



STATEWIDE PROCUREMENT AUDIT
MULTI-YEAR CONTRACT
JULY 1, 2004 TO JUNE 30, 2008

State of Oklahoma

Department of Central Services

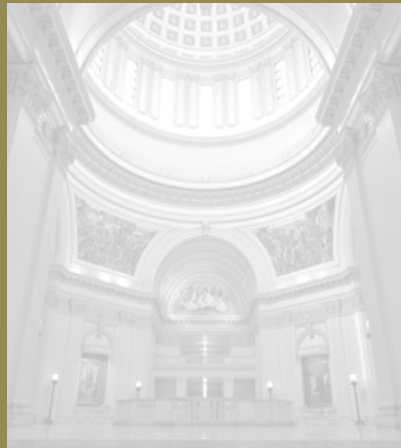
Audit Unit

Report Released April 14, 2010

TABLE OF CONTENTS

(click to follow link)

- Audit Conclusion
- Audit Finding Summary
- Audit Overview
- Detailed Findings
- Appendix



AUDIT PERFORMED BY

JoRay McCoy, Chief Auditor
Lisa A. White, MBA, Audit
Manager

AUDIT CONCLUSION

Based on our audit, we have determined state agencies for the State of Oklahoma have significantly complied with the objective audited. The objective was to assess the extent of statewide compliance with the Central Purchasing Act (CPA) and the Oklahoma Department of Central Services Central Purchasing Rules (OAC) for dollar threshold bidding requirements for open-market renewable contract acquisitions. Deficiencies were noted during the audit. Deficiencies noted in the audit include absence of written evaluations; absence of bid tabulation sheets; the required number of solicitations not secured; and, not obtaining any solicitations for the contract acquisition. Each state agency has provided a corrective action plan that we believe will ensure that each state agency will comply, in all material respects, with the aforementioned requirements.

After completion of our testwork, the Department of Central Services through Central Purchasing issued two Procurement Information Memorandums to address multi-year contracts and exemptions from competitive bidding. These memorandums are discussed fully under the [Significant Policy Change](#) as part of the Audit Overview section.

AUDIT FINDING SUMMARY

(Error rates are based on transactions reviewed.)

FILE MAINTENANCE

08-477-01: Bureau of Narcotics and Dangerous Drugs Control - Contract file only consisted of a purchase order for the acquisition and a service agreement for a previous contract period.

08-350-02: Oklahoma Historical Society - Contract file for three open-market acquisitions could not be located.

08-566-01: Oklahoma Tourism and Recreation Department - Contract files for three open-market acquisitions could not be located.

08-452-01: Department of Mental Health and Substance Abuse - Contract files for four open-market acquisitions could not be located.

STATEWIDE PROCUREMENT AUDIT MULTI-YEAR CONTRACT JULY 1, 2004 TO JUNE 30, 2008



The Department of Central Services, Auditing Unit has completed a statewide procurement audit for multi-year contracts. Our audit was to determine if statewide agencies complied with the audit objective for the period July 1, 2004 to June 30, 2008.



This publication is issued by the Department of Central Services, as authorized by the Department of Central Services. Copies have not been printed but are available through the agency website. Two printout copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

08-340-01: Department of Health - Bid tabulation sheets and written evaluation of criteria considered were not included in the contract file.

ACQUISITION METHOD

08-350-03: Oklahoma Historical Society- Services of site attendants were processed as sole source acquisitions.

SOLICITATION REQUIREMENTS

08-635-01: Commission on Consumer Credit- Acquisition for computer consulting services was not supported by price solicitations or written bid evaluations.

08-160-01: Department of Commerce- Agency did not obtain bids for the acquisition of media storage space. The contract for the acquisition does not appear to have a definite terminable date.

08-650-01: Department of Veteran Affairs- Bid solicitations were not available for an acquisition. For another acquisition, the total dollar value of the multi-year contract exceeded \$25,000. Acquisition was not submitted to Central Purchasing for processing.

08-650-02: Department of Veteran Affairs- Total dollar value of the multi-year contract exceeded \$25,000. Acquisition was not submitted to Central Purchasing for processing.

(The most significant audit findings are detailed in our audit reports. The detailed information for the remaining findings was provided to the management of the agency.)



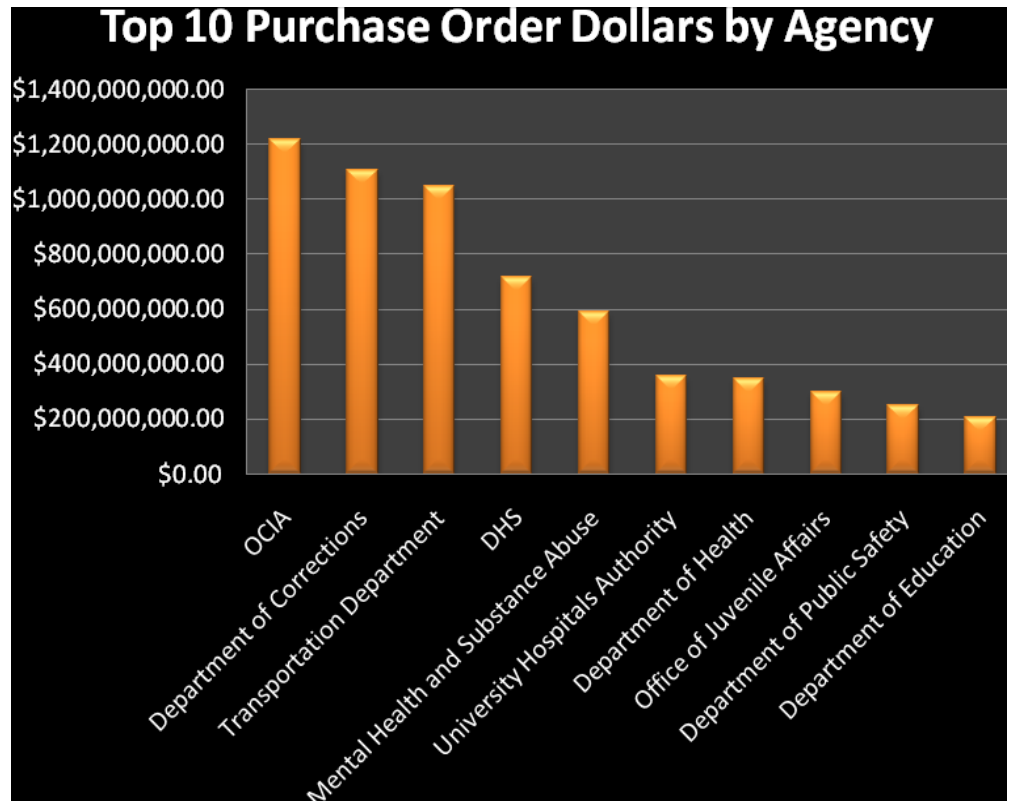
STATEWIDE PROCUREMENT AUDIT MULTI-YEAR CONTRACT JULY 1, 2004 TO JUNE 30, 2008



This audit was performed pursuant to 74 O.S. § 85.5.E. in accordance with generally accepted Government Auditing Standards.

AUDIT OVERVIEW

For the period July 1, 2004 to June 30, 2008, state agencies of the State of Oklahoma issued 245,928 contracts in a total dollar amount of \$9,199,152,092.07. The top 10 agencies for this time period are shown below.

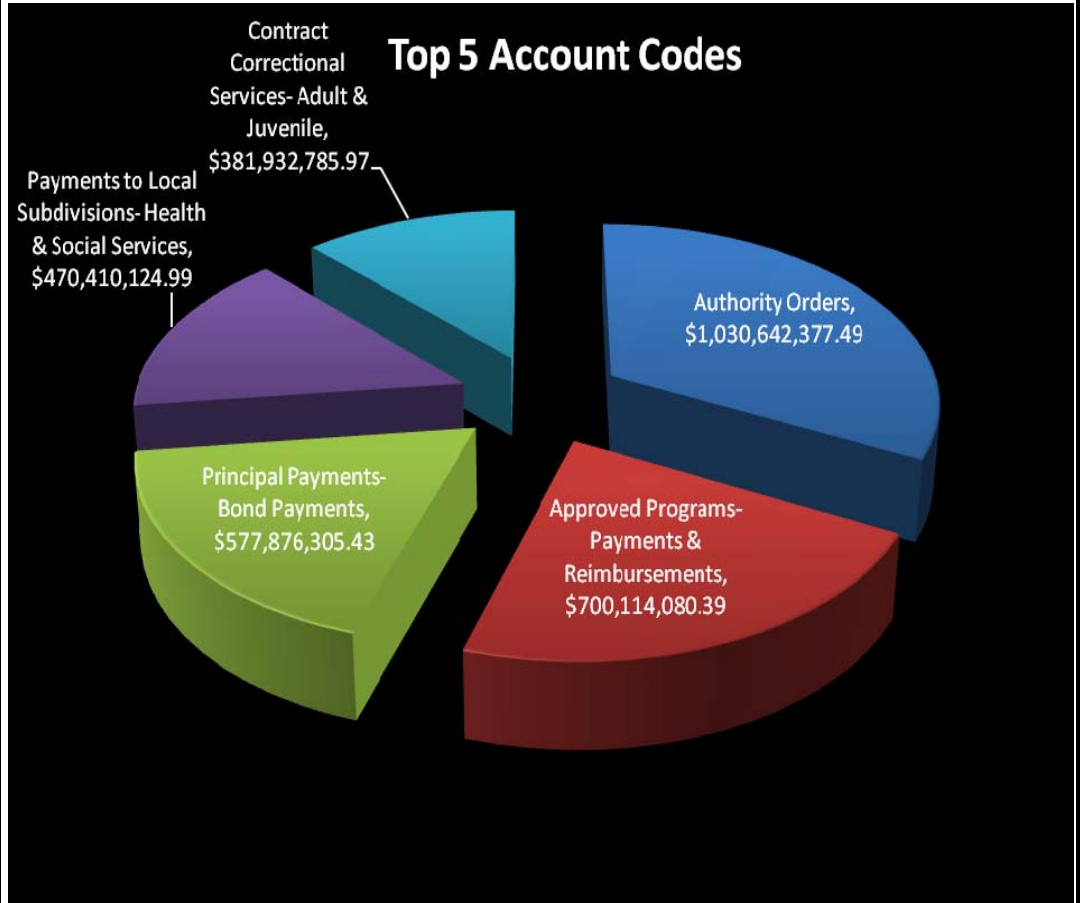


These 10 state agencies accounted for 67% (\$6,141,938,937) of the total contract dollars for the 4 year period.

Breaking down the contract dollar total by account codes, the top 5 account codes were:

- 601000- Authority Orders
- 554120- Approved Programs- Payments and Reimbursements
- 548110- Principal Payments- Bond Debt
- 555140- Payments to Local Subdivisions- Health & Social Services
- 515090- Contract Correctional Services- Adult & Juvenile

STATEWIDE PROCUREMENT AUDIT MULTI-YEAR CONTRACT JULY 1, 2004 TO JUNE 30, 2008



Of the total authority order contract dollars of \$1,030,642,377.49, 13.5% of the total is for the standard, statewide contract, travel purchase card central payment. The balance of the authority order contract dollars (86.5%) are for utilities, non-local travel for government employees, administrative expenses, and other miscellaneous expenses.

Sample Population

To arrive at a total population to be tested, purchase orders that were identified as potential renewable (multi-year) contracts were extracted. After extraction, the purchase orders were combined by vendor for each state agency. For the period July 1, 2004 to June 30, 2008, there were a total of 1,047 acquisitions that were identified as renewable (multi-year) acquisitions. The total dollar value of these acquisitions is \$22,344,099.45. These acquisitions were made between 83 state agencies.

STATEWIDE PROCUREMENT AUDIT
MULTI-YEAR CONTRACT
JULY 1, 2004 TO JUNE 30, 2008



The dollar value of these acquisitions and resultant sample was separated by dollar threshold. Details are noted below.

	Population (in units)	Sample (in units)	Population (in dollars)	Sample (in dollars)	% tested (in dollars)
\$2,500.01 to \$10,000.00	592	50	\$3,153,110.94	\$311,078.90	9.9%
\$10,000.01 to \$25,000.00	246	44	\$4,023,155.59	\$721,779.70	17.9%
\$25,000.01 and greater	<u>209</u>	<u>37</u>	<u>\$15,167,832.92</u>	<u>\$1,911,605.75</u>	<u>12.6%</u>
Totals	<u>1,047</u>	<u>131</u>	<u>\$22,344,099.45</u>	<u>\$2,944,464.35</u>	<u>13.2%</u>

Purchase orders that included change orders were also included in the total population to be tested. Those purchase orders that were previously identified in the population above were excluded to arrive at a total purchase order with change order population. For the period July 1, 2006 to July 18, 2008, there were 140 purchase orders with a total dollar value of \$3,882,444.37.

The dollar value of these acquisitions and resultant sample was separated by dollar threshold. The sample was made up of 41 state agencies. Details are noted below.

	Population (in units)	Sample (in units)	Population (in dollars)	Sample (in dollars)	% tested (in dollars)
\$2,500.01 to \$10,000.00	68	18	\$402,648.67	\$122,433.83	30.4%
\$10,000.01 to \$25,000.00	51	12	\$893,877.06	\$283,917.78	31.8%
\$25,000.01 and greater	<u>21</u>	<u>8</u>	<u>\$2,585,918.64</u>	<u>\$831,561.69</u>	<u>32.2%</u>
Totals	<u>140</u>	<u>38</u>	<u>\$3,882,444.37</u>	<u>\$1,237,913.30</u>	<u>31.8%</u>
Total sample	<u>1,187</u>	<u>169</u>	<u>\$26,226,543.82</u>	<u>\$4,182,377.65</u>	<u>15.9%</u>

Summary of Results

Of the 169 sample acquisitions, 30 acquisitions were for open market renewable contracts. The total dollar value of these contracts is \$672,596.59 (16% of the sample dollar population). The 30 acquisitions can be categorized as follows:

- 57% of the acquisitions were properly processed. Solicitations obtained were sufficient for the dollar threshold of the total dollar value of the contract.
- 27% of the acquisitions the documentation was not present to determine if the acquisition was properly processed. Either the written evaluation criteria for terminating a successful vendor and bid tabulation sheet were not present OR there

STATEWIDE PROCUREMENT AUDIT MULTI-YEAR CONTRACT JULY 1, 2004 TO JUNE 30, 2008



was no documentation included in the file documenting the solicitation process.

- 10% of the acquisitions were not properly processed due to solicitations not being obtained for the acquisition.
- 6% of the acquisitions were not properly processed due to the minimum required number of solicitations was not obtained for the dollar threshold of the total dollar value of the contract.

In dollars, the 30 acquisitions fall into the following categories.

Applicable Acquisitions by Dollars



For the acquisitions that were determined not to be renewable open-market acquisitions, the acquisitions fall into one of six categories:

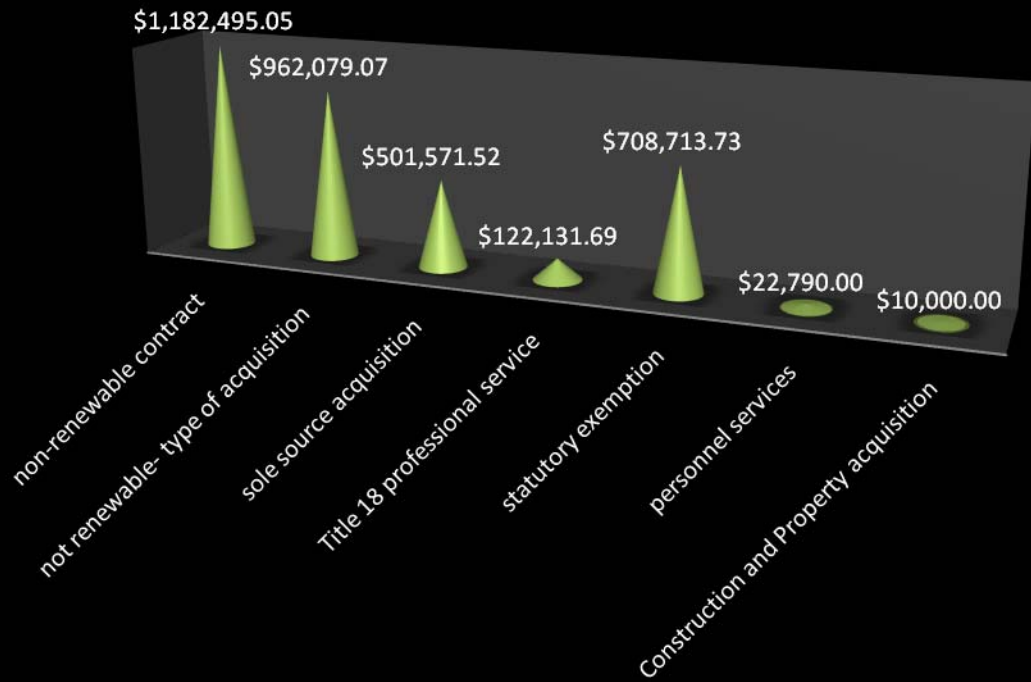
- sole source acquisitions;
- statutory exemption (either the Agency's own statute or Central Purchasing Act);
- Title 18 professional service acquisitions;
- Construction and Property acquisition;
- not a renewable contract due to each purchase order was under \$2,500 dollar threshold **OR** each purchase order year was bid separately;
- or, not a renewable contract due to the type of acquisition (i.e. service maintenance agreement, leasing acquisition, statewide contract acquisition, etc.).

STATEWIDE PROCUREMENT AUDIT MULTI-YEAR CONTRACT JULY 1, 2004 TO JUNE 30, 2008



These acquisitions total \$3,509,781.06 (84% of sample dollar population) and are dispersed as follows:

Non-Renewable Acquisitions by Category



Significant Policy Change Subsequent to Audit Period

During calendar year 2009, the Department of Central Services through Central Purchasing issued policy guidance regarding exemptions from competitive bidding (Procurement Information Memorandum #09-01). Effective January 13, 2009, agencies with approved internal purchasing procedures and a Certified Procurement Officer were granted the authority to process acquisitions for professional services as defined in Title 18 of the Oklahoma Statutes for unlimited dollar amounts without submission of a requisition to the State Purchasing Director. Agencies must report exemptions to competitive bidding within 15 days of completion of the acquisition as required by 74 O.S. §85.7(A)(3)(c).

There was also a procedure guidance and policy change related to multi-year contracts (Procurement Information Memorandum #09-02). Effective January 13, 2009, agencies with approved internal procedures and a Certified Procurement Officer were granted the



STATEWIDE PROCUREMENT AUDIT MULTI-YEAR CONTRACT JULY 1, 2004 TO JUNE 30, 2008

authority to process the renewal of acquisitions without the submission to the State Purchasing Director. Each contract period cannot exceed the delegated single transaction purchasing authority. Effective August 26, 2009, agencies with approved internal procedures and a Certified Procurement Officer were granted the authority to solicit multi-year contracts not exceeding the delegated purchasing authority limit per 12 month period. Agencies must follow eight (8) specific steps for solicitations for multi-year contracts in order to be in compliance with the Procurement Information Memorandum.

Included in the sample population tested, there were two state agencies whose procurement practices for Title 18 professional services were impacted by the policy change. Services acquired were engineering and radiology services. Each acquisition required submission to the State Purchasing Director.



DETAILED FINDINGS

FILE MAINTENANCE

FINDING 08-477-01: BUREAU OF NARCOTICS & DANGEROUS DRUGS CONTROL

Criteria: The Oklahoma Central Purchasing Act 74 O.S. § 85.45j. **Sole Source or Sole Brand Acquisition A. 2.** states in part:

If a state agency desires to make a sole source or sole brand acquisition, the state agency shall retain in the state agency's acquisition file or attach to the requisition an affidavit signed by the chief administrative officer of the state agency...

STATEWIDE PROCUREMENT AUDIT
MULTI-YEAR CONTRACT
JULY 1, 2004 TO JUNE 30, 2008



The Oklahoma Central Purchasing Act 74 O.S. § 85.39 **Agency Internal Purchasing Procedures C.** states:

Each state agency shall maintain a document file for each acquisition the state agency makes which shall include, at a minimum, justification for the acquisition, supporting documentation, copies of all contracts, if any, pertaining to the acquisition, evaluations, written reports if required by contract, and any other information the State Purchasing Director requires be kept.

Condition: We reviewed three open-market acquisitions for telecommunications equipment. The only documentation included in the file besides the purchase order was a service agreement for the incorrect contract period. Acquisitions are detailed below.

<u>VENDOR</u>	<u>DATE</u>	<u>PURCHASE ORDER #</u>	<u>AMOUNT</u>	<u>ACCOUNT</u>	<u>Description of service or good acquired</u>
Avaya Inc.	8/17/2005	4779000454	\$5,540.64	541230	Telephone equipment & piece parts
Avaya Inc.	8/25/2006	4779000758	\$5,369.64	541230	Telephone equipment & piece parts
Avaya Inc.	8/7/2007	4779001144	<u>\$5,743.61</u>	541230	Telephone equipment & piece parts
			<u>\$16,653.89</u>		

Cause: Acquisition was for maintenance services for the Agency's telephone equipment. This vendor is the only vendor who can provide maintenance services in order to maintain warranties held on the telephone equipment.

Effect or Potential Effect: By not including in the acquisition file the minimum required documentation as support for the acquisition, it cannot be determined if the acquisition is exempt from or subject to solicitation requirements for the dollar threshold per the Central Purchasing Act and/ or Central Purchasing Rules.

Recommendation: We recommend the Agency develop and implement processes and procedures that will ensure the minimum required supporting documents are included in each acquisition file. We also recommend the Agency complete the sole source/ sole brand affidavit for all acquisitions where the vendor is the sole vendor for the goods or service procured.

Management's Response- Concur

Date: 02/25/2010

Respondent: Contracting and Acquisitions Administrator

Response: Previous personnel responsible for procurement were of the understanding that sole source acquisitions under the threshold amount for submission to DCS did not require a sole source affidavit. In March of 2008, a new position dedicated to procurement was established and that misunderstanding was corrected. Sole source affidavits signed by the agency Director are now obtained and placed in the procurement file for all sole source acquisitions regardless of amount.



STATEWIDE PROCUREMENT AUDIT
MULTI-YEAR CONTRACT
JULY 1, 2004 TO JUNE 30, 2008

Corrective Action Plan

Contact Person: Director of Fiscal Services

Anticipated Completion Date: Completed

Corrective Action Planned: As stated above, this situation was corrected in March, 2008 upon the creation and hiring of a position dedicated to the procurement function.

FINDING 08-350-02: OKLAHOMA HISTORICAL SOCIETY

Criteria: The Oklahoma Central Purchasing Rules 580:15-6-4 **State agency acquisition records retention** states in part:

(a) **Retention time period.** A state agency shall retain all records relative to acquisitions and contracts for the duration of the contract and for a period of three (3) years following completion and/ or termination of the acquisition. If an audit, litigation, or other action involving such records is started before the end of the three (3) year period, the records shall be maintained for two (2) years from the date all issues arising from the action are resolved or until the end of the three (3) year retention period, whichever is later.

...

(c) **Records availability.** A state agency shall make acquisition records available to the State Purchasing Director for review and the Department of Central Services Audit staff for audit purposes.

...

Oklahoma Historical Society (OHS) Policies and Procedures Manual Internal Purchasing Procedures **2. General 2.3 Records Retention** states in part:

The OHS will retain all purchasing records for the duration of the contract term and for a period of three (3) years following completion and/ or termination of the acquisition. If an audit, litigation, or other action involving such records is started before the end of the three (3) year period, the records shall be maintained for two (2) years from the date all issues arising from the actions are resolved or until the end of the three (3) year retention period, whichever is later.

STATEWIDE PROCUREMENT AUDIT
MULTI-YEAR CONTRACT
JULY 1, 2004 TO JUNE 30, 2008



Condition: Three (3) open-market contracts requested for review were unable to be located by Agency personnel. Details are noted below:

<u>VENDOR</u>	<u>PURCHASE ORDER #</u>	<u>PURCHASE ORDER DATE</u>	<u>PURCHASE ORDER AMOUNT</u>
Scissortail Consulting	3509000445	2/24/2005	\$25,000.00
Scissortail Consulting	3509000649	9/14/2005	<u>\$25,000.00</u>
			\$50,000.00
Johnson Controls	3509001049	2/23/2007	<u>\$10,000.00</u>
		TOTAL	<u>\$60,000.00</u>

Cause: Files could not be located.

Effect or Potential Effect: By not being able to provide requested information, it is not known if documents relative to acquisitions were ever present or completed initially. In addition, the determination of the acquisition method cannot be determined without documentation.

Recommendation: We recommend the Agency develop and implement processes and procedures that will ensure records are properly retained. As part of this process, a close-out checklist should be created to ensure that once the contract has ended the contract file contains all relevant documentation pertaining to the acquisition. Close-out checklist should then be provided to the central repository, as part of their documentation, for record retention.

Management's Response- Concur

Date: 02/19/2010

Respondent: Contracting and Acquisitions Administrator

Corrective Action Plan

Contact Person: Contracting and Acquisitions Administrator

Anticipated Completion Date: 02/02/09

Corrective Action Planned: Effective 02/02/09, steps were implemented to ensure that all acquisition files were complete and contained the required supporting documentation, which also included a Contract File Checklist.

Effective 02/02/09, all acquisitions records will be retained pursuant to the CPA and all federal rules and regulations.

Effective 07/01/09, the agency implemented the use of DCS Forms 052 and 017 with an optional cover letter be utilized as the "Closeout" method for construction (052) and service (017) contracts. No additional forms have been implemented as a closeout document.

All PO's referenced in this audit finding have been closed.

STATEWIDE PROCUREMENT AUDIT
MULTI-YEAR CONTRACT
JULY 1, 2004 TO JUNE 30, 2008



FINDING 08-566-01: OKLAHOMA TOURISM AND RECREATION DEPARTMENT

Criteria: The Oklahoma Central Purchasing Rules 580:15-6-4 **State agency acquisition records retention** states in part:

- (a) **Retention Time Period.** A state agency shall retain all records relative to acquisitions and contracts for the duration of the contract term and for a period of three (3) years following completion and/ or termination of the acquisition. If an audit, litigation, or other action involving such records is started before the end of the three (3) year period, the records shall be maintained for two (2) years from the date all issues arising from the action are resolved or until the end of the three (3) year retention period, whichever is later.
- (b) **Records retention location.** A state agency shall retain records and documents in a central location unless a written waiver is provided by the State Purchasing Director.
- (c) **Records availability.** A state agency shall make acquisition records available to the State Purchasing Director for review and the Department of Central Services Audit staff for audit purposes.

...

Condition: Three contracts for open-market acquisitions were unable to be located by Agency personnel. Details are noted below:

<u>VENDOR</u>	<u>PURCHASE ORDER #</u>	<u>PURCHASE ORDER DATE</u>	<u>PURCHASE ORDER AMOUNT</u>
Southern Oklahoma Regional Disposal, Inc.	5669002821	6/4/2005	\$12,500.00
Southern Oklahoma Regional Disposal, Inc.	5669004753	8/4/2006	\$12,500.00
Southern Oklahoma Regional Disposal, Inc.	5669007418	7/1/2007	\$13,500.00
			<u>\$38,500.00</u>

Cause: Files were secured and maintained by an individual(s) who is no longer with the Agency. Agency is not aware of where the records were secured after employee left the Agency.

Effect or Potential Effect: By not being able to provide requested information, it is not known if documents relative to acquisitions were ever present or completed initially.



STATEWIDE PROCUREMENT AUDIT MULTI-YEAR CONTRACT JULY 1, 2004 TO JUNE 30, 2008

Recommendation: We recommend the Agency develop and implement processes and procedures that will ensure records are properly retained. As part of this process, a close-out checklist should be created to ensure that once the contract has ended the contract file contains all relevant documentation pertaining to the acquisition. Close-out checklist should then be provided to the central repository, as part of their support, for record retention.

We also recommend the Agency create and implement formal procedures for ensuring acquisition documents are stored and maintained in such a way that employment variances do not affect the ability to locate contract files.

Management's Response- Concur

Date: February 18, 2010

Respondent: Purchasing Manager

Response: OTRD management has read and fully understands the rules concerning State Agency acquisition records retention, time period, location, availability as well as what documents and supporting information needs to be retained. See below Corrective Action Plan.

Corrective Action Plan

Contact Person: Purchasing Manager

Anticipated Completion Date: Immediately

Corrective Action Planned: OTRD management has already implemented a method of records retention to ensure that file maintenance issues such as the one cited does not occur in the future. The process includes a checkout system to track files. As a result, any employment variances should have no effect on the ability to locate files.

Effective immediately, all acquisition documents for FY09, FY10, and FY11, requisitions, justifications, bid documents, notes to file, bid evaluations, award documents, file content (close-out) checklist and any other supporting information is filed by agency requisition number and maintained in the administrative offices of the OTRD.

Files will be maintained in the central location for three years or until such time as they qualify to be moved to the OTRD warehouse.

FINDING 08-452-01: DEPARTMENT OF MENTAL HEALTH AND SUBSTANCE ABUSE

Criteria: The Oklahoma Central Purchasing Rules 580:15-6-4 **State agency acquisition records retention** states in part:

- (a) **Retention time period.** A state agency shall retain all records relative to acquisitions and contracts for the duration of the contract term and for a period of three (3) years following completion and/ or termination of the acquisition. If an audit, litigation, or other action involving such records is started before the end of the three (3) year period, the records shall be maintained for two (2) years from the date all issues arising from the action are resolved or until the end of the three (3) year retention period, whichever is later.
- (b) **Records retention location.** A state agency shall retain records and documents in a central location unless a written waiver is provided by the State Purchasing Director.

STATEWIDE PROCUREMENT AUDIT
MULTI-YEAR CONTRACT
JULY 1, 2004 TO JUNE 30, 2008



(c) **Records availability.** A state agency shall make acquisition records available to the State Purchasing Director for review and the Department of Central Services Audit staff for audit purposes.

...

Oklahoma Department of Mental Health and Substance Abuse Services Internal Purchasing Procedures **Agency Purchasing Authorization and Acquisition Record Retention Procedures** states in part:

...

2. The DMHSAS shall retain records of each acquisition made for a period of three years following the purchase date.

Such records and documents for acquisitions in excess of Ten Thousand Dollars (\$10,000) shall be retained at the DMHSAS Central Office. Records and documents for all other acquisitions shall be retained at the facility making the acquisition. The record shall include all documents needed to process the acquisition, including as applicable:

- 1) The request for acquisition,
- 2) Justification for the acquisition,
- 3) Supporting documents and,
- 4) Related information, including, but not limited to, acquisition contract, evaluations and written reports.

Condition: Four (4) open-market contracts requested for review were unable to be located by Agency personnel. Details are noted below:

VENDOR	<u>PURCHASE ORDER #</u>	<u>PURCHASE ORDER DATE</u>	<u>PURCHASE ORDER AMOUNT</u>
Yellow Cab Co. of Oklahoma Inc.	4529005153	9/14/2004	\$8,400.00
Yellow Cab Co. of Oklahoma Inc.	4529008962	6/23/2005	\$8,400.00
Yellow Cab Co. of Oklahoma Inc.	4529013593	4/24/2006	\$7,000.00
Yellow Cab Co. of Oklahoma Inc.	4529019572	5/31/2007	<u>\$7,500.00</u>
		TOTAL	<u>\$31,300.00</u>

Cause: Files were secured and maintained by an individual who is no longer with the Agency. Agency is not aware of where the records were secured after employee left the Agency.



STATEWIDE PROCUREMENT AUDIT
MULTI-YEAR CONTRACT
JULY 1, 2004 TO JUNE 30, 2008

Effect or Potential Effect: By not being able to provide requested information, it is not known if documents relative to acquisitions are present or were ever present or completed initially.

Recommendation: We recommend the Agency develop and implement processes and procedures that will ensure records are properly retained. As part of this process, a close-out checklist should be created to ensure that once the contract has ended the contract file contains all relevant documentation pertaining to the acquisition. Close-out checklist should then be provided to the central repository, as part of their documentation, for record retention.

We also recommend the Agency create and implement formal procedures for ensuring acquisition documents are stored and maintained in such a way that employment variances do not affect the ability to locate contract files.

Management's Response- Concur

Date: February 24, 2010

Respondent: Chief Procurement Officer

Response: Due to building capacity, closed acquisition files older than two years are stored at a central office storage facility on the campus of Griffin Memorial Hospital a facility of ODMHSAS in Norman with access to ODMHSAS staff as needed for review. Staff was unable to locate specific file boxes that held the requested four (4) Yellow Cab open market acquisitions noted above. A copy of Purchase Order No. 4529008962 was found after the Auditor's request and a copy will be mailed to DCS Auditors.

Corrective Action Plan

Contact Person: Chief Procurement Officer

Anticipated Completion Date: Immediately upon approval of the attached procedures and checklist from DCS Auditors.

Corrective Action Planned: All agency CPOs will be informed by e-mail of the File Closeout Checklist and the Acquisition File/Records Closeout Procedures. Implementation of said procedures and checklist to begin immediately. Internal review will occur within six (6) months. Audit tests will be performed by Agency staff. Please review Policy and Checklist attached.

FINDING 08-340-01: DEPARTMENT OF HEALTH

Criteria: Central Purchasing Administrative Rules 580:15-6-9 **State agency acquisitions exceeding ten thousand dollars (\$10,000.00) and not exceeding twenty-five thousand dollars (\$25,000.00) (5) Bid evaluation** states, "The state agency shall make a written bid evaluation. The state agency shall select the lowest and best bid or bid providing the best value to the state agency."

Condition: The Agency made an open-market acquisition for courier/ delivery service. The terms of the contract were for a one year period with an option to renew for two (2) successive one (1) year periods. The change order reviewed for the acquisition was dated 06.27.2007 for \$11,566 to Labxpress, LLC. A written evaluation and a bid tabulation sheet were not present in the file.

STATEWIDE PROCUREMENT AUDIT
MULTI-YEAR CONTRACT
JULY 1, 2004 TO JUNE 30, 2008



We also reviewed series of purchase orders to vendors for open-market renewable contracts. Series of purchase orders with exceptions noted are detailed below:

<u>VENDOR</u>	<u>PURCHASE ORDER #</u>	<u>PURCHASE ORDER DATE</u>	<u>PURCHASE ORDER AMOUNT</u>	<u>Exception noted</u>
Angelica Textile Service	3409010266	6/26/2007	\$6,906.12	bid tabulation not present; written evaluation criteria not present
Angelica Textile Service	3409011993	6/25/2008	<u>\$9,718.80</u>	bid tabulation not present; written evaluation criteria not present
			<u>\$16,624.92</u>	
Hollingsworth Service Inc.	3409002450	7/16/2004	\$11,660.08	bid tabulation not present; written evaluation criteria not present
Hollingsworth Service Inc.	3409005581	7/12/2005	\$13,192.88	bid tabulation not present; written evaluation criteria not present
Hollingsworth Service Inc.	3409008068	6/17/2006	\$14,590.57	bid tabulation not present; written evaluation criteria not present
Hollingsworth Service Inc.	3409010259	6/27/2007	<u>\$23,938.00</u>	bid tabulation not present; written evaluation criteria not present
			<u>\$63,381.53</u>	
		TOTAL	<u>\$80,006.45</u>	

The following was noted for purchase orders reviewed:

- The contract file did not include a bid tabulation sheet. We could not determine if the proper number of solicitations was acquired for the acquisition.
- The file did not include a written evaluation of criteria considered in awarding the contract.

Cause: File documentation is incomplete. In review of the file for the acquisition, the Agency could not locate the documentation.

Effect or Potential Effect: By not including a bid tabulation sheet and a written evaluation as support for an acquisition, there is no record of the solicitations received and the methodology followed to determine how the best value to the Agency was determined. Contracts may not have been made available to more than one vendor or competitively bid.



STATEWIDE PROCUREMENT AUDIT
MULTI-YEAR CONTRACT
JULY 1, 2004 TO JUNE 30, 2008

Recommendation: We recommend the Agency create a process to ensure that all supporting documentation is obtained for the acquisition. To be included in the process should be creation of a checklist that lists and documents the specific affidavits and forms to be included for each specific acquisition. Checklist should include a place where the individual or individuals can sign-off attesting that all required documentation for the acquisition has been obtained and included in the file.

Management's Response- Concur

Date: 26 February 2010

Respondent: Chief of Procurement

Response: We concur that bid tabulation sheets and written evaluations were not present in the files reviewed by the auditor. However, we are confident these solicitations were sent to more than one potential vendor, creating competition. The solicitations in question had only one respondent; hence, the lack of tabulation sheets.

Corrective Action Plan

Contact Person: Chief of Procurement

Anticipated Completion Date: July 31, 2010

Corrective Action Planned: The Procurement Service is reviewing its processes for maintaining supporting documentation for acquisitions. The intent of this review is to enhance the existing process of ensuring that proper documentation is maintained for all acquisitions. A product of the review will be a standard checklist that lists specific items of required documentation and cross references electronic files that will, in combination, constitute the "complete" record of an individual acquisition. The checklist mentioned will include space for responsible individuals to attest that required documentation has been obtained and included in the file. Buyers will utilize the checklist during and at the completion of acquisitions. This should ensure that documentation is present even when there is only one respondent to a solicitation.

ACQUISITION METHOD

FINDING 08-350-03: OKLAHOMA HISTORICAL SOCIETY

Criteria: 74 O.S. § 85.45j. Sole Source or Sole Brand Acquisition states in part:

- A. 1. Pursuant to the provisions of this section, an acquisition may be exempt from competitive bidding procedures as a sole source or sole brand acquisition.

- 2. If a state agency desires to make a sole source or sole brand acquisition, the state agency shall retain in the state agency's acquisition file or attach to the requisition an affidavit signed by the chief administrative officer of the state agency, in the following form:

SOLE SOURCE OR SOLE BRAND ACQUISITION
AFFIDAVIT

STATE AGENCY _____
SUPPLIER NAME _____
SUPPLIER ADDRESS _____
SUPPLIER TELEPHONE _____

STATEWIDE PROCUREMENT AUDIT
MULTI-YEAR CONTRACT
JULY 1, 2004 TO JUNE 30, 2008



Condition: The Agency contracted with private citizens to work as site attendants at community historical sites. These private citizens were considered as providing professional services to the Agency as evidenced by the account code classification for these services. Services provided were classified as Other Business Support Services. Details are noted below:

<u>VENDOR</u>	<u>PO #</u>	<u>PO DATE</u>	<u>PO AMOUNT</u>
Houston Kelly	3509000479	4/26/2005	\$1,750.00
Houston Kelly	3509000568	7/22/2005	<u>\$3,500.00</u>
			\$5,250.00
Arryn Stacy	3509000518	6/28/2005	\$1,100.00
Arryn Stacy	3509000584	8/1/2005	<u>\$6,240.00</u>
			\$7,340.00
Marilyn Davis	3509001039	2/16/2007	\$2,400.00
Marilyn Davis	3509001154	7/26/2007	<u>\$7,800.00</u>
			\$10,200.00
		TOTAL	<u>\$22,790.00</u>

The Agency acquired these services as sole source acquisitions. Specific items noted in each file:

- The Sole Source affidavit was not completed by the Agency. No reason was provided as to why the services were unique to the Agency and no description was provided as to the process followed to ensure services were sole source.
- Of the three sole source affidavits reviewed, the Chief Administrative Officer signed only one.
- Arryn Stacy was used to help keep the facility open as the location was down one full time equivalent employee.

Site attendants procured as sole source acquisitions were initially discovered during the procurement program compliance audit for the period July 1, 2004 thru June 30, 2005. Management response to the finding included meeting with Central Purchasing to discuss the proper method of procuring these services.

Cause: Per prior discussions with the Agency, individuals hired are the only persons who can provide services at these historical locations.

Effect or Potential Effect: Agency is procuring labor through sole source acquisitions when other acquisition methods or classifications may be required.

STATEWIDE PROCUREMENT AUDIT
MULTI-YEAR CONTRACT
JULY 1, 2004 TO JUNE 30, 2008



Recommendation: We recommend the Agency:

- Complete need analysis for all substitute site attendants.
- Discuss with Central Purchasing the correct purchasing method to procure services for substitute site attendants.
- Receive an official definition/ opinion as to what constitutes an employee of the Agency versus providing a service to the Agency.

Management's Response- Concur

Date: 02/19/2010

Respondent: Contracting and Acquisitions Administrator

Corrective Action Plan

Contact Person: Contracting and Acquisitions Manager

Anticipated Completion Date: October 1, 2009

Corrective Action Planned: Effective 02/02/09, all Sole Source acquisitions for the OHS are processed pursuant to the stipulations outlined in the CPA and Title 53 O.S..

The OHS conducted a need assessment for all site attendants in 2009. As a result, no site attendants are currently contract employees. All current site attendants are either full time or temporary employees pursuant to OPM rules.

As OHS employees, the site attendants are assigned and expected to work the established number of hours in order to accomplish their jobs and as required by the OHS.

The FTE is hired by the agency pursuant to OPM rules, traditionally works 40 hours per week, they are covered under FSLA, they are eligible for all State benefits, i.e. dental, health, vision and life insurance, participation in the State retirement system, sick and annual leave accruals, etc. The part-time employee is hired pursuant to OPM rules, traditionally works less than 40 hours per week and is not entitled to State benefits.

Services or contractual services means direct engagement of the time and effort of a contractor for the primary purpose of performing an identifiable task, i.e. installation, maintenance, repairs, assistance, the serving of food or the manner in which it is served, etc. without an employment relationship.



SOLICITATION REQUIREMENTS

FINDING 08-635-01: COMMISSION ON CONSUMER CREDIT

Criteria: Central Purchasing Administrative Rules 580:15-6-9 **State agency acquisitions exceeding ten thousand dollars (\$10,000.00) and not exceeding twenty-five thousand dollars (\$25,000.00)** states in part:

(2) Solicitations. The state agency shall prepare specifications for a solicitation. The state agency shall solicit bids from a minimum of three (3) suppliers using mail, telephone, facsimile or by means of electronic commerce...

(5) Bid evaluation. The state agency shall make a written bid evaluation. The state agency shall select the lowest and best bid or bid providing the best value to the agency.

Condition: Acquisition for computer consulting services was not supported by price solicitations/ bid requests and written bid evaluations. Total amount expended for the three year period was \$53,274.99. Details are noted below:

<u>VENDOR</u>	<u>PO #</u>	<u>PO DATE</u>	<u>PO AMOUNT</u>	<u>Description</u>
Netwits, Inc.	6359000065	9/7/2005	\$24,999.99	Computer consulting services
Netwits, Inc.	6359000108	9/14/2006	\$20,775.00	Computer consulting services
Netwits, Inc.	6359000137	11/7/2007	<u>\$7,500.00</u>	Computer consulting services
		TOTAL	<u>\$53,274.99</u>	

Cause: Contract is a renewal. Each individual purchase order is under the \$25,000 threshold and therefore each contract year was not bid.

Effect or Potential Effect: Controls in place to ensure best value is received are circumvented when acquisitions are not properly bid.

Recommendation: We recommend the Agency:

- Review the Central Purchasing Act and the Central Purchasing Rules regarding the process for acquiring goods and services for the various dollar thresholds;
- Review the Procurement Information Memorandum 09-02- Multi-Year Contracts- Procedure Guidance and Policy Change regarding the appropriate method for handling renewable contracts.

STATEWIDE PROCUREMENT AUDIT
MULTI-YEAR CONTRACT
JULY 1, 2004 TO JUNE 30, 2008



- Create a process to ensure that all supporting documentation is obtained for the acquisition. To be included in the process should be a creation of a checklist that lists and documents the specific affidavits and forms to be included for each specific acquisition. Checklist should include a place where the individual or individuals can sign-off attesting that all required documentation for the acquisition has been obtained and included in the file.

Management's Response - Concur

Date: 02/16/2010

Respondent: Administrator

Corrective Action Plan

Contact Person: Administrator

Anticipated Completion Date: Completed.

Corrective Action Planned: The Agency now uses the services of the Office of State Finance for purchasing and contracting.

FINDING 08-160-01: DEPARTMENT OF COMMERCE

Criteria: Central Purchasing Administrative Rules 580:15-6-6 **State agency acquisitions (c) Acquisitions over \$2,500.00 and under \$10,000.00 (effective June 25, 2007)** states in part:

...

- (2) **Supplier selection.** The state agency shall solicit a price quote from a minimum of three suppliers, which may be from the registered supplier list in the appropriate commodity classification compiled by the Purchasing Division and made available to state agencies. Selection of suppliers shall be rotated...

...

Central Purchasing Administrative Rules 580:15-6-5 **Methods State Agencies Use to Make Acquisitions (4) Standard contracts (D) Open market contracts** states:

State agencies may make open market acquisitions within their approved purchasing authority limit, pursuant to provisions of the Oklahoma Central Purchasing Act, rules of the Purchasing Division and the agency's approved internal purchasing procedures.

Condition: The Agency made an open-market acquisition for media storage space. The term of the contract was for an initial period of one (1) year with a provision for automatic renewals at the same terms and conditions for successive one (1) year terms. Agreement can be terminated by either party with prior written notice thirty (60) days [sic] prior to the expiration of any renewal term. The following was noted:

PO #1609006774 Midcon Data Services LLC

- Agency did not obtain bids for the acquisition of media storage space. The purchase order amount for the initial period beginning 04/14/2008 was \$885.50. The purchase order amount for the first renewal (FY 2009) was



STATEWIDE PROCUREMENT AUDIT MULTI-YEAR CONTRACT JULY 1, 2004 TO JUNE 30, 2008

\$3,000.00. (The \$3,000 amount exceeds the \$2,500 and under fair and reasonable dollar threshold. This dollar threshold does not require bid solicitations. Acquisitions exceeding \$2,500 require solicitations.)

- The agreement does not appear to have a defined termination date. Terms indicate thirty days written notice and 60 days in parenthesis is required to terminate the agreement.
- Agreement does not have a clearly defined termination period. The contract allows for automatic one year renewals at the same terms and conditions. Agreement can be terminated by either party with written notice.

Cause: Per the statement of the Director of Procurement of the Agency, the Division procuring services established a fair market value and researched options without providing documentation for the purchasing file. Department of Commerce was using Purchasing Rules identified in a purchase card audit for purchases under \$5,000 did not require competition.

Effect or Potential Effect: By not obtaining solicitations for acquisitions, the opportunity for obtaining the lowest and best or best value for procured goods and services is diminished. The Agency could expend more for goods and services by not obtaining solicitations.

Recommendation: We recommend the Agency follow the guidelines set forth in the Procurement Information Memorandum (Number 09-02) Multi-Year Contracts- Procedure Guidance and Policy Change. Guidance of the Procurement Information Memorandum provides for the following:

- The solicitation is to include a separate line and contract period for each year not to exceed the delegated purchasing authority limit per 12 month period;
- And, the original contract must state the maximum number of renewal periods.

Management's Response- Concur

Date: March 9, 2010

Respondent: Procurement Director

Response: The multi year purchase orders will have different line items for each annual contract period (as the one in question does) and those dollar limits will be based on our approved purchasing rules that establish dollar limits in accordance with promulgated agency dollar limits. ODOC is actively enforcing and abiding by those limits.

Each original contract is reviewed and approved by our legal counsel. No one in ODOC is allowed to sign a contract without legal review/approval. Past contracts approved by our attorneys were approved with automatic renewals as indicated by the referenced contract. In the recent past our attorneys have started requiring vendors to replace the automatic renewal clauses with defined contract periods plus defined renewal options (if any) and will continue to do so as agency policy.

Corrective Action Plan- Corrective action was established by the agency prior to receipt of this audit finding with new approved purchasing rules and internal policy by our legal counsel on automatic renewal clauses.

Contact Person: Procurement Director

Anticipated Completion Date: Completed by 12-31-09

Corrective Action Planned: See above



STATEWIDE PROCUREMENT AUDIT
MULTI-YEAR CONTRACT
JULY 1, 2004 TO JUNE 30, 2008

FOLLOW-UP ON PREVIOUS FINDING

07-650-10 - OKLAHOMA DEPARTMENT OF VETERANS AFFAIRS

Previous finding was originally reported in the Oklahoma Department of Veterans Affairs Procurement Program Compliance Audit published July 28, 2008.

Condition #2: We noted 1 of 9 (11%) purchase orders was not submitted to Central Purchasing for processing. The purchase order was for a Title 18 professional service in the amount of \$26,160.00.

Corrective Action Plan

Contact Person: Accounting Supervisor

Anticipated Completion Date: August 31, 2008

Corrective Action Planned: ODVA stated they will modify their checklists specific to Title 18 professional services contracts which details specific action items to be completed when contracting, issuing the purchase order, and closing the professional service contract file. Additionally, we will continue our existing continuous monitoring program of our procurement program.

Follow-up Results: Under current policy the previous condition would no longer be considered a finding. Central Purchasing issued policy guidance regarding Title 18, Section 803 professional services contracting (Procurement Information Memorandum #09-01) that went into effect January 13, 2009. The new policy allows agencies unlimited dollar amount without submission of the requisition to the State Purchasing Director.



APPENDIX

DIRECTOR'S TRANSMITTAL LETTER

JOHN S. RICHARD
Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

April 14, 2010

TO THE STATE AGENCIES OF OKLAHOMA

With this letter, we transmit the report for the Statewide Multi-Year Contract Audit for the audit period July 1, 2004 to June 30, 2008.

We performed our audit in accordance with professional auditing standards to ensure that purchasing under the authority of the Department of Central Services through Central Purchasing is conducted in accordance with applicable laws and regulations and programs are administered in an ethical, effective and efficient manner while limiting exposure to fraud, waste, mismanagement, or abuse.

The accompanying report presents our findings and recommendations, as well as, management's responses and corrective action plans. This report is available to the public on the Department of Central Services website, www.dcs.ok.gov.

Sincerely,

Randy Ross
Deputy Director of the Department of Central Services

"Committed to Quality"

Administration, Will Rogers Office Building (2401 N. Lincoln) Suite 206 / P.O. Box 53218 · Oklahoma City, OK 73152-3218
Telephone 405/521-2121, Fax 405/521-6403, www.dcs.state.ok.us



STATEWIDE PROCUREMENT AUDIT MULTI-YEAR CONTRACT JULY 1, 2004 TO JUNE 30, 2008

METHODOLOGY

A private query was created by the auditor to obtain purchase order data from PeopleSoft for the period July 1, 2004 to June 30, 2008. Purchase orders were sorted by agency number and vendor to obtain a purchase order population of renewable (multi-year) contracts. Before any data extractions were performed, the total purchase order population for the period July 1, 2004 to June 30, 2008 was 245,996 purchase orders in a total dollar amount of \$9,229,894,477.37. Prior to any performance of detailed data extractions, there were purchase orders that were automatically excluded from the scope of the project. These purchase orders fell into one of three categories:

- State agencies that do not process their acquisitions through the PeopleSoft system and are subject to the Central Purchasing Act and the Central Purchasing Rules.
- Department of Central Services and Oklahoma Capital Improvement Authority due to DCS Audit organizational impairment related to independence.
- Readily identifiable Title 18 professional services purchase orders that in the aggregate are under \$25,000.

The total number of purchase orders that were automatically excluded was 14,690 purchase orders in the total dollar amount of \$2,048,954,206.59.

From the remaining purchase order population, purchase orders for each agency that did not appear to be a recurring contract for the agency were extracted and identified as not applicable to the stated objective of the project. There were a total of 88,474 purchase orders that were identified as non-recurring contracts. The total dollar value of these purchase orders was \$945,286,657.05. These purchase orders were from 102 state agencies.

A private query was also created by the auditor to obtain purchase order data from PeopleSoft for purchase orders with a change order. The query was run for the period July 1, 2006 to June 30, 2008. Those purchase orders that were already included in the previous population were excluded. The resultant purchase order population was reviewed to ensure that only those purchase orders that met the criteria of the stated objective were audited against the Central Purchasing Act and Central Purchasing Rules. A total of 140 change order purchase orders in the total dollar amount of \$3,882,444.37 were identified as multi-year (renewable) acquisitions.



STATEWIDE PROCUREMENT AUDIT MULTI-YEAR CONTRACT JULY 1, 2004 TO JUNE 30, 2008

There were additional data extractions performed to arrive at a recurring contract population. By acquisition type, the following were excluded:



Purchase Order Type	Purchase Order Amount
Cancelled Purchase Order	\$30,742,385.30
Purchase Card Authority Orders	\$1,065,566,763.39
Authority Orders	\$138,918,449.08
Emergency Acquisitions (Title 61 & Title 74)	\$4,106,616.15
Governmental Entities	\$1,910,879,859.56
Fixed Rate Contracts	\$203,636,023.05
Construction and Property Buyers	\$366,791,930.77
Leasing Buyers	\$96,772,575.17
Central Purchasing Buyers	\$2,746,113,277.56
Rent/ Lease/ Lease-Purchase	\$38,219,199.41
State Use Contracts	\$62,475,885.86
Regulated Utilities	\$145,222,433.99
GSA Contracts	\$21,128,131.03
Statewide Contracts (Non-mandatory and mandatory)	\$720,859,266.18
Maintenance Agreements	\$440,085.30
TOTAL	\$7,551,872,881.80

