

Office of Legislative Auditor General

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March 25, 2009

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's Corrective Action Plan and the Auditor General's assessment, for the Department of Management and Budget, Purchasing Division, Audit of Contract No. 2006-37-253 Adherence to the County's Procurement Ordinance attestation engagement. Our report is dated February 27, 2009; DAP No. 2008-57-010. The contents of this final report did not change from the draft report previously issued. The report was accepted by the Audit Committee at its meeting held on March 10, 2009, and formally accepted by the Wayne County Commission on March 19, 2009.

We are pleased to inform you that the officials from the Wayne County Commission, and the Department of Management and Budget, Purchasing Division, provided their full cooperation. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's Final reports can be found on our website at <http://www.waynecounty.com/mygovt/comm/AuditReport.aspx>.


Willie Mayo, CPA, CICA
Auditor General

REPORT DISTRIBUTION

Wayne County Commission
Bill Johnson, Director, Administration
John Pfeffer, Director, Office of Policy Research & Analysis

Department of Management & Budget
Clarence McNeal, Director, Purchasing
Carla E. Sledge, Chief Financial Officer
Terry Hasse, Director, Grants & Contract Administration

Wayne County Executive



RESOLUTION

No. 2009-144

By Commissioner Woronchak and Co-sponsored by Commissioner Varga

RESOLVED, by the Wayne County Commission this 19th day of March, 2009 that approval be, and is hereby, granted approving the corrective action plan report including the Auditor General's assessment for the Department of Management of Budget, Purchasing Division, Audit of Contract No. 2006-37-253 Adherence to the County's Procurement Ordinance Attestation Engagement. The report is dated February 27, 2009.

(2008-57-010)

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February 27, 2009

DAP No. 2008-57-010

Honorable Gary Woronchak, Chairman
Audit Committee
Wayne County Commission
County of Wayne, Michigan
600 Randolph, Suite 445
Detroit, MI 48226

Subject: **Corrective Action Plan**, including the Auditor General's Assessment, dated February 27, 2009, for the Department of Management and Budget, Purchasing Division, Audit of Contract No. 2006-37-253 Adherence to the County's Procurement Ordinance.

Dear Chairman Woronchak:

In accordance with Government Auditing Standards issued by the Comptroller General of the United States, and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, the Office of Legislative Auditor General (OAG) requested applicable county departments to submit a Corrective Action Plan (CAP) for the nine recommendations identified in the attestation engagement of the Audit of Contract No. 2006-37-253 Adherence to the County's Procurement Ordinance. There were two recommendations addressed to the Commission; and seven were addressed to the Purchasing Division.

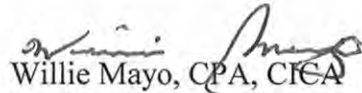
The CAP was provided as requested. Attached is a Summary and Assessment of the CAP prepared by the OAG. The summary schedule includes: the audit recommendations; management's comments on the findings and recommendations; management's action taken or planned; whether management has or intends to implement the recommendation; responsible person/area; implementation or targeted implementation date; and the Auditor General's assessment.

Our assessment of the nine recommendations found two recommendations where sufficient action had been taken to address the recommendations; five recommendations where management indicates they intend to take sufficient action to address the recommendations, and



two recommendations where no action had been taken by management. Therefore, a follow-up review is deemed necessary for those recommendations where sufficient action has not yet been taken.

Respectfully submitted,


Willie Mayo, CPA, CICA
Auditor General

cc: Bill Johnson, Director, Administration
John Pfeiffer, Director, Office of Policy Research & Analysis
Clarence McNeal, Director, Purchasing
Carla E. Sledge, Chief Financial Officer
Terry Hasse, Director, Grants & Contracts Administration

Attachment

Wayne County Department of Management and Budget
Purchasing Division
Audit of Contract No. 2006-37-253
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**Summary and Assessment of
CORRECTIVE ACTION PLAN**

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management Has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
08-01 Purchasing should cease the procurement of goods and services in excess of the aggregate limits to contractors/suppliers for the same commodity within the same year. In addition, we recommend the director of purchasing seek commission approval on all contracts, when in totality or aggregated, that exceed \$50,000 in a fiscal year to any one vendor.	Agree. In some instances, the purchasing division must seek to competitively procure goods and services where the aggregate total has been exceeded. In those cases, the director of purchasing will seek commission approval prior to awarding the contract.	The Director of Purchasing will seek commission approval when payments on an awarded contract exceed \$50,000 in a fiscal year to a single vendor.	Yes	Director of Purchasing	Implemented	Our discussion with the Director of Purchasing revealed the division has implemented procedures to prepare and maintain a report in the JD Edwards system that will track vendor contractual aggregate totals, and that any contracts that exceed \$50,000 to a single vendor in a fiscal year will be forwarded for approval to the commission, as required under the procurement ordinance.
08-02 (A) The Director of Purchasing should continue to develop formal written policies and procedures for the procurement of goods and services throughout the county as required by the ordinance. The procurement ordinance states that "all policies and procedures shall be in keeping with the letter and intent of this	Agree	The Purchasing Division has issued two policies and formulated procedures related to the procurement of goods and services. In fact, additional policies are being drafted. All current and future policies are and shall be in keeping with the letter and intent of the Ordinance.	Yes	Director of Purchasing	Implemented	Based on a limited review of the action taken, management appears to have taken sufficient action to address the recommendation. The Purchasing Division has issued two Policy/Procedure Statements since the date of the original Attestation Engagement. These are No. 15004 "Emergency Procurements", and, No. 15005 "Debarment and Suspension Process for Contracts and for Federal Grants." Our review determined these policies and procedures were in compliance with the procurement ordinance. In addition, the Director of Purchasing stated that there are

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Ordinance."						approximately four policies related to various areas of the purchasing function that are being drafted. Based on a limited review of the action taken, management appears to have taken sufficient action to address this recommendation.
08-02 (B) In addition, we recommend the formalized policies and procedures: (1) require the procurement file to contain documented analysis and conclusions reached when awarding contracts that range from \$5,000-\$50,000, and (2) provide for on-going staff training within the purchasing division.	Agree	Policies and procedures are being formalized to ensure documented analysis and conclusions are included in the files. Currently, the staff prepares a written summary of procurement activity and award for contracts between \$5,000 and \$50,000. Additionally, the division is scheduled to implement an electronic bidding and solicitation system that will allow detailed analyses and systematic bid tabulation. The procurement staff has attended two training sessions where an outside vendor demonstrated an online bid system and purchasing department staff were able to get hands on experience with the system.	Yes	Director of Purchasing	April 2009	The Purchasing Division is currently evaluating two online bid systems as well as discussing with the Department of Technology about the development of an in-house electronic bid system. The ultimate decision will be based on a cost/benefit analysis. The Director of Purchasing will provide the CFO with the recommended solution. We determined that until an electronic bid system is implemented, the purchasing staff prepares a written summary of procurement activity and awards. Two training sessions have been provided to the purchasing division staff by outside vendors. According to the Director of Purchasing, these sessions were held in August and November 2008. However, until the policies

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08-03 Once the purchasing division completes the writing of the policies and procedures related to the implementation of the procurement ordinance, we recommend the policies and procedures be expeditiously reviewed, approved and authorized for issuance by senior executive management, procurement ordinance task force, and legal counsel for the commission as well as corporation counsel. These reviews should	Agree	Upon drafting by the Purchasing Division, new policies and procedures will be reviewed and approved by senior management within fifteen (15) days. Going forward, a pre-final draft will be provided to Commission Counsel and the Procurement Task Force for review and approval prior to official publication to ensure the policies are in compliance with the county's procurement ordinance.	Yes	Purchasing M&B Administration	Partially Implemented	The Director of Purchasing stated recently issued policies were reviewed and approved by senior management within M&B prior to the OAG requested Corrective Action Plan. The 15-day approval process is an arbitrary figure but was chosen to promote efficient review processing. Going forward, both Commission Counsel and the Procurement Task Force (comprised of members of the Ways and Means Committee) will be provided pre-final drafts for review and comment. Senior M&B management will make the final decision to issue any new policies and procedures.
						and procedures are finalized, we cannot determine whether on-going training for staff will be included in the policies and procedures. If the described action is implemented as planned, the action appears to sufficiently address the recommendation. However, a follow-up review may be necessary in the near future.

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primarily focus on: a. Senior executive management – the practical implementation of business processes and the establishment of internal controls; b. Commission Counsel and Corporation Counsel – the compliance of policies and procedures with the ordinance; c. Procurement ordinance task force – review for overall consistency of intent and spirit of the ordinance.						If the described action is implemented as planned, the action appears to sufficiently address the recommendation. However, a follow-up review may be necessary in the near future.

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08-04 The purchasing division seeks legal counsel and considers the following: (1) Developing policies and procedures that address an early termination of a vendor contract language to (2) Amending the vendor contract language to provide for penalties and sanctions in instances where a vendor is not able to fulfill the terms and conditions of the contract.	Agree	Management within the Purchasing Division is currently working with Corporation Counsel to develop procedures to address the early termination of a vendor contract with or without cause.	Yes	Director of Purchasing	April 2009	Our discussion with the Director of Purchasing indicated policies and procedures related to an early termination of a vendor are still in an early draft form and further review is required. The Director stated amending the contract language to provide for penalties and sanctions in instances where a vendor is not able to fulfill the terms and conditions of the contract is also being considered. Purchasing will meet with Corporation Counsel to finalize the contract language. If the described action is implemented as planned, the action appears to sufficiently address the recommendation. However, a follow-up review may be necessary in the near future.
08-05 Management should develop a tracking system to determine when cumulative purchases to a single vendor within the same fiscal year reach the ceiling of \$50,000, and will require commission approval. This can best be accomplished by	Agree	In collaboration with the Department of Technology and the M&B Financial Applications Group, the Purchasing Division will develop and implement a system to track and report cumulative purchases to a single vendor in a fiscal year. The purchasing division's compliance staff will monitor the activity.	Yes	Director of Purchasing	May 2009	The Director of Purchasing stated discussions are being held with the Department of Technology to develop and implement a tracking system to report cumulative purchases to a single vendor in a fiscal year. Also involved in these discussions is the M&B Financial Applications Group member, who is the JD Edwards expert.

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assigning personnel whose primary responsibility is to monitor departmental compliance with the procurement ordinance and the timely submission of contracts requiring commission approval.						If the described action is implemented as planned, the action appears to sufficiently address the recommendation. However, a follow-up review may be necessary in the near future.
08-06 The commission considers amending the procurement ordinance to provide guidance to management when contracts are terminated prior to their expiration date.						The newly elected Commission leadership is in possession of and reviewing the recommendation. Because they recently took office, as of our report date they have not had an opportunity to respond to our request for a corrective action plan for this item. However, based on management's intended action for recommendation 08-04, this recommendation may no longer be applicable since management has agreed to establish policies and procedures that address an early termination of a vendor as well as amend the county contracts to provide for penalties and sanctions in instances where a vendor is not able to fulfill the terms and conditions of the contract.

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08-07 The commission considers restoring the procurement ordinance section related to personal liability to elected officials, county officers and employees who may have the propensity to deliberately violate the procurement ordinance; penalties and sanctions oftentimes can serve as good deterrents and preventive controls. The absence of any personal sanctions and penalties reduces the likelihood an officer and employee will exercise due prudent professional care to comply with the procurement ordinance when carrying out their responsibilities.						The newly elected Commission leadership is in possession of and reviewing the recommendation. Because they recently took office, as of our report date they have not had an opportunity to respond to our request for a corrective action plan for this item.

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08-08 The purchasing division should segregate duties and develop stricter controls over the drop shipment of paper and other commodities, since approximately 95% of all paper ordered is drop shipped to other county facilities.	Agree	The purchasing division believes the accounting and grants management divisions within M&B can provide best practices regarding internal control procedures for drop shipments. Therefore, purchasing division management will work in collaboration with these divisions to obtain their input as to the proper internal controls that should be implemented to ensure segregation of duties are established for the process for drop shipping of paper and other goods purchased.	Yes	Director of Purchasing	April 2009	The Director of Purchasing stated the Purchasing Division is developing internal control policies that will address the segregation of duties and controls over the drop shipment of paper and other commodities. If the described action is implemented as planned, the action appears to sufficiently address the recommendation. However, a follow-up review may be necessary in the near future.
08-09 Management should continue to develop and implement inventory methodologies, such as the direct shipment concept, and evaluate inventory needs and order quantities to justify the solicitation of supplies and ensure supplies are available when needed.	Agree	Purchasing Division management is evaluating various methods such as desktop ordering for the delivery of office supplies and just in time delivery of equipment supplies. Additionally, management has initiated discussions with the Department of Technology and the M&B Financial Applications Group to assist in developing inventory analysis applications to effectively manage inventory levels.	Yes	Director of Purchasing	October 2009	Discussion with the Director of Purchasing indicated vendors that provide desktop ordering systems are being evaluated. Also, an online purchasing system, that will allow bid/tracking capabilities, is being considered. In addition, preliminary discussions have been held with the Department of Public Services regarding just-in-time delivery of equipment and supplies. Implementing desktop ordering will allow the Purchasing Division to realign its staff to concentrate on strategic purchasing initiatives.

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						The Purchasing Director stated discussions with the Department of Technology and the M&B Financial Applications Group have been on-going. The urgency for developing and implementing inventory analysis applications have been communicated to the Department of Technology. The Director also indicated that the targeted implementation for the inventory analysis application is October 2009. If the described action is implemented as planned, the action appears to sufficiently address the recommendation. However, a follow-up review may be necessary in the near future.