

# **1999 - 2000 Ventura County Grand Jury Report**

## **Purchase Orders: Policies and Procedures and Current Practice**



## Purchase Orders: Policies and Procedures and Current Practice

The 1999-2000 Grand Jury made a protocol visit to the Facilities and Materials Division of the General Services Agency and reviewed the current method of purchasing goods and services for Ventura County government. The discussion focused on the computer system currently in use and additional changes planned to expedite the purchasing process and control cost. We also learned that funds had been allocated, in the 1998-1999 Budget, to hire a consultant to update the policies and procedures governing purchase orders. This update was not accomplished during the 1998-99 fiscal year and the funds were re-allocated in the 1999-2000 budget. This prompted further investigation by this panel.

A consultant was hired (March 2000) to write policies and procedures for purchasing in Ventura County. Projected dates for completed Policies and Procedures are as follows:

Internal Purchase Department Procedures	May 15, 2000
Purchasing Procedures for all users	June 1, 2000

The Grand Jury did not have access to these new procedures in time to comment on them in this report.

### Methodology

The Grand Jury used the following steps to assist them in this oversight:

1. Reviewed existing procedures provided by Material Management dated 8-91 with minor revisions/insertions dated 1992-97:
  - (a) "Purchase Order Procedures" (Section III)
  - (b) "Bid and Quote Procedures" (Section IV)
  - (c) "Purchasing Policies" (Section V).
2. Reviewed *County of Ventura 1998 Administration Manual*, Section VII.
3. Met with Accounts Payable in Auditor-Controller's office to review oversight procedures.

4. Reviewed Centralized Purchase Orders (PC's) and Price Agreement Purchase Orders (PG's) from Ventura County Medical Center for November 1998.
5. Reviewed Decentralized Purchase Orders from Fleet Services for the month of February 2000.
6. Reviewed pages 61-79 of *VCFMS Training Materials*, section entitled "Price Agreement and Service Contract Releases" for an overview of Ventura County Financial Management System (VCFMS) Price Agreement process.

## Background

Ventura County implemented the Advanced Procurement System (APS) computerized purchasing system in 1995, replacing this system with Financial Management System (FMS) in 1997. Funds were appropriated in the 1998-99 Ventura County Budget to hire a consultant to accomplish the task of generating appropriate policies and procedures that would reflect current computerized purchasing practice in Ventura County. The contract was awarded in March 2000 and the work should be completed June 1, 2000.

## Findings

### Purchase Order Policies and Procedures

- F-1 The existing procedures governing the use of purchase orders in Ventura County date from 1991.
- F-2 The 1999-2000 Ventura County Budget re-allocated funding to hire a consultant to prepare policies and procedures for use of purchase orders.
- F-3 The General Service Agency awarded a contract to a consultant to write policies and procedures for purchasing in March 2000. This work should be completed on or about June 1, 2000.
- F-4 Materials Management indicated they do no oversight on purchase orders under \$5000. The reason given to the Grand Jury is that this is not a cost effective use of staff.
- F-5 Accounts Payable was unaware that Materials Management did not approve purchase orders in amounts less than \$5000 prior to submitting them for payment and indicate compliance oversight of purchase orders is not the responsibility of Accounts Payable.
- F-6 A long-term employee in Accounts Payable, who appears to have in- depth knowledge of acceptable practice, provides the only oversight for County purchase orders under \$5000.

- F-7 Accounts Payable confirms that there are no up-to-date written policies and procedures that reflect the computerized purchase order process and referred the Grand Jury to the broad guidelines in the *County of Ventura 1998 Administrative Manual*.

### Centralized Purchase Orders

The Grand Jury reviewed the Centralized Purchase Orders from Ventura County Medical Center for the month of November 1998 (a random selection) and, from this sampling and interviews with Accounts Payable personnel who have responsibility for approving Centralized Purchase Orders for payment, determined the following:

- F-8 According to Accounts Payable, current practice requires that purchase orders must be submitted to Accounts Payable for approval prior to placing the order with the vendor. However, in practice the order is often placed with the vendor and the material received before the purchase order is submitted to Accounts Payable for approval.
- F-9 Services (such as plumbers, locksmiths) are required by County policy to be paid under a blanket purchase order with the vendor. However, there are a few agencies/departments who use an individual purchase order for services such as those provided by a plumber.
- F-10 Lacking complete and/or current procedures, the Grand Jury found it difficult to assess compliance. One questionable item on a Ventura County Medical Center purchase order was reimbursement in the amount of \$1000 for a personal computer installed at a vendor's site. Neither the purchase requisition nor the purchase order (#52100000965) provided sufficient justification for this unusual transaction.

### Decentralized Purchase Orders

The Grand Jury reviewed the decentralized purchase orders for the month of February 2000 (a random selection) from Fleet Services.

- F-11 Fleet Services processed 110 decentralized purchase orders in the month of February 2000.
- F-12 The amounts of these purchase orders varied from under a dollar to over \$2500. (see Figure 1)
- F-13 A number of vendors did volume business with Fleet Services in February 2000. (see Figure 2)
- F-14 Of the 110 decentralized purchase orders processed by Fleet Services, 65 of them were under \$250 and 85 purchase orders were less than \$500.

- F-15 Without current policies and procedures, this Grand Jury is limited in determining the level of appropriate/inappropriate use of the decentralized purchase order by Fleet Services.
- F-16 The cost of processing a Purchase Order is approximately \$24 according the State of California Procurement Department.

**Conclusions**

- C-1 Policies and procedures for executing purchase orders in Ventura County are obsolete and do not reflect current practice. (F-1 - F-6)
- C-2 There are no procedures in place for purchase order compliance review by Materials Management when the purchase order is for an amount of less than \$5000.

AMOUNT	# OF PO'S
Under \$1.00	1
\$1 - \$10	2
\$10 - \$49	22
\$50 - \$99	12
\$100 - \$249	28
\$250 - \$499	22
\$500 - \$999	11
\$1000 - \$2499	9
\$2500 - 5000	3

**Figure 1. Decentralized Purchase Orders for February 2000 Fleet Services Sorted by Dollar Amounts**

VENDOR ORDERS	# OF PURCHASE FEB 2000	TOTAL \$'s FEB 2000
Bowman Distribution	11 Purchase Orders	\$2372/mo
Battery Systems	11 Purchase Orders	\$3016/mo
A – Mac Mobile Glass	9 Purchase Orders	\$2860/mo
Airgas	5 Purchase Orders	\$1188/mo
Modern Paint & Body	5 Purchase Orders	\$ 912/mo
Pronto Brake & Muffler	5 Purchase Orders	\$ 283/mo
Quality Upholstery	5 Purchase Orders	\$ 513/mo
World Wide Environmental Products	3 Purchase Orders	\$5995/mo

**Figure 2. Decentralized Purchase Orders, February 2000 Fleet Services – Sorted by Vendor**

- C-3 Accounts Payable, as part of its approval process, performs the only compliance oversight for county departments on purchases less than \$5000. This oversight is not their responsibility. (F-7 - F-9)
- C-4 Although the contract to write policies and procedures for purchasing in Ventura County has been awarded to a consultant (as of March 2000), these purchase order procedures will not be available prior to finalizing this report.
- C-5 The number and use of decentralized purchase orders by Fleet Services appears to be inappropriate. (F-11, F-12, F-13, F-14)
- C-6 A Blanket Purchase Order should be used to pay vendors who do large volume business with Ventura County. (F-13)
- C-7 Eighty-five out of one hundred and ten Decentralized Purchase Orders submitted by Fleet Services in February 2000 were under \$500.
- C-8 Small dollar amount purchases should be paid by a procurement bank card whenever possible. (F-14)

## Recommendations

The Grand Jury respectfully recommends the following action:

- R-1 That the General Services Agency review the newly generated policies and procedures for Centralized Purchase Orders, Decentralized Purchase Orders, and Price Agreement Purchase Orders to ensure they contain appropriate performance and compliance oversight. (C-1)
- R-2 That Materials Management, General Service Agency, and Accounts Payable, Auditor-Controller's Office, should define their respective responsibility to ensure compliance to County procedures for all purchase orders, with clear compliance review procedures for purchase orders in amounts under \$5000. (C-2)
- R-3 That the Auditor-Controller initiate an audit of Fleet Services purchasing practices to assess the efficacy and efficiency of these purchasing practices. (C-5, C-6, C-7, C-8)

## Responses

Director, General Services Agency (R-1, R-2, R-3)

Auditor-Controller (R-2, R-3)

Chief Administrative Officer (R-1, R-2, R-3)

