in the files which are maintained, and therefore, significant duplication of effort.

Utilizing technology, the Redesign Team recommends that a Central Procurement file system be implemented (location and maintenance responsibility to be determined during the implementation phase of the new model). Documents would be scanned/microfilmed by staff responsible for maintenance of the central files and available for District-wide access electronically, thereby eliminating the need for hard copies in multiple locations.

C. Internet/Intranet: Establish an internet website for posting procurement notifications, solicitations and acceptance of proposals/bids. Utilize intranet for review of procurement "Communication Form" and status of projects.

D. Automated Solicitation System: Implement alternate method to mail-out of solicitation packages.

9. **Procurement cards:** Establish a committee to implement a procurement card for small purchases. A recommended limit is $750 for field purchases, (the existing limit for decentralized purchases); and up to $1,000 for other purchases.

10. **Increase purchase order usage:** Establish a committee to develop criteria for shifting appropriate small dollar contracts (less than $50,000) to purchase order process.

Appendix C: Analysis of Internal Controls of the Redesigned System

OFFICE OF INSPECTOR GENERAL PRELIMINARY ANALYSIS OF INTERNAL CONTROLS OF THE PROCUREMENT SYSTEM REDESIGN[1]

By: Tim Beirnes, Senior Auditor
Allen Vann, Inspector General

INTERNAL CONTROL FRAMEWORK

Introduction

In the late 1980's, the Committee of Sponsoring Organizations (COSO) commissioned a study of internal controls. The final report released in 1992, was called *Internal Control – Integrated Framework*, defined internal controls as "… **a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; compliance with applicable laws and regulations".** Operational Objectives pertain to effectiveness and efficiency of the entity's operations, including performance goals and safeguarding resources against loss. They vary based on management's choice about structure and performance. Financial reporting objectives pertain to the preparation of reliable published financial statements including prevention of fraudulent public financial reporting and are driven primarily by external requirements. Compliance objectives pertain to adherence to laws and regulations to which the entity is subject. They are dependent on external factors, such as environmental regulation, and tend to be similar across all entities in some cases and across an industry in others.

The definition is regarded as one of the most comprehensive rendition of internal controls. Accordingly, we embraced this definition as the premises for analyzing the internal controls in the Procurement "To-Be" Model (the "Model"). As stated in the definition, internal controls are designed to provide reasonable assurance, but not absolute assurance, that an entity's processes achieve objectives of management and the board of directors. This part of the definition recognizes the fundamental economic principal that the cost of internal controls should not exceed the benefit derived.

Interrelated Components of Internal Controls

There are five interrelated components of internal controls, which are enumerated below:

- Control Environment sets the tone of an organization influencing the control consciousness of its people.

- Risk Assessment is the identification and analysis of relevant risks to achievement of the objectives, thereby forming a basis for determining how the risks should be managed.

- Control Activities are the policies and procedures that help ensure management directives are carried out.

[1] This analysis is based on draft copies of the Procurement System Redesign Team report. Consequently our analysis may not reflect the effect of any changes made between such drafts and the final accompanying report.

- Information and Communication is the identifying, capturing, and communicating information in a form and timeframe that enables people to carry out their responsibilities.

- Monitoring is the process of assessing the quality of the systems performance over time.

Assessing internal controls over the Model focuses primarily on the analysis of control activities to ensure that policies and procedures are adhered to, and that statutory requirements are complied with. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliation, reviews of operating performance, security of assets, and segregation of duties.

Objectives of A Procurement System

An assessment of a procurement system originates with identifying executive management's desired results. These desires by the District's executive management and the Governing Board are outlined in the Statement of Policy found in the District's Procurement and Contracting Policy No. 07.10010. In summary, these objectives are to:

- Follow generally accepted public procurement practices, and to the extent practicable and applicable, implement the legislative intent of Section 287.001, Florida Statutes.

- Assure fairness and foster competition and conduct contract negotiations is a manner that results in fair value to the District and fair compensation to vendors for goods and services.

- Encourage participation of certified minority business enterprises.

- Prepare clear concise and comprehensive written contracts, and refrain from making oral representations and agreements.

- Document all transactions and perform periodic audits/surveys.

- Maintain independence for employees in their official capacity by refraining from soliciting or accepting privileges, benefits, gifts, or exemptions for themselves or for others and adherence to the District's Ethics Policy No. 03.801

Executive management and the Governing Board's principal objectives for the procurement system can be summarized with the following words: competition fairness, value, documentation, diversity, and independence. These basic objectives remain the parameters for the "To Be" Model, thus setting a fairly high set of standards and expectations for staff to follow.

ANALYSIS OF CONTRACTING "TO BE" MODEL INTERNAL CONTROLS

The Model was analyzed to assess its capability to achieve the District's objectives for a procurement system. Each of the five interrelated components of internal controls is addressed below as they relate to the Model.

Control Environment

The control environment is the tone of an organization influencing the control consciousness of its people and thus is one that is global in nature. Consequently, such controls are not visually discernible in a physical model for a specific process. Therefore, our assessment did not extend beyond emphasizing that

the control environment is the foundation of the internal control pyramid. It encompasses management's integrity, employee competency, employee moral, ethics, and other aspects relating to human interaction within an organization.

Risk Assessment

Risk assessment is the analysis of identifying the balance point between efficiency and effectiveness when designing specific control activities. The following risks were identified relating to the District's Procurement process:

- Approval Thresholds
- Nonresponsible Vendors
- Insurance and Bonding Requirements
- Bid Protest

A discussion of how the Model addresses each of these risks are addressed in the following sections.

Thresholds

The Model addresses several approval thresholds, all of which necessitate policy changes. These are summarized in the following table.

		"As Is" Model		"To Be" Model	
Approval Level	**Dollar Threshold**	**% of Contract Quantity > Threshold**	**% of Contracts $ Value > Threshold**	**% of Contract Quantity > Threshold**	**% of Contracts $ Value > Threshold**
Director of Procurement & Contracts	All Contracts	100%	100%	100%	100%
Executive Office	> $300,000	100%	100%	13%	75%
Governing Board	>$300,000	52%	96%	13%	75%

The "To Be" Redesign Team prepared an analysis of historical purchasing patterns for fiscal years 1994 through 1996 with the assistance of the Procurement and Contract Division. The result revealed that under the existing procurement policy thresholds, the Governing Board approves 52% of all contracts representing 96% of the contract expenditures. The new Model recommends increasing the approval threshold to $300,000 which would result in the Governing Board approving 13% of all contracts while retaining control over 75% of all contract expenditures[2]. Thus, historical data shows that a significant increase in approval thresholds can significantly improve efficiency while relinquishing a minimal amount of control over the total dollars expended (i.e. 21%).

Another significant change is the approval threshold at the Executive Office level. Virtually all (100%) of contracts are approved by the Executive Office under the current system. The new Model recommends the same threshold approval for the Executive Office as for the Governing Board. In our opinion, all special procurement situations should require Executive Office approval. Special procurements are those that are sole source, revenue contracts, emergency procurements, and those awarded to other than the vendor with the lowest bid or highest proposal ranking.

[2] The Office of Inspector General has not verified the accuracy of these historical contract expenditure patterns.

Insurance Requirements

Insurance requirements have remained virtually the same. The Model includes some changes to the point in the process where the activity is performed. This issue is addressed further under the Control Activities section. However, the redesign team recommends the formation of a committee to review the District's current insurance requirements regarding risk levels. This committee will focus on identifying low risk categories for waiving of insurance requirements such as educational and training contracts.

Bid Protests

Bid protests present a financial risk to the District, not to speak of the extensive amount of professional resources they consume in order to resolve. In addition, they result is delaying execution of contracts as well as creating the potential for an expensive process if they end up requiring the involvement of the Department of Administrative Hearing.

The Model addresses this risk by providing a control that requires the involvement of the Office of Counsel in those situations most likely to generate bid protests. The most common situations are those where a contract award is recommended to a vendor other than the lowest bidder or highest ranked proposal.

Nonresponsive

The Model includes several procedures to confirm that vendors have the capacity to perform the work for which they have been selected. This includes procedures such as, verifying that vendors are licensed to perform the specified work, assessing vendors financial capacity to perform under the contract, and verifying that there is no pending litigation between the District and the vendor.

Control Activities

Approvals and Verifications

Approvals and verifications are fundamental internal control activities. The Model provides for various management approvals and verifications, and recommends a new medium for documenting them. The Model streamlines the current process by combining several forms into one master "Communications Form" (see Appendix B) to follow the project from conception in the budget justification process through contract execution. This document provides for signatory approvals by those employees in the organizational unit responsible for the various procurement objectives, e.g. procurement, risk management, supplier diversity, etc. The Procurement Team recommends implementation of a new information system to facilitate smooth and expedient flow of documents through the procurement process. One of the required features of this system will incorporate electronic approvals. In the interim, a manual hard copy form will be necessary unless a method can be devised to achieve such objective utilizing existing District technology.

Following is a table listing the key approvals and verifications throughout the process. The table also displays the recommended threshold or condition, responsible department or office, approval or verification objective, threshold or condition, and the symbol (box) number in the Model where such approval or verification will be performed. All symbols entailing approval or verification functions are coded with a blue background and diagonal hatch marks.

Model Symbol Number	Authorizing Party(s)	Control Objective	Threshold Or Condition
Dept 3	Originating Department	Input Re: Selection Committee, Criteria, Advertising, etc.	All Contracts
Proc. 1	Procurement & Contracts	Establish Standard Contract	All Contracts
Counsel 1	Office of Counsel	Review for Potential Legal Issues	All Contracts
SDO 2	Supplier Diversity & Outreach	Score & Approve MWBE Information	All Contracts
Proc 20	Procurement & Contracts	Determine Responsive & Responsible	All Contracts
Counsel 2	Procurement & Contracts Originating Department Supplier Diversity & Outreach Office of Counsel	Review and Approval of Selected Vendor	All Contracts
Risk 1 Risk 5 & Risk 6	Risk Management	Establish Insurance Requirements, and Verify that Insurance Requirements are Met	All Contracts
Counsel 4	Office of Counsel	Review for Governing Board Approval	Contracts > $300,000
(No Box on Model)	Executive Office	Oversight and Supervision	Contracts > $300,000
Gov. Board	Governing Board	Contact Approval	Contracts > $300,000

Review of Operating Performance (Benchmarking)

Review of operating performance is traditionally perceived in the context of a proprietary business. Typically one thinks of profits, revenues, margins, market share, etc., as key operating performance measurements. Although such performance measurements are not applicable to governmental organizations, there are other factors that can be used to measure the success of an organization or specific activities within an organization. The Model's operations are based on established standard times for each function. These are shown in the table in the Procurement Redesign Team Report on Page 25 under column titled "Duration". These performance measurements will facilitate in evaluating the efficiency and effectiveness of the procurement process. A sound performance measurement program provides for a balance between measuring efficiency and effectiveness of results as they relate to the activity's objectives.

In our opinion, a complete performance measures system should also incorporate standards and methods to measure effectiveness to deter the tendency to just push the paper through the process as quickly as possible to produce favorable performance statistics. Performance measures related to effectiveness are designed to evaluate how well a function's objectives were met.

Segregation of Duties

Segregation of duties is also a fundamental internal control mechanism. The Model retains the centralized procurement structure to maximize the procurement objective of independence. In addition, different departments and offices are involved in various aspects of the procurement process to provide technical and professional expertise, as well as, independence to achieve procurement objectives. The following table summarizes the various District organizational units involved in the procurement process along with the duties they are responsible for which constitute segregation of duties in the Model.

Department/Office	Responsibilities
Procurement & Contracts Division	Ensure objective vendor selection and consistent procurement administrative practices
Originating Department	Provide professional expertise regarding technical aspects of the project
Risk Management Division	Provide professional expertise in establishing insurance and bonding requirements
Office of Supplier Diversity & Outreach	Provide goals and verify achievement regarding MWBE program
Office of Counsel	Provide professional expertise regarding legal issues
Executive Office and Governing Board	Provide oversight approval for major contracts (i.e. > $300,000) representing 75% of total contract dollars

In addition to segregation of duties between departments, the Model also provides for certain segregation of duties within departments. Also, certain activities require simultaneous involvement of two or more employees in order to ensure certain critical functions are performed with the maximum objectivity possible. The critical functions include activities such as determining vendor responsiveness and responsibility, opening and tabulating bids, vendor negotiations, and proposal evaluations. These critical activities are summarized in the table on the following page which shows the group of responsible parties, the activity performed, the control objectives, and the box on the Model where these activities occur.

Box #	Activity	Department/Office	Control Objectives
Proc. 16	Bid Opening & Tabulation	Senior Contract Administrator Staff Administration Resource Associate	At least two employees are required to attend bid openings and prepare written bid tabulation.
Dept 5 Proc 19 SDO 2	Vendor Selection for RFP's	Originating Department - (Panel of employees score proposals both written & oral. Team consists of employees from originating department and usually one or two from independent department.) Procurement & Contracts Division Office of Supplier Diversity & Outreach	Facilitates objectivity in Vendor selection process so that one employee cannot select vendors singly.
Proc 27	Contract Negotiations	Originating Department Office of Counsel (advisory) Procurement & Contracts Division	Facilitates objectivity in establishing price and performance terms with vendor so that one employee cannot negotiate singly.
Proc. 20 Counsel 2	Determine Responsiveness and Responsibility	Procurement & Contracts Division Risk Management Office of Counsel (If recommended to other then highest rank, lowest bid, or highest revenue) Office of Supplier Diversity & Outreach	Facilitate objectivity in establishing vendor responsiveness and responsibility.

Access to Assets

Although the procurement process does not entail direct access to assets, it does create financial obligations that must be satisfied with monetary resources. The final step to the contracting process entails encumbering funds in the LGFS financial system by the Procurement and Contracts Division. Since invoices are paid against encumbrances, this restricts direct access to assets by departments thereby preventing circumvention of the procurement process.

Information and Communications

Timely and accurate information and communication in all directions within an organization are the pillars of a sound internal control framework. The "To Be" redesign team identified deficiencies in this area. The current system does not provide departments, executive management, and the Governing Board with timely information regarding the status of contract solicitations. Recommendations are made to address the following two information and communication disconnects:

- Integrating communications by consolidating information from several forms into one form that will follow the project from the budget process through contract execution.

- Implementing an online integrated contract management information system to track, monitor, and schedule contracts, as well as, provide information regarding the contract solicitation status.

Procurement is a financial activity situated between the budget and accounting functions in the expenditure process. However, under the current process, there tends to be a disconnect between the budget and procurement functions resulting in redundancies. For example, the following items are required on both the budget one pager and the CAARF: mission element(s), budget line item, project alternatives, legal authority, and best and worst outcome. In government organizations, expenditures, in substance, are initiated during the budget phase of the financial process, since that is when funding appropriation decisions are made. Combining budget and procurement information into a single form eliminates redundancies and improves the flow through the system. Implementation of an online contract management information system will significantly improve the flow of contracts through the system and also improve communication among the various parties involved in the process. An electronic approval feature will also minimize the slow and cumbersome process of conveying hard copy documents from in-box the in-box. The Model does not incorporate a detail design of the purposed system and merely recommends forming a team to develop and implement such system. Thus, our assessment of internal controls over the proposed system will be performed when designed. In our opinion, an online contract management information system can significantly improve efficiency without jeopardizing the procurement process integrity provided proper internal controls are incorporated into the electronic system.

Monitoring

Developing or redesigning a process should be viewed as the initial phase of an ongoing project. After the system is designed and implemented the "To Be" Model becomes the new "As Is" Model. All systems should be subject to periodic review and assessment for continuous improvement and to ensure that actual practices have not deviated from the designed system.

Monitoring also entails sound management judgement, which even the best-designed systems will not compensate for poor management judgement. In addition, good system designs cannot compensate for proper supervision by management. Monitoring, as with the control environment, is not visually discernible in a physical model for a specific process. Thus, our assessment did not extend beyond emphasizing that proper monitor is an essential ingredient to a good internal control framework.

The monitoring component of internal controls also entails establishing adequate detective controls. Detective controls are those designed to identify errors and omissions subsequent to occurrence of the transaction and function to deter undesirable actions as well as provide a mechanism to identify areas that need improvement. In the procurement process detective controls usually are performed subsequent to contract execution and thus are not a significant function in evaluating the internal controls of the Model since its scope ends at the contract execution phase.

ANALYSIS OF PURCHASE ORDERS "TO BE" MODEL
INTERNAL CONTROLS

The same internal control objectives and interrelated components apply to purchase orders as contracts. Thus, assessment of the internal controls over the purchase order system focuses on the significant recommended changes. The changes to the purchase Order Model are not as extensive as they are for the Contracting Model. This to some extent is due to the fact that the existing purchase order system appeared to be functioning reasonably well in satisfying "customer" requirements. The most significant charge is a recommendation to implement a procurement card system to administer small purchases up to $750 per transaction. This is the same threshold used for the current Decentralized Purchase Order System (PD's and PC's, etc.). Historical purchasing statistics show that a significant number of purchase orders fall below this threshold but represent only a small percentage of total dollars expended under the purchase order process.

The Model does not incorporate a detail design of the proposed procurement card system and merely recommends forming a team to develop and implement such system. Thus, our assessment of internal controls over the procurement card sub-process will be performed when it is designed. In our opinion, properly designed procurement card systems can potentially provide significant improvement in procurement efficiency related to small dollar transactions. There are certain risks associated with procurement card systems, however, incorporating adequate preventative and detective internal controls into the system can minimize these risks.

ANALYSIS OF CHANGE ORDER "TO BE" MODEL
INTERNAL CONTROLS

The Model recommends a significant revision to the approval threshold for the change order process. Currently, Governing Board approval is required for cumulative change orders exceeding $100,000 or 10%, which ever is less, of original contract value. The new Model recommends increasing the dollar threshold to $500,000 but leaving the percentage at 10%. This change would not affect contracts less than $1,000,000 since 10% would still yield an amount less than $100,000 under both the current and proposed thresholds. Historical data shows that only three percent (3%) of District contracts have exceeded the $1,000,000 threshold, however, these three percent represented 56% of total contract dollar value.[3] The Everglades Construction Project (ECP) will significantly alter these historical expenditure patterns, however, it should be noted that the proposed threshold has already been adopted for ECP contracts. There was no data compiled regarding how this proposed change would affect actual historical change order patterns.

[3] The Office of Inspector General has not verified the accuracy of these historical contract expenditure patterns.