

# GALVESTON COUNTY



## Office of County Auditor

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October 21, 2019

Honorable Mark A. Henry, County Judge, and  
Members of the Commissioners Court  
722 Moody Avenue  
Galveston, Texas 77550

Honorable Mark A. Henry and Members of the Court:

Attached to be received and filed is the internal audit report of the Purchasing Department Procurement Audit that covered the period August 1, 2016 through July 31, 2018. Also attached is the response letter from Rufus Crowder, Purchasing Agent, dated July 5, 2019.

Sincerely,

**Randall Rice CPA**

Digitally signed by Randall Rice CPA  
DN: cn=Randall Rice CPA, o=Galveston  
County, ou=County Auditor,  
email=randall.rice@co.galveston.tx.us, c=US  
Date: 2019.10.03 15:35:47 -05'00'

Randall Rice CPA  
County Auditor

cc: Rufus Crowder, Galveston County Purchasing Agent

Attachment: Purchasing Department Procurement Audit Report  
Response Letter, Rufus Crowder



# Purchasing Department Procurement Audit

March 28, 2019

Galveston County  
Internal Audit  
Division

Randall Rice CPA  
CITP CISA CIO CBM DABFA CGMA  
County Auditor

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# Executive Summary

## Reliability and Integrity of Information (pages 3-4)

- The Purchasing Department should review any active non-employee vendor who has not received a payment in over a year to determine whether or not the PEID should remain active. Furthermore, the Purchasing Agent should implement a policy to review payment activity annually for all vendor types to determine the appropriate status of these vendors.
- The Purchasing Department should implement a policy to review active non-employee PEID's used strictly for business processes on an annual basis.
- The Purchasing Department should implement a policy to ensure all relevant payment information for each PEID is recorded in ONESolution.

## Compliance with Statutes, Policies and Procedures (pages 5-8)

- The Purchasing Department's policy should be updated to clarify when the Non-Collusion Affidavit and Acknowledgement and Certification regarding Debarment, Suspension, and Other Ineligibility forms are required in the Vendor Qualification Packet.
- The Purchasing Department should verify Form 1295 is submitted by all applicable vendors entering into contracts with the county.
- The Purchasing Department should verify telephone quotation requirements for purchases of \$1,500 or more but less than \$5,000 are met prior to approving all purchase requests and documented in the Purchase Order Notes section in ONESolution.
- To comply with policy, written quotations for purchases of \$5,000 or more but less than \$50,000 should be documented on quotation forms furnished by the Purchasing Department. If the department does not intend to complete the form, the Purchasing Department's policy should be updated to reflect this information.
- The Purchasing Department should retain the evaluation documentation used in the selection of the awarded bid/proposal.

## Statistical Analysis (pages 9-10)

- Purchase Requisitions were processed in 1 working day on average during the audit period.
- The competitive bidding process took an average of 45 working days during the audit period.

# Introduction

The Internal Audit Division conducted an internal audit of the Galveston County Purchasing Department in accordance with Local Government Code §115. The internal audit covered the period August 1, 2016 through July 31, 2018. The audit was performed from August 20, 2018 through March 28, 2019. The delay in issuing this audit report was largely due to timing issues and the complexity of this audit.

The primary objectives of the internal audit are to provide reasonable assurance concerning:

- Reliability and integrity of the information.
- Compliance with laws, regulations, contracts, policies, plans and procedures.

The scope of the internal audit encompassed the records and administrative procedures related to contracting and competitive bidding. The internal audit included, but was not limited to, the books, accounts, reports and records of the Purchasing Department.

The internal audit included examining transactions on a test basis and required exercising judgment in the selection of such tests. As the internal audit was not a detailed examination of all transactions, there is a risk that errors or fraud were not detected during the internal audit. The official therefore retains the responsibility for the accuracy and completeness of the information.

Because of certain statutory duties required of the County Auditor, we are not independent with regard to the Galveston County Purchasing Department as defined by the AICPA professional standards. However, our internal audit was performed with objectivity and due professional care.

Jordan Guss, Internal Audit Supervisor, and Lori McWhirter, Internal Audit Manager, performed the audit.

## Reliability and Integrity of Information

Reliable information is accurate, timely, complete and useful. In order to achieve reliance on the information, controls over record keeping and reporting must be adequate and effective.

### Vendor Master File (VMF)

An analysis was performed on the Vendor Master File (VMF) in ONESolution. The information was filtered for active PEID's (vendors) who are not employees of the county. As of January 28, 2019, there were 2,566 active non-employee vendor PEID's. Each PEID is assigned a 'Security Code'. The security code determines if the PEID is used for business processes or for disbursements of accounts payable checks. Currently, there are 17 different security codes in the Person/Entity (PE) module of ONESolution.

Security Code	Records	Description
AR	184	Accounts Receivable Vendor - used by the Auditor's Office AR Business Process
ATTORNEY	212	Attorney Payments - Indigent Defense
BIDLIST	162	Bid List Vendor - used by the Purchasing Agent's Office BO Business Process
BUYER	8	Purchasing BUYER - used in the OS system for assignment/functionality purposes
DEPT	5	Galveston County Department - used by the Auditor's Office in the CR Business Process
IRSLEVY	1	IRS Levy - used to process payments due after receipt of IRS Levy for Active PEID
OFFICIAL	18	Payments to/from officials for Galveston County business
ONETIME	12	One Time Vendor - used for a one time refund, settlement
PAYROLL	123	Payroll Vendor - used by the Treasurer's Office in the Payroll Business Process
RETIREE	588	Galveston County Retiree - used by Human Resources for retiree management purposes
SHIP	121	Galveston County Department - Shipping address information
SPONCODE	17	Sponsor - Grants Management
VENDOR	<u>1,115</u>	Galveston County Vendor
	<b>2,566</b>	

### PEID's – Accounts Payable (AP) Check Issued

Payment information for each PEID involved in AP check processing must be recorded in the PE module of ONESolution. When processing accounts payable (AP) checks, the PEID information helps direct the payment to the proper person/entity. There are 1,327 active non-employee PEID's used for processing AP checks. For each of these PEID's, we determined the date of the last payment to the vendor.

Security Code	PEID's	No Payment in Over a Year
ATTORNEY	212	24
VENDOR	<u>1,115</u>	<u>185</u>
	<b>1,327</b>	<b>209</b>

## Reliability and Integrity of Information (cont.)

### PEID's – Business Processes

There are 901 active non-employee PEID's that are used strictly for business processes. No AP checks are issued. For each of these PEID's, the last date the PEID information was updated in ONESolution was determined. The following table reflects the number of active non-employee PEID's that have not been updated in over a year.

Security Code	PEID's	No Updates in Over a Year
BIDLIST	162	119
BUYER	8	8
DEPT	5	5
RETIREE	588	552
SHIP	121	112
SPONCODE	17	17
	901	813

**Finding:** There are 209 active non-employee PEID's used for processing AP checks that have not received a payment in 365 days or more.

**Recommendation PURCH-18-01:** The Purchasing Department should review any active non-employee vendor who has not received a payment in over a year to determine whether or not the PEID should remain active. Furthermore, the Purchasing Agent should implement a policy to review payment activity annually for all vendor types to determine the appropriate status of these vendors.

**Finding:** There are no procedures in place to review active non-employee PEID's used strictly for business processes to determine if they should remain active in the vendor master.

**Recommendation PURCH-18-02:** To maintain the integrity of the information recorded in ONESolution, the Purchasing Department should implement a policy to review active non-employee PEID's used strictly for business processes on an annual basis.

**Finding:** Numerous active non-employee vendors (AP check issued) are missing relevant payment information in ONE Solution.

Field Name	Count (Missing Data)	
(PHONE) Phone Number	56	2.18%
(EMAIL) Email Address	266	10.37%
(CONTACT) Contact Name	1147	44.70%

**Recommendation PURCH-18-03:** The Purchasing Department should implement a policy to ensure all relevant payment information for each PEID is recorded in ONESolution.

# Compliance with Statutes, Policies and Procedures

The following areas were tested to provide reasonable assurance the office is in compliance with statutes, policies and procedures.

## Vendor Qualification Packets

Galveston County Purchasing Policies and Procedures Manual, Chapter 5.1 states parties seeking to obtain qualified vendor status with the County of Galveston must complete and return the forms contained in a Vendor Qualification Packet to the Purchasing Department. These include: Form PEID (Person/Entity Information Data), Form W-9, Form CIQ (Conflict of Interest Questionnaire), Non-Collusion Affidavit and Acknowledgement and Certification regarding Debarment, Suspension, and Other Ineligibility. A sample of vendors paid during the audit period was tested for compliance with the policy.

**Finding:** The Non-Collusion Affidavit and Acknowledgement and Certification regarding Debarment, Suspension, and Other Ineligibility forms are only requested for vendors going through the competitive bidding process, not for all vendors as is stated in the policy.

**Recommendation PURCH-18-04:** The Purchasing Department's policy should be updated to clarify when these forms are required in the Vendor Qualification Packet.

## Disclosure of Interested Parties

Government Code (GC) §2252.908 Disclosure of Interested Parties states a governmental entity may not enter into a contract with a business entity unless the business entity submits a disclosure of interested parties to the governmental entity at the time the business entity submits the signed contract to the governmental entity. The disclosure of interested parties must be submitted on a form prescribed by the Texas Ethics Commission (Form 1295). The auditor tested a sample of contracts for compliance with GC §2252.908.

**Finding:** Form 1295 was unable to be located for several contracts.

**Recommendation PURCH-18-05:** To be in compliance with GC §2252.908, the Purchasing Department should verify Form 1295 is submitted by all applicable vendors entering into contracts with the county.

## Purchase Requisition Approval Workflow

The Purchasing Department documents their purchasing approval process on a form that must be signed by both a representative from the Purchasing Department and the Auditor's Office. According to this form, requisitions of \$1,500.01 to \$4,999.99 must be approved by personnel in the "SBYR" approval queue, and requisitions of more than \$5,000.00 must be approved by personnel in the "ASPA" approval queue. The auditor tested a sample of purchase requisitions for compliance with the form. No exceptions were noted.

## Compliance with Statutes, Policies and Procedures (cont.)

### Procurement Categories Dependent on Anticipated Price

Galveston County Purchasing Policies and Procedures Manual, Chapter 6.6 states the following: for purchases \$1,500 or more but less than \$5,000, a minimum of three telephone quotations are required; for purchases \$5,000 or more but less than \$50,000, a minimum of three written quotations are required to be obtained on quotation forms furnished by the Purchasing Department; and for purchases greater than \$50,000, formal sealed competitive written invitations to bids (ITB), requests for proposals (RFP) or competitive sealed proposals must be secured by the Purchasing Department in accordance with the terms and provisions of the County Purchasing Act. A sample of purchase orders paid in the audit period was tested for compliance with the policy.

**Finding:** Missing telephone quotations were noted for purchases of \$1,500 or more but less than \$5,000.

**Recommendation PURCH-18-06:** To comply with policy, the Purchasing Department should verify telephone quotation requirements for purchases of \$1,500 or more but less than \$5,000 are met prior to approving all purchase requests and documented in the Purchase Order Notes section in ONESolution.

**Finding:** Quotation forms furnished by the Purchasing Department for purchases of \$5,000 or more but less than \$50,000 do not exist, as is stated in the Purchasing Department's policy. Written quotations are documented in the Purchase Order Notes section in ONESolution instead.

**Recommendation PURCH-18-07:** To comply with policy, written quotations should be documented on quotation forms furnished by the Purchasing Department. If the department does not intend to complete the form, the Purchasing Department's policy should be updated to reflect this information.

### Purchase Splitting

The buyers in the Purchasing Department manually review purchases as they are requested to determine if the requestor is attempting to split purchases in order to avoid the quotation requirements or competitive bidding requirements. A sample of purchases made in the audit period was tested to verify purchase splitting did not occur. No material exceptions were noted.

### Competitive Bidding Notice

Local Government Code (LGC) §262.025(a) Competitive Bidding Notice states a notice of a proposed purchase must be published at least once a week for two consecutive weeks in a newspaper of general circulation in the county, with the first day of publication occurring at least 14 days before the date of the bid opening. All bids/proposals tested were in compliance with LGC §262.025(a).

## **Compliance with Statutes, Policies and Procedures (cont.)**

### **Bid/Proposal Deadline**

Galveston County Purchasing Policies and Procedures Manual, Chapter 7.2 states bids/proposals must be received and time stamped by procurement staff in the Purchasing Department prior to the specified date and time on the bid notice. Late bids/proposals will not be accepted and will be returned unopened. Only the time designated by the time stamp issued by the Purchasing Department will determine whether the bid was received at the proper time. A sample of bids/proposals was tested for compliance with policy. No exceptions were noted.

### **Bid Evaluations**

LGC §262.022(5-a) Definitions states the lowest and best bid means a bid or offer providing the best value considering associated direct and indirect costs. LGC §262.030 Alternative Competitive Proposal Procedure for Certain Goods and Services states the award of the contract shall be made to the responsible offeror whose proposal is determined to be the lowest and best evaluated offer resulting from negotiation, taking into consideration the relative importance of price and other evaluation factors set forth in the request for proposals. A sample of awarded bids/proposals was tested to determine if the evaluation committee selected the lowest and best offer, in accordance with LGC §262.022 and §262.030.

**Finding:** Documentation for the evaluation process was unable to be located for some bids/proposals.

**Recommendations PURCH-18-08:** The Purchasing Department should retain the evaluation documentation used in the selection of the awarded bid/proposal.

### **Awarding of Contract**

LGC §262.027 Awarding of Contract states the officer in charge of opening the bids shall present them to the Commissioners Court in session. The court shall award the contract to the responsible bidder who submits the lowest and best bid or reject all bids and publish a new notice. All awarded bids/proposals tested were approved by Commissioners Court in accordance with LGC §262.027.

### **Professional Services**

GC §2254.003 Selection of Provider states a governmental entity may not select a provider of professional services or a group or association of providers or award a contract for the services on the basis of competitive bids submitted for the contract or for the service, but shall make the selection and award on the basis of demonstrated competence and qualifications to perform the services and for a fair and reasonable price. A sample of purchase requests for professional services was tested for compliance with GC §2254.003. No exceptions were noted.

## Compliance with Statutes, Policies and Procedures (cont.)

### Sole Source Exemptions

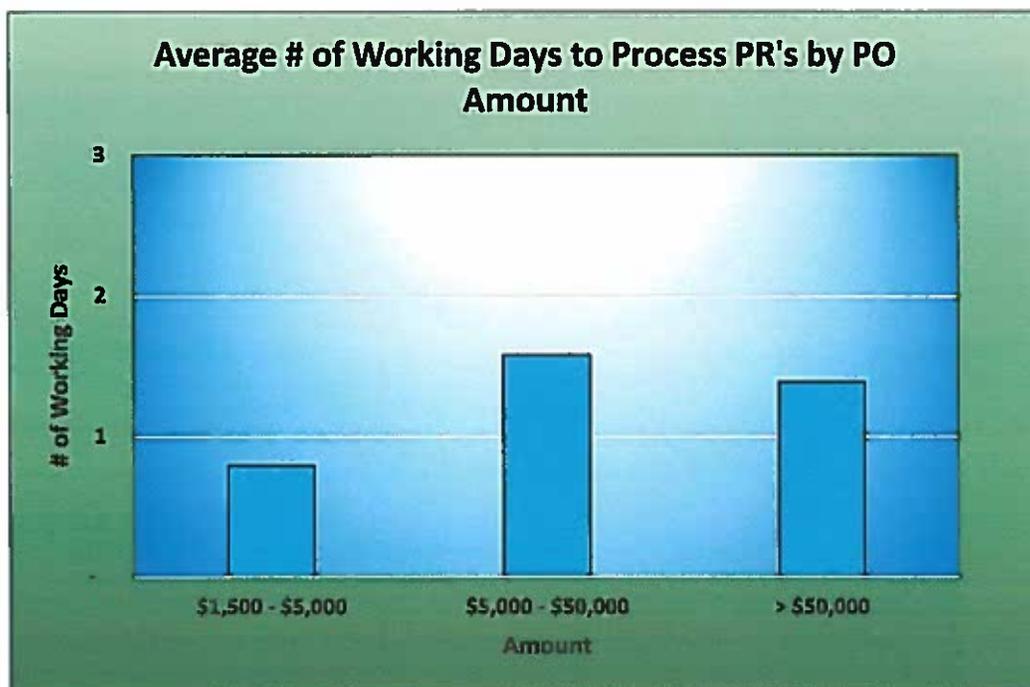
LGC §262.003 Small, Sole Source Purchase Exempt from Competitive Bidding states any law that requires a county to follow a competitive procurement procedure in making a purchase requiring the expenditure of \$50,000 or less does not apply to the purchase of an item available for purchase from only one supplier. LGC §262.024 Discretionary Exemption states a contract for the purchase of any of the following items is exempt from the competitive bidding requirement if the Commissioners Court by order grants the exemption: (7) an item that can be obtained from only one source. Galveston County Purchasing Policies and Procedures Manual, Chapter 8.6 states the Purchasing Agent will, upon request of a requesting department accompanied with written documentation, make a preliminary determination whether an exception or a sole source vendor exists. If, in the opinion of the Purchasing Agent, the request is legitimate, the Purchasing Agent will notify the Commissioners Court and the Commissioners Court will decide whether to grant the exemption and to purchase the item from the sole source. The final decision as to whether or not to grant the exemption or to purchase from a sole source or other permitted exemption lies with the Commissioners Court.

A sample of purchases from sole source providers was tested for compliance with statutes and the Purchasing Department's policy. No material exceptions were noted.

## Statistical Analysis

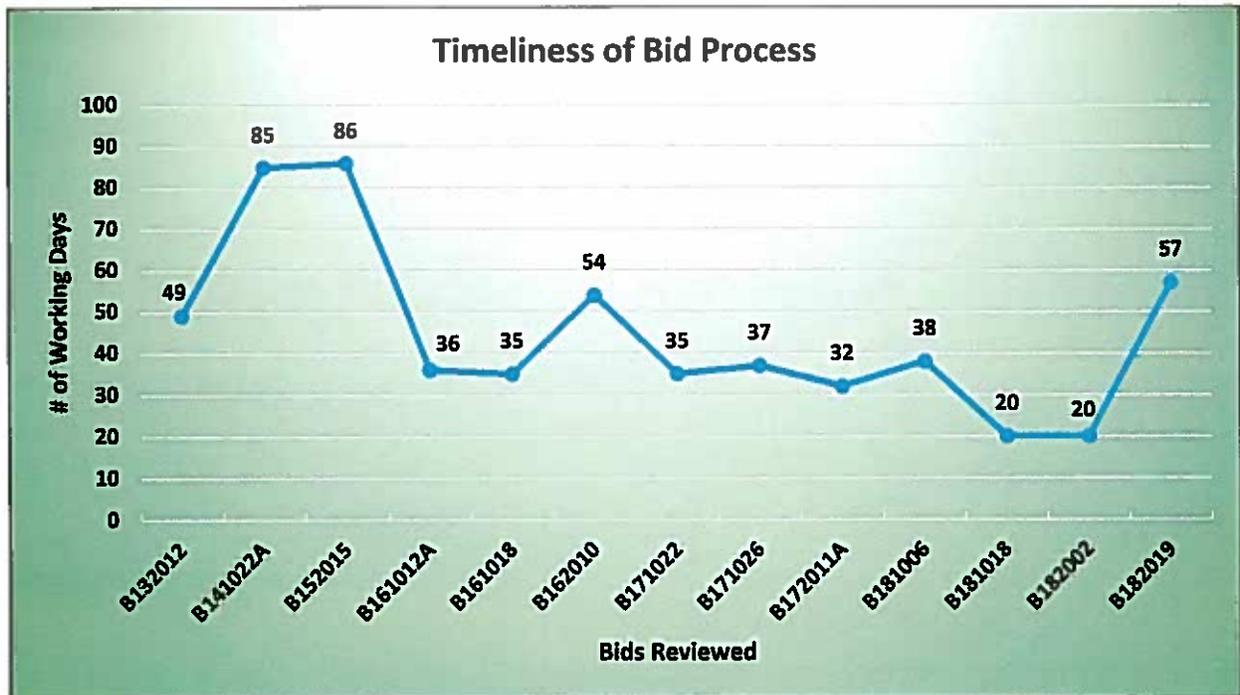
An analysis was performed on the Purchase Requisition (PR) process for Purchase Orders processed during the audit period. The data for the analysis was obtained from the Purchase Requests (POUPPR) screen in ONESolution. The objective was to document the length of time between when a Purchase Requisition was approved by the requesting department and when the requisition was approved by the Purchasing Department. The following reflects the average number of working days PR's were processed by amount during the audit period:

<i>Purchase Amount</i>	<i>Average # of Days</i>
\$1,500 - \$5,000	1
\$5,000 - \$50,000	2
> \$50,000	1



## Statistical Analysis (cont.)

An analysis was also performed on the competitive bidding process to determine the average length of time the process takes from the date of solicitation advertisement to the date the selected bidder is notified of the award. The data used in the analysis was obtained from the advertisement documentation and award letter documentation stored in OnBase for each bid selected in the audit period. The average number of working days of the competitive bidding process in the sample of competitive bids reviewed was 45 days. The following chart reflects the number of working days for the competitive bidding process per bid reviewed:





## THE COUNTY OF GALVESTON

**RUFUS CROWDER, CPPO, CPPB**  
PURCHASING AGENT

**GWEN MCLAREN, CPPB**  
ASST. PURCHASING AGENT

COUNTY COURTHOUSE  
722 Moody (21<sup>st</sup> Street)  
Fifth (5<sup>th</sup>) Floor  
GALVESTON, TEXAS 77550  
(409) 770-5371

July 5, 2019

Mr. Randall Rice, CPA  
County Auditor  
722 Moody, 4<sup>th</sup> Floor  
Galveston, Texas 77550

**RE: Purchasing Department Procurement Audit – March 28, 2019**

Mr. Rice,

Attached are the responses to the internal draft audit report of the Galveston County Purchasing Department that covered the period of August 1, 2016 through July 31, 2018.

Thank you and your staff for the professional manner in which the audit was conducted. We look forward to making the proper adjustments and recommended changes.

Sincerely,

A handwritten signature in black ink, appearing to read "Rufus G. Crowder", written over a horizontal line.

Rufus G. Crowder, CPPO, CPPB  
Purchasing Agent  
County of Galveston

Attachments

# Reliability and Integrity of Information

## PEID's – Business Practices

**Finding:** There are 209 active non-employee PEID's used for processing AP checks that have not received a payment in 365 days or more.

**Recommendation PURCH-18-01:** The Purchasing Department should review any active non-employee vendor who has not received a payment in over a year to determine whether or not the PEID should remain active. Furthermore, the Purchasing Agent should implement a policy to review payment activity annually for all vendor types to determine the appropriate status of these vendors.

**Response:** Current Fiscal Year End procedure includes running the PE utility that identifies/inactivates PEID's with no activity in ALL SUB SYSTEMS (AR, BK, EN, GL, OH, PO, PY, SI) for a given date range. The date range used is two (2) prior fiscal years or 730 days. This was last performed in December 2018.

**Finding:** There are no procedures in place to review active non-employee PEID's used strictly for business processes to determine if they should remain active in the vendor master.

**Recommendation PURCH-18-02:** To maintain the integrity of the information recorded in ONESolution, the Purchasing Department should implement policy to review active non-employee PEID's used strictly for business processes on an annual basis.

**Response:** Purchasing currently runs the PE utility that identifies/inactivates PEID's with no activity for a given date range for ALL sub systems within the financial system. The date range used is two (2) prior fiscal years or 730 days. However, Purchasing will run the PE utility every 365 or at the beginning of each fiscal year on October 1<sup>st</sup>. Additionally, the Purchasing Department will be scheduling Business Process Mapping meetings with all departments that currently store data in the PE database with regard to that department's internal business processes.

**Finding:** Numerous active non-employee vendors (AP check issued) are missing relevant payment information in ONESolution.

**Recommendation PURCH-18-03:** The Purchasing Department should implement a policy to ensure all relevant payment information for each PEID is recorded in ONESolution.

**Response:** PE data entry procedure/documentation will be revised with regard to relevant payment information as well as creation of missing data reports for management review.

**Field Name = (PHONE) Phone Number, Missing Data Count = 56**

- Phone number data conversion analysis with IT to populate missing data
- Management will utilize reports for data entry process control

**Field Name = (Email) Email Address, Missing Data Count = 266**

- Email Address missing/not entered on source document
- Internal procedure revised to include: **Reject incomplete source document and request updated source document when required data is missing from source document**
- Management will utilize reports for data entry process control

**Field Name = (Contact) Contact Name, Missing Data Count = 1147**

- Currently, Contact Name information from the source document exists in two different fields in the PE data base
- Missing Data Count = 1147 did not include the data in the Attention field of the Addresses tab in PEUPPE from the upgrade to OS
- Purchasing is working with IT to populate Vendor/Misc Info/ Contact Name field with data from the upgrade OS
- Business Process mapping session(s) with departments: Purchasing Agent's Office, Auditor's Office, Human Resources; currently responsible for data stored in the PE database will provide

## **Reliability and Integrity of Information (cont.)**

clarity on data entry procedures for the following Address Types: PA, RA, 99, EA, EB, EM, & PM

- PE data entry procedure/documentation will be revised with regard to relevant payment information for all Address Types in PE database once the Business Process mapping sessions are completed.
- Management will utilize reports for data entry process control.

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# Compliance with Statutes, Policies and Procedures

## Vendor Qualification Packets

**Finding:** The Non-Collusion Affidavit and Acknowledgement and Certification regarding Debarment, Suspension, and Other Ineligibility forms are only requested for vendors going through the competitive bidding process, not for all vendors as is stated in the policy.

**Recommendation PURCH-18-04:** The Purchasing Department's policy should be updated to clarify when these forms are required in the Vendor Qualification Packet.

**Response:** The Vendor Qualification documents are currently being revised for use in a vendor portal/workflow for electronic submittal. Until the electronic vendor portal is implemented, Vendor Qualification Packet instructions will be issued and adhered to as mentioned in the Purchasing Policies and Procedures.

**Finding:** Form 1295 was unable to be located for several contracts.

**Recommendation PURCH-18-05:** To be in compliance with GC §2252.908, the Purchasing Department should verify Form 1295 is submitted by all applicable vendors entering into contracts with the county.

**Response:** Form 1295 is requested for every contract presented to Commissioners' Court. Some vendors are not expedient in completing the Texas Ethic Commission's process even when the Form 1295 process has been requested prior to the Commissioners' Court meeting. Once the contract is approved by the Commissioners' Court, there is a thirty (30) day "grace period" for the vendor to complete the Form 1295 process. In some instances, Purchasing issued the PO after Commissioners' Court approval, but prior to the vendor completing the Form 1295 process due to project timelines. However; Purchasing will no longer issue the Purchase Order after CC approval if the Form 1295 process is not completed.

**Finding:** Missing telephone quotations were noted for purchases of \$1,500 or more but less than \$5,000.

**Recommendation PURCH18-06:** To comply with policy, the Purchasing Department should verify telephone quotation requirements for purchases of \$1,500 or more but less than \$5,000 are met prior to approving all purchase requests and documented in the Purchase Order Notes section in ONESolution.

**Response:** Management will run Purchasing Audit reports to determine when non-compliance is an issue and address accordingly with re-training, re-assignment, or other discipline as necessary with the Buyer staff.

**Finding:** Quotation forms furnished by the Purchasing Department for purchases of \$5,000 or more but less than \$50,000 do not exist, as is stated in the Purchasing Department's policy. Written quotations are documented in the Purchase Order Notes section in ONESolution instead.

**Recommendation PURCH-18-07:** To comply with policy, written quotations should be documented on the quotation forms furnished by the Purchasing Department. If the department does not intend to complete the form, the Purchasing Department's policy should be updated to reflect this information.

**Response:** Written quotations are reviewed/accepted on vendor quotation forms as well as quotation forms provided by the Purchasing staff to vendors for quoting purposes as necessary to determine equal responses. Currently, all written quotations are attached to the requisition in OS and stored for viewing through OB doc type: PU-PO Backup and Vendor name/pricing is indicated in the Notes tab of POUPPR. Policy will be revised with regard to written quotations and quotation forms.

**Finding:** Documentation for the evaluation process was unable to be located for some bids/proposals.

**Recommendation PURCH-18-08:** The Purchasing Department should retain the evaluation documentation used in the selection process of the awarded bid/proposal.

**Response:** Evaluation documentation is always retained and is a critical component to procurement bid files. Some documentation may not have been filed in a timely fashion due to the manual process involved and workload. The manual process utilized by staff will be improved upon to ensure that all bid files are complete.