



COUNTY OF WINNEBAGO

WINNEBAGO COUNTY AUDITOR

William D. Crowley, C.F.E.

Winnebago County Administration Building
404 Elm Street, Room 201
Rockford, Illinois 61101

(815) 319-4200
Fax: (815) 319-4201

Centralized Purchasing System Compliance Internal Audit

Total Findings: 3

Total Recommendations: 3

Other Comments: 1

July 7th, 2017

The mission of the Winnebago County Auditor's Office is to safeguard Winnebago County assets and provide objective, accurate and meaningful information about County operations so that the County Board can make informed decisions to better serve County citizens.

AUDIT TEAM MEMBER(S):

Bryan M. Cutler, Chief Deputy Auditor

Copies of County Auditor's reports are available by request.
Please contact us at:

Office of the County Auditor
404 Elm St., Suite 201 ♦ Rockford, IL 61101 ♦ (815) 319-4200

E-mail your request to: bcrowley@co.winnebago.il.us

July 7th, 2017

Members of the County Board
Frank Haney, County Board Chairman
Amanda Hamaker, County Administrator
Carla Paschal, Chief Financial and Budget Officer
Ann Johns, Director of Purchasing

The Winnebago County Auditor's Office is required to perform several duties under Illinois Compiled Statute 55 ILCS 5/Div. 3.1. Sec. 3-1005. The Compiled Statute states that the County Auditor is required to "Maintain a continuous internal audit of the operations and financial records of the officers, agents or divisions of the County. The County Auditor shall have access to all records, documents, and resources necessary for the discharge of this responsibility".

Accordingly, the County Auditor's Office has recently completed an internal audit titled "Centralized Purchasing System Compliance Internal Audit". This audit is not designed to examine the operations within the Purchasing Office but rather to determine if outside departments are generally complying with certain basic aspects of the Centralized Purchasing System (purchasing ordinance) section found in the Winnebago County Code of Ordinances.

To test compliance with the purchasing ordinance, the Auditor's Office generated a listing, by department, for all vendors with cumulative expenditures of \$12,000 or greater from June 1st, 2016 – May 30th, 2017. For the purposes of this audit, we generally searched for groups of smaller transactions, collectively over \$12,000, which indicated the presence of an ongoing business relationship that was potentially contractual in nature. We did not specifically audit individual purchases of equipment over \$12,000 as those types of transactions are reviewed as part of our monthly expenditure review, prior to recommending payment to the County Board.

Our findings and recommendations are below:

Finding 1: (Various exceptions from purchasing ordinance for competitive bidding)

County Code Section 2-341. - Contract purchases and sales states "If the amount of the expenditure for a contractual service or for a commodity, or for a class of commodities normally obtainable from the same source of supply, or for a sale of personal property which has been found by the county board not to be required for public use is estimated to exceed \$12,000, sealed contract bids shall be solicited through formal public notice, and written contracts shall be awarded by the county board".

During our testing, we noted a variety of ongoing vendor relationships that appear to be out of compliance with the purchasing ordinance due to the lack of a bid, contract or board approved resolution. In some cases, we noted relationships that may not be adapted to

competitive bidding, but lacked the required formalization of a contract approved by the County Board. The exceptions noted in our audit are attached.

Additionally, the business relationships indicated in the attached, appear to have been generally established outside of the Purchasing Office. However, the purchasing ordinance requires that the Director of Purchasing shall “procure or supervise the procurement of **all** supplies, services, and construction needed by the County”.

One important item to note is that the majority of purchases by the independently elected officials not under the County Board are not subject to the purchasing ordinance and thus not subject to the \$12,000 bidding requirement.

Recommendation 1:

We understand that County Administration is currently assessing internal purchasing procedures. To improve adherence to the purchasing ordinance discussed in finding 1, we believe the most effective method would be to exercise greater control of the purchasing process through requiring the use of requisition and purchase orders for certain types of transactions. The primary benefits of requiring the use of requisition and purchase orders would be:

- Greater adherence to the purchasing ordinance
- Improved budgetary controls
- Strengthened internal control environment

Requisition and purchase orders are currently being used voluntarily as the current language in the purchasing ordinance regarding purchase orders is outdated and confusing. Under current policy, it appears that the Purchasing Director possesses an authority and obligation to recommend changes to the requisition and purchase order process to the County Board for approval. The County of Code of Ordinances Sec. 2-336. – Establishment of procedural rules and regulations states:

- (a) The Director of Purchasing shall promulgate and from time to time amend procedural rules and regulations required for the proper conduct of his office and to implement the provisions of this division. All such rules and regulations and amendments thereof shall be submitted to the County Board for approval. Such rules and regulations shall include, but are not limited to the following:
 - (4) The procedure for submitting requisitions for the supplies, materials, equipment and contractual services required by a using agency.

Accordingly, we recommend that the Director of Purchasing recommend clear and concise requisition and purchase order policies and procedures to be included in the County Code of Ordinances. The County Auditor’s Office is available to collaborate with County Administration on this issue.

Finding 2: (Purchasing ordinance quoting requirement for purchases under \$12,000)

Departments subject to the purchasing ordinance are required to seek quotes for certain transactions less than \$12,000. Based upon our ongoing examination of County records it appears that this requirement is generally bypassed by most departments.

County Code Section 2-343 Open market purchases and sales states:

- (a) If an amount of the expenditure for a contractual service or for a class of commodities normally obtainable from the same source of supply, or for a sale of personal property which has been declared by the county board not to be required for public use, is **estimated to be less than \$12,000**, it shall be deemed to be an open market transaction and shall not be subject to the requirements of section 2-341. However, **all such open market transactions shall, wherever possible, be based on at least three competitive bids.**
- (b) The Director of Purchasing may solicit such bids by telephone, facsimile, or by any other electronic media, in which case they shall be confirmed in a manner satisfactory to the Director of Purchasing.

Recommendation 2:

Bypassing the quoting requirement for purchases under \$12,000 is potentially costing unnecessary County resources. Currently, there is no reliable method to ensure quotes are obtained as requisition and purchase orders are used voluntarily and sporadically. Similar to Recommendation 1, we believe the most effective method to improve adherence to the quoting requirement is to exercise greater control over the purchasing process through requiring the use of requisition and purchase orders for certain types of transactions. We recommend that the approval authority of all requisitions be assigned to the County Auditor and potentially the Purchasing Director.

The Illinois Compiled Statutes state that the County Auditor is required to “approve all orders for supplies issued by the various county officers, before the orders are to be placed with the parties to whom the same are to given”. However, the County Auditor has no authority to enforce a procedure which requires requisitions and purchase orders. Therefore, there is currently no ability for the Auditor’s Office to fulfill this requirement. If a system of required requisition and purchase orders were to be implemented which required the attachment of all quotes, the County Auditor would be provided the ability to fulfill the statutory obligation of the office and also enforce the quoting requirement found in the purchasing ordinance.

Additionally, we believe compliance with the purchasing ordinance could be enhanced by defining specifically what is meant by “wherever possible” in the section discussing the quote requirement. We understand that County Administration is evaluating the purchasing ordinance and this is one area which we believe could be improved.

Finding 3: (Widespread confusion regarding purchasing ordinance and statute)

During the performance of our internal audit, we noted a high degree of confusion and general lack of awareness regarding the purchasing requirements and exceptions established in County Ordinance and State Statute. This issue was noted in both certain departments under the County Board (ordinance) and those under the independently elected County Officials (State Statute).

Additionally, during the research portion of our audit, we noted conflicting guidance in State Statute regarding any requirement of the independently elected County Officials to seek competitive bids and subsequent approval from the County Board. The State's Attorney's Office has reviewed this issue and advised the County Auditor that, in their opinion, the statutory and/or ordinance bidding requirements "do not apply to the elected offices of the County Auditor, County Clerk, Sheriff, Coroner, Recorder, Treasurer and State's Attorney, who have the authority to control the internal operations of their offices, except that equipment purchases made by the Sheriff's Office and Coroner's Office are required to be made in accordance with County ordinance requirements for centralized purchasing". We agree with opinion of the State's Attorney on this issue.

Recommendation 3:

We recommend that a clear and concise written communication regarding purchasing policies and procedures be drafted by the Purchasing Director and be distributed to all County Department Heads and Elected Officials. At a minimum, we recommend this communication include the following:

- Overview of the purchasing ordinance and applicable Illinois State Statute
- Competitive bid thresholds for departments under the County Board
- Quoting requirement for departments under the County Board
- Exceptions to bid thresholds. Ex. specific types of professional services
- Instructions on newly established requisition and purchase order requirements (if adopted from finding 1 and 2)
- Exemptions from competitive bidding requirements for certain elected offices
- Requirement of the Sheriff and Coroner to adhere to county ordinance for equipment purchases.

Other Comment:

In the attachment, we noted several business relationships within the offices of Elected Officials that appear to have been established without the benefit of a competitive bid. As indicated in Finding 3, the County Auditor's Office and the State's Attorney's Office agree that there is no current requirement for several elected offices to seek competitive bids. Regardless, we recommend that all County purchases be procured by the Purchasing Director using the guidelines established in County ordinance to enhance overall transparency, internal control and obtain potential cost savings.

**** DEPARTMENTS UNDER THE COUNTY BOARD ****
 (Subject to County ordinance and \$12,000 bidding threshold)

County Board	ADVACARE SYSTEMS INC Total	25,534.25	no	no	no
County Board	CABELLOS REFURBISHING	12,300.00	no	no	no
County Board	DOGWOOD PET HOSPITAL Total	20,005.34	no	no	no
County Board	FORUM EXTENDED CARE Total	59,161.32	no	yes	no
County Board	GRAINGER W W INC Total	45,434.83	no	no	no
County Board	HILLS PET NUTRITION Total	46,802.56	no	yes	no
County Board	HOBART CORPORATION Total	60,275.61	no	no	no
County Board	KREG THERAPEUTICS IN Total	44,199.00	no	no	no
County Board	MARKS TREE CARE	17,345.00	no	no	no
County Board	MECHANICAL INC Total	134,519.61	no	no	no
County Board	MEDLINE (OTHER THAN GLOVES/UNDERGARMENTS)	378,019.16	no	no	no
County Board	MIDWEST VETERINARY Total	44,804.03	no	no	no
County Board	MINORE STEPHEN Total	21,600.00	no	no	no
County Board	MULLER PINEHURST DAI Total	50,692.73	no	no	no
County Board	MUNICIPAL SYSTEMS IN Total	28,200.00	no	yes	no
County Board	NAPA AUTO PARTS Total	25,209.20	no	no	no
County Board	PAN-O-GOLD BAKING	17,773.60	no	no	no
County Board	PATHWAYS EAP Total	23,616.00	no	no	no
County Board	PATTEN INDUSTRIES Total	16,051.30	no	no	no
County Board	SHERWIN INDUSTRIES I Total	13,028.74	no	no	no
County Board	SPECIALIZED MEDICAL Total	25,962.25	no	yes	no
County Board	ST FRANCIS PET CEMETARY	14,790.39	no	no	no
County Board	TRI-DIM FILTER	19,065.66	no	no	no
County Board	TROJNIAR JILL Total	37,712.75	no	no	no
County Board	UNITED LABORATORIES Total	160,529.74	no	no	no
County Board	URBAN COMMUNICATIONS Total	29,777.59	no	no	no
County Board	WESCOM SOLUTIONS INC Total	40,644.12	no	yes	no

**** DEPARTMENTS UNDER AN ELECTED OFFICIAL OTHER THAN COUNTY BOARD ****
 (Not subject to County ordinance or competitive bidding statute)

Elected	FIDLAR DOUBLEDAY INC Total	156,601.31	no	yes	no
Elected	GBS INC Total	147,871.36	no	no	no
Elected	NATIONAL MEDICAL SER Total	39,734.00	no	yes	no
Elected	PETERS MD MARK Total	269,019.00	no	yes	no
Elected	RKFD OFFICE SUPPLY H Total	50,706.89	no	no	no
Elected	TECHNICAL RESOURCE M Total	215,807.15	no	yes	no
Elected	THOMSON REUTERS Total	165,748.59	no	yes	no
Elected	WITECK MARK Total	40,100.00	no	yes	no