

PERFORMANCE AUDIT
OF THE
OFFICE OF PURCHASING

DEPARTMENT OF MANAGEMENT AND BUDGET

August 2001

EXECUTIVE DIGEST

OFFICE OF PURCHASING

INTRODUCTION	This report, issued in August 2001, contains the results of our performance audit* of the Office of Purchasing (OOP), Department of Management and Budget (DMB).
AUDIT PURPOSE	This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.
BACKGROUND	OOP is responsible for the Statewide procurement of supplies, materials, services, equipment, and printing needed by State agencies. OOP also is responsible for establishing the policies and procedures related to procurement. OOP's mission* is to establish and operate an effective and efficient procurement system that takes into account quality, prices paid, cost of the procurement transaction, and timeliness. As of July 31, 2000, OOP had 41 full-time equated employees.
AUDIT OBJECTIVES AND CONCLUSIONS	Audit Objective: To determine the effectiveness of OOP's contracting process related to requests for

* See glossary at end of report for definition.

proposals* (RFPs), contracts, change orders, and complaints.

Conclusion: We concluded that OOP's contracting process related to RFPs, contracts, change orders, and complaints was generally effective. However, we noted reportable conditions* related to the monitoring of delegated purchasing authorities, the bid evaluation process, contract change orders, contract tracking, and vendor performance (Findings 1 through 5).

Audit Objective: To determine the effectiveness of OOP's processes for establishing performance goals* and objectives* and for monitoring related results.

Conclusion: We concluded that OOP's processes for establishing performance goals and objectives and for monitoring related results were generally effective. However, we noted reportable conditions related to program effectiveness and efficiency and purchases from businesses owned by persons with disabilities (Findings 6 and 7).

Audit Objective: To determine the effectiveness of OOP programs related to procurement cards and office supplies.

Conclusion: We concluded that OOP programs related to procurement cards and office supplies were generally effective. However, we noted a reportable condition related to procurement card administration (Finding 8).

Audit Objective: To assess the Statewide controls of the Advanced Purchasing and Inventory Control System* (ADPICS) related to OOP activities.

* See glossary at end of report for definition.

Conclusion: We concluded that Statewide controls of ADPICS related to OOP activities were generally effective. However, we noted a reportable condition related to ADPICS approval paths (Finding 9).

AUDIT SCOPE AND
METHODOLOGY

Our audit scope was to examine the program and other records of the Office of Purchasing. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our methodology included examining OOP's records and activities for the period October 1, 1997 through July 31, 2000. We conducted a preliminary survey, which consisted of interviewing various personnel and reviewing reports and procedures to gain an understanding of and to form a basis for selecting OOP operations to audit. We surveyed State agency procurement officers regarding their experiences with OOP and the procurement process, and we conducted tests of RFPs, contracts, change orders, and complaints. Also, we reviewed the goals and objectives of OOP as they related to its mission. In addition, we analyzed procurement card activity and identified policies and procedures related to the Procurement Card Program. Further, we tested system controls in ADPICS related to OOP activities.

AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP

Our audit report includes 9 findings and 11 corresponding recommendations. DMB's preliminary response indicated that it agreed with 10 recommendations .

OOP complied with 2 of the 5 prior audit recommendations. One prior audit recommendation was repeated and 2 were rewritten for inclusion in this report.

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August 20, 2001

Mr. Duane Berger, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Berger:

This is our report on the performance audit of the Office of Purchasing, Department of Management and Budget.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; a summary of survey responses, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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Description of Agency

Section 18.1261 of the *Michigan Compiled Laws* (a section of the Management and Budget Act) states that the Department of Management and Budget (DMB) shall provide for the procurement of supplies, materials, services, equipment, and printing needed by State agencies. The Office of Purchasing (OOP) is the organizational unit within DMB that administers these statutory duties and establishes the policies and procedures related to procurement. OOP's mission is to establish and operate an effective and efficient procurement system that takes into account quality, prices paid, cost of the procurement transaction, and timeliness.

OOP is organized into two buying divisions and a customer services division. As of July 31, 2000, OOP had 41 full-time equated employees.

To streamline the purchasing process and reduce the administrative cost of making small and routine purchases, OOP has delegated a portion of its purchasing authority and responsibilities to State agencies. For example, State agencies may make purchases using existing State contracts, purchases of less than \$25,000 for certain commodities and services, and purchases in certain emergency situations without obtaining OOP approval. In addition, State agencies can participate in the Procurement Card Program, which uses credit cards issued to individuals performing functions in the various agencies. The cards can be used for purchases of most items not on a State contract.

State agencies use the Advanced Purchasing and Inventory Control System (ADPICS) to process most procurement requests. ADPICS was designed to specifically address the purchasing, receiving, inventory control, and accounts payable requirements of the State of Michigan. ADPICS is a component of the State's centralized accounting system.

Over 376,000 purchase orders* totaling approximately \$6.4 billion were processed during the period October 1, 1997 through July 31, 2000. Of these purchase orders, OOP processed approximately 28,000 purchase orders totaling approximately \$659 million for State agencies. The remainder were processed by State agencies under their delegated authority.

* See glossary at end of report for definition.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit of the Office of Purchasing (OOP), Department of Management and Budget (DMB), had the following objectives:

1. To determine the effectiveness of OOP's contracting process related to requests for proposals, contracts, change orders, and complaints.
2. To determine the effectiveness of OOP's processes for establishing performance goals and objectives and for monitoring related results.
3. To determine the effectiveness of OOP programs related to procurement cards and office supplies.
4. To assess the Statewide controls of the Advanced Purchasing and Inventory Control System (ADPICS) related to OOP activities.

Audit Scope

Our audit scope was to examine the program and other records of the Office of Purchasing. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures were performed between May and September 2000 and included examining OOP's records and activities for the period October 1, 1997 through July 31, 2000. We conducted a preliminary survey, which consisted of interviewing various personnel and reviewing reports and procedures to gain an understanding of and to form a basis for selecting OOP operations to audit.

To accomplish our first objective, we surveyed State agency procurement officers regarding their experiences with OOP and the procurement process. We also conducted tests of requests for proposals, contracts, change orders, and complaints.

To accomplish our second objective, we reviewed the goals and objectives of OOP as they related to its mission. We researched industry standards, professional journals, and reports of procurement organizations to obtain an understanding of the procurement environment.

To accomplish our third objective, we analyzed the procurement card activity for the audit period. Also, we identified policies and procedures related to the Procurement Card Program. In addition, we reviewed internal audit reports issued by State agencies related to the Procurement Card Program.

To accomplish our fourth objective, we reviewed and tested system controls in ADPICS related to OOP activities.

Agency Responses and Prior Audit Follow-Up

Our audit report includes 9 findings and 11 corresponding recommendations. DMB's preliminary response indicated that it agreed with 10 recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and DMB Administrative Guide procedure 1280.02 require DMB to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

OOP complied with 2 of the 5 prior audit recommendations. One prior audit recommendation was repeated and 2 were rewritten for inclusion in this report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF CONTRACTING PROCESS

COMMENT

Audit Objective: To determine the effectiveness of the Office of Purchasing's (OOP's) contracting process related to requests for proposals (RFPs), contracts, change orders, and complaints.

Conclusion: We concluded that OOP's contracting process related to RFPs, contracts, change orders, and complaints was generally effective. However, we noted reportable conditions related to the monitoring of delegated purchasing authorities, the bid evaluation process, contract change orders, contract tracking, and vendor performance.

FINDING

1. Monitoring of Delegated Purchasing Authorities

OOP did not effectively monitor State agencies' use of delegated purchasing authority.

Section 18.1261 of the *Michigan Compiled Laws* gives the Department of Management and Budget (DMB) responsibility for purchasing services, supplies, and materials needed by State agencies. The statute also provides that DMB may delegate portions of its purchasing authority to other State agencies within dollar limitations and for designated types of purchases.

During the period October 1, 1997 through June 30, 2000, the State issued purchase orders for over \$2.03 billion for goods and services. This amount did not include purchase orders that were releases of blanket purchase orders* or multi-year contracts. Of this amount, we estimated that State agencies used their

* See glossary at end of report for definition.

delegated authority to issue over \$1.37 billion (67%) of the \$2.03 billion for goods and services. Our review of the purchasing authority delegated to State agencies noted:

- a. OOP did not monitor State agencies to determine if they complied with the delegated authority and departmental procurement directives. DMB Administrative Guide procedures 0510.01 and 0510.02 require that purchases of commodities be made through a requisition* to OOP unless the purchase is for less than \$25,000. We selected State agencies that issued over \$1 million in purchase orders and summarized purchase orders that were issued to the same vendor, on the same day, and for a similar amount. We reviewed 2,736 agency-issued purchase orders and noted 68 occasions in which a State agency issued 2 or more purchase orders (involving a total of 293 purchase orders) on the same day for the same commodity, using the same vendor. If these purchase orders were combined, the State agencies would have been required to submit these purchase orders to OOP for review and approval. We also noted one agency that issued 121 separate purchase orders to the same vendor totaling over \$116,000 over a four-month period for telephone lines and equipment. Dividing purchase orders circumvents the State purchasing policy and creates inefficiencies for the State agencies and their vendors by greatly increasing the number of transactions involved.
- b. OOP did not monitor usage of its Statewide contracts by State agencies. In addition, OOP did not provide sufficiently detailed information of items covered by Statewide contracts to State agencies to assist them in identifying what goods and services are included. DMB Administrative Guide procedure 0510.13 provides that agencies must order services and commodities under Statewide contracts when available. State agencies must submit requested exemptions from using Statewide contracts on a requisition to OOP, accompanied with written justification for the exemption.

We reviewed 33 agency-issued purchase orders with commodity codes matching those available on Statewide contracts. We noted 4 (12%) purchase orders that could have been purchased from existing Statewide contracts but were issued to other vendors. The State agencies did not submit the 4

* See glossary at end of report for definition.

purchase orders to OOP for an approval of exemption from using the Statewide contracts.

Respondents from our survey of State agency procurement officers indicated that some agencies do not order goods and services from Statewide contracts because they were unable to determine what commodities were available under Statewide contracts. OOP routinely did not enter detailed information regarding contract specifications, terms, and commodities into the Advanced Purchasing and Inventory Control System (ADPICS). As a result, the procurement officers' ability to determine what items are available on Statewide contracts is limited.

- c. OOP did not monitor the use of emergency purchase* orders by agencies to ensure that the purchases met the emergency purchase criteria. DMB Administrative Guide procedure 0510.09 defines an emergency purchase order as one made under extraordinary circumstances to protect the immediate health, safety, or welfare of individuals or property. The procedure also requires OOP to generate a report of emergency purchases and issue notices of disapproval for any determined not to meet the criteria of an emergency. In addition, the procedure requires agencies to enter in the electronic note pad* a description of the emergency and steps taken to alleviate the emergency.

Between October 1, 1997 and July 30, 2000, agencies processed 2,794 emergency purchase orders for over \$19 million. OOP did not generate any reports or issue any notices of disapproval. Our review of 44 randomly selected emergency purchase orders issued noted that 12 (27%) purchase orders did not contain a description of the emergency and 8 (18%) purchase orders did not meet the criteria of an emergency. These 8 purchase orders included dental supplies, furniture, and clothing.

OOP's lack of monitoring of these delegated purchasing activities limits its ability to ensure the propriety of purchases made on behalf of the State. In addition, OOP's lack of complete and easily accessible information related to commodities and services included in Statewide contracts limits State agencies' ability to effectively use the contracts.

* See glossary at end of report for definition

We noted similar occurrences in our prior audit report. In response to that report, OOP stated that it had developed new policies and procedures to better monitor the agencies. However, OOP did not ensure that these policies and procedures were complied with.

RECOMMENDATION

WE AGAIN RECOMMEND THAT OOP EFFECTIVELY MONITOR STATE AGENCIES' USE OF DELEGATED PURCHASING AUTHORITY.

AGENCY PRELIMINARY RESPONSE

OOP will implement a set of reports to analyze agency delegated authority. Agencies have requested that commodities for certain contracts not be entered into ADPICS, and OOP has responded. Information will continue to be provided by distributing contracts to agencies and through the OOP ListServe. OOP will comply by October 1, 2001.

FINDING

2. Bid Evaluation Process

OOP did not require joint evaluation committees* (JECs) to comply with administrative procedures governing documentation of the evaluation of bid proposals.

OOP may, upon request by a State agency, establish a JEC to assist in the evaluation and selection of prospective vendors.

We randomly selected 10 contracts that exceeded \$1 million for which a JEC had evaluated the bid proposals. Our review disclosed:

- a. Six (60%) of the contract files did not include sufficient documentation of the JEC members' rationale for scoring each proposal based on the predetermined evaluation criteria. DMB Administrative Guide procedure 0510.07 requires the JEC members to use the evaluation criteria included in the invitation to bid*/request for proposal (ITB/RFP) as the first step in the evaluation process. We noted that the JEC members did not always

* See glossary at end of report for definition

document if a bidder met the required ITB or RFP information. For example, of the ITBs and RFPs that required a "Statement of the Problem," 78 (67%) of 116 JEC members' individual evaluations did not document that this factor was considered in scoring the proposal. This information may be necessary to explain the scores the JEC awarded to a bidder when an appeal is made.

- b. Four (40%) of the contract files did not include sufficient documentation of the JEC members' evaluation of the vendor(s) price proposals in relation to the technical proposals as described in the ITB/RFP. The selection process provides for an evaluation of the qualified bidders' prices in relation to the technical proposals.
- c. Five (50%) of the contract files did not include conflict of interest and disclosure statements for all of its JEC members. Because JEC members' actions may result in the issuance of a State contract, DMB Administrative Guide procedure 0510.07 requires JEC members to sign a conflict of interest and disclosure statement. The statement certifies that neither they nor any member of their immediate family has any personal, financial, business, or other conflict of interest with any of the bidders.

Documentation of the JEC actions is necessary to corroborate the integrity of the selection process and the fairness of selections made.

RECOMMENDATION

We recommend that OOP require JECs to comply with administrative procedures governing documentation of the evaluation of bid proposals.

AGENCY PRELIMINARY RESPONSE

OOP agreed with the recommendation. OOP indicated that it has implemented the recommendation to include documents of JEC actions.

FINDING

3. Contract Change Orders

OOP did not properly and consistently process contract change orders. In addition, DMB had not developed a comprehensive list of contract change orders in process to assist in its monitoring efforts.

DMB Administrative Guide procedure 0510.13 requires formal written amendments to make changes to specifications, quantities, or prices for written contracts. OOP informal policies require staff to prepare an advice of change* for each change to a contract. The advices of change are used to record changes in contract information in the State's purchasing system so that users have the most current data related to the contracts. In addition, OOP informal policies dictate using change notices* for substantive changes (i.e., dollar amounts and contract periods). The change notices require a more detailed review and that necessary reviews and approvals are obtained and affected parties are informed of the substantive changes to the contract.

We reviewed a sample of 24 contracts with changes. We noted:

- a. Four contracts for which OOP did not process advices of change. Therefore, the State's purchasing system was not properly updated to reflect the approved changes. In one instance, this resulted in payments going to an incorrect vendor. Another potential effect is that payments could be made in excess of the contract amounts.
- b. Five contracts for which OOP did not process necessary change notices. These changes included changes in contract amounts, contract periods, and items available on the contracts. By using an advice of change instead of a change notice, changes may have been granted without sufficient reviews and approvals.

Without the proper and consistent use of advices of change and change notices, OOP's ability to ensure that contract changes are properly reviewed, approved, and recorded in the State's purchasing system is hindered.

In addition, our review disclosed that the individual divisions within OOP use different reports to monitor contract changes. None of the reports contained information regarding the reasons for the changes, the contract date and value, status of the change, and the dates of various actions. The accumulation of this information officewide could provide OOP with a quick reference regarding the status of contract changes and with the ability to analyze and evaluate the use of contract advices of change and change notices.

* See glossary at end of report for definition.

RECOMMENDATIONS

We recommend that OOP properly and consistently process contract change orders.

We also recommend that OOP develop a more comprehensive list of contract change orders in process to assist in its monitoring efforts.

AGENCY PRELIMINARY RESPONSE

OOP agreed with the recommendations and indicated that:

- (a) It has implemented the recommendation that it properly and consistently process contract change orders. OOP stated that all contract change notices are maintained electronically.

- (b) It will comply with the second recommendation. OOP stated that it will initiate a procedure for monitoring the contract change order process.

FINDING

4. Contract Tracking

OOP had not developed an effective system to monitor the status of requisitions, purchases orders, ITBs, and change orders.

OOP developed project phases for the processing and administration of a contract. Each phase has its associated activities and an estimated completion time. However, OOP did not have a system to monitor the progress of contracts and purchase orders through the related phases. The available ADPICS screens do not provide essential key dates or locations needed to assess the amount of time that the individual contracts spend at the project phases. Depending on the complexity of the proposed contract, the contract process can take up to approximately 30 weeks. Our survey of State agency procurement officers indicated that 16% of the respondents were somewhat dissatisfied and 5% were very dissatisfied with OOP's communication to the agency on the status of requisitions, purchases orders, ITBs, and change orders. In addition, comments from our survey indicated that "sometimes things appear to get lost."

OOP processed over 19,000 purchase orders and 2,200 contracts between October 1, 1997 and June 30, 2000. Because of the volume, individual buyers cannot readily know the status of each purchase order or contract that they are responsible for handling.

The lack of a monitoring system limits OOP's ability to determine the status of purchase orders and contracts and to determine areas in which improvements can be made in OOP's project phases.

RECOMMENDATION

We recommend that OOP develop an effective system to monitor the status of requisitions, purchases orders, ITBs, and change orders.

AGENCY PRELIMINARY RESPONSE

OOP agreed with the recommendation. OOP indicated that it is in the process of developing a contract tracking database and will have present information on the world wide web. OOP will comply by January 1, 2002.

FINDING

5. Vendor Performance

OOP did not effectively process vendor performance complaints.

OOP Desk Manual section 3:8-1 requires OOP to begin an investigation, determine the validity of the complaint, and resolve the complaint within four weeks of receiving a vendor performance complaint. OOP created a vendor performance disposition record in the Michigan Administrative Information Network* (MAIN) to document all notes, dates, and activities pertinent to the investigation and resolution of the complaint. Our review of the vendor performance complaints recorded in MAIN disclosed:

- a. OPP did not have a method of tracking vendor performance complaints received by OOP staff. OOP procedures require staff who are responsible for the investigation and resolution of complaints to record vendor complaints and resolution in MAIN. However, OOP did not periodically produce a comprehensive list of complaints. Without a method to identify all complaints

received, OOP cannot determine if all complaints were investigated and resolved.

- b. OOP did not monitor vendor performance complaints to ensure that these were processed in a timely manner. OOP recorded 1,125 vendor performance complaints in MAIN for the period October 1, 1997 through June 30, 2000. MAIN records indicated that 808 (72%) complaints were not responded to or recorded within the four-week deadline. OOP stated that some of these complaints were resolved prior to the deadline, but the system was not updated in a timely manner. Because OOP did not enter the dates that the complaints were resolved, we were not able to determine the number of complaints that were resolved in a timely manner. In addition, according to information on MAIN, as of June 30, 2000, 17 complaints remained outstanding from fiscal year 1997-98 and 63 complaints remained outstanding from fiscal year 1998-99.
- c. OOP did not include all necessary vendor complaint information on MAIN. A review of 25 vendor performance complaints recorded on MAIN disclosed incomplete documentation related to description of the complaint (20 instances), the actions taken (30 instances), and dates and initials of OOP staff responsible for the resolution (60 instances). This information is essential to track the status and activity related to the vendor performance complaints.

The maintenance of a complete and uniform vendor performance complaint list is necessary to determine that all vendor performance complaints are investigated, resolved, and documented on a timely basis. In addition, complete and accurate vendor performance complaint information could assist OOP in developing more effective contracts with vendors by identifying changes that would reduce complaints. The results of our survey of State agency procurement officers also noted problems related to the handling and timeliness of the vendor performance complaints submitted to OOP.

RECOMMENDATION

We recommend that OOP improve its processing of vendor performance complaints.

AGENCY PRELIMINARY RESPONSE

OOP agreed with the recommendation. OOP indicated that it has complied and has clarified its policies. OOP also indicated that it has reduced the backlog of current, outstanding vendor performance complaints from over 250 to an average of 50 outstanding at any one time.

EFFECTIVENESS OF ESTABLISHING PERFORMANCE GOALS AND OBJECTIVES

COMMENT

Background: OOP's mission is to serve the citizens of this State, the departments for which it acts as an agent, and the business community through the use of sound, prudent, and consistent purchasing practices. OOP has the statutory responsibility to prepare bid specifications, establish contract terms and conditions, and procure goods and services required for the operation of the executive branch of State government.

Audit Objective: To determine the effectiveness of OOP's processes for establishing performance goals and objectives and for monitoring related results.

Conclusion: **We concluded that OOP's processes for establishing performance goals and objectives and for monitoring related results were generally effective.** However, we noted reportable conditions related to program effectiveness and efficiency and purchases from businesses owned by persons with disabilities.

FINDING

6. Program Effectiveness and Efficiency

OOP needs to improve its performance measurement process by including all the key elements necessary to evaluate and improve the effectiveness and efficiency of its programs.

A performance measurement process should include: performance indicators* for measuring outputs* and outcomes*; performance standards* that describe the desired level of outputs and outcomes; a management system to gather output and

* See glossary at end of report for definition.

outcome data related to the operations of the entity; and a comparison of actual data with the desired outputs and outcomes.

OOP had established as strategic goals: improved services to customers, improved communications, and enhanced support to employees. OOP used the MAIN Management Information Database* (MAIN MIDB) to generate reports related to its vendor performance, quick purchases programs, contract expiration dates, and contract balances. However, OOP had not implemented key elements of a performance measurement process. For example:

- a. OOP had not developed outcome-related performance indicators to allow it to assess the effectiveness of its programs in accomplishing its goals. These indicators could include standard time frames for resolving complaints, processing purchase orders, and developing contracts. The use of this information would address one of OOP's strategic goals of improving services to customers.
- b. OOP had not developed a system to gather data regarding processing times and costs related to the various types of procurement activities completed by OOP. As a result, OOP could not readily identify procurement activities that could be modified and improved.

After developing performance indicators and collecting data related to the indicators, OOP should evaluate if it is effectively and efficiently meeting its overall goals and responsibilities.

The lack of a complete performance measurement process to collect data and analyze its activities limits OOP's ability to evaluate the effectiveness of meeting its goals and to provide useful information to its customers. In addition, it limits OOP's ability to identify and make needed program policy and procedure revisions to ensure effective and efficient purchasing services to the State.

* See glossary at end of report for definition.

RECOMMENDATION

We recommend that OOP improve its performance measurement process by including all the key elements necessary to evaluate and improve the effectiveness and efficiency of its programs.

AGENCY PRELIMINARY RESPONSE

OOP agreed with the recommendation. OOP indicated that it has developed performance indicators, and will be developing performance indicators, to assess the effectiveness of meeting its goals and to provide useful information to its customers. OOP will comply by January 1, 2002.

FINDING

7. Purchases From Businesses Owned by Persons With Disabilities

DMB did not review and report the progress of the departments in meeting established goals for making purchases from businesses owned by persons with disabilities.

Section 450.793 of the *Michigan Compiled Laws (Act 112, P.A. 1988)* provides that DMB review the progress of the departments in meeting a predetermined goal of incurring expenditures for construction, goods, and services with businesses owned by persons with disabilities. Subsequent to each review, DMB shall make recommendations to the Legislature regarding the percentage goal.

Because the data on the vendor information form is optional, some potential vendors do not complete all portions of the form. Therefore, DMB may not be aware of all vendors with disabilities.

RECOMMENDATION

We recommend that DMB either review and report the progress of the departments in meeting the established goals or seek amendatory legislation to discontinue the activity.

AGENCY PRELIMINARY RESPONSE

OOP disagreed with the recommendation. OOP indicated that it has requested an Attorney General's opinion regarding Act 112, P.A. 1988, to determine its legality.

EFFECTIVENESS OF THE PROCUREMENT CARD AND OFFICE SUPPLIES PROGRAMS

COMMENT

Audit Objective: To determine the effectiveness of OOP programs related to procurement cards and office supplies.

Conclusion: **We concluded that OOP programs related to procurement cards and office supplies were generally effective.** However, we noted a reportable condition related to procurement card administration.

FINDING

8. Procurement Card Administration

OOP did not determine if State agencies corrected control weaknesses identified by internal audits of the Procurement Card Program at the user agencies. Also, OOP did not restrict or modify the procurement card purchasing limits for the agencies with significant control weaknesses.

Section 18.1261 of the *Michigan Compiled Laws* gives DMB the authority to withdraw the delegated purchasing authority if agencies do not comply with purchasing policies and procedures.

DMB established the Procurement Card Program to assist agencies in reducing administrative costs for purchasing small dollar items. The Program allows State employees to purchase items using a procurement card like a credit card. In 1999, agencies made over 200,000 purchases totaling over \$41 million with the procurement cards. In February 1999, OOP notified State procurement offices of its intentions to increase the procurement card purchasing limits to \$2,500. OOP requested that each user agency submit a request by October 8, 1999 and provide a satisfactory internal audit by December 17, 1999 to retain the automatic increase in the limit that became effective October 1, 1999. However, OOP had not defined what constituted a satisfactory audit for the agencies to maintain the increase in the delegated authority. OOP automatically increased the limits for all agencies on October 1, 1999 and did not enforce its requirements that agencies submit requests and satisfactory audits. OOP has not rescinded any of the increases based on the agencies' requests or audit results.

Our review of 21 audits submitted by user agencies disclosed:

- a. The internal audit reports received by OOP had numerous audit exceptions. For example, 12 audits reported that procurement card purchases did not receive proper approvals, 13 identified procurement card purchases that did not contain supporting documentation, 15 noted that procurement card transactions were split to apparently avoid the transaction dollar limits, and 11 reported that unauthorized individuals used the procurement cards.
- b. OOP received 9 of the internal audit reports after the due date. Seventeen of the internal audit reports did not address all of the audit components established by OOP in its memorandum to the agencies, and 1 agency did not submit an internal audit report.

Uncorrected internal control weaknesses increase the risk that improper usage of the procurement cards could occur and go undetected.

RECOMMENDATIONS

We recommend that OOP determine if State agencies corrected control weaknesses identified by internal audits of the Procurement Card Program at the user agencies.

We also recommend that OOP take appropriate action regarding those agencies with significant control weaknesses.

AGENCY PRELIMINARY RESPONSE

OOP agreed with the recommendations and indicated that:

- (a) It has complied with the first recommendation. OOP indicated that it is responsible for making procurement cards available for agency use and setting standards. Part of these standards is to require agency internal audits of the Procurement Card Program. The purpose of the audits is to help identify control weaknesses in the procurement card process.
- (b) It will work with State agencies regarding the second recommendation to improve internal control over their procurement card transactions.

ASSESSMENT OF THE STATEWIDE CONTROLS OF ADPICS

COMMENT

Audit Objective: To assess the Statewide controls of the Advanced Purchasing and Inventory Control System (ADPICS) related to OOP activities.

Conclusion: We concluded that Statewide controls of ADPICS related to OOP activities were generally effective. However, we noted a reportable condition related to ADPICS approval paths.

FINDING

9. ADPICS Approval Paths

DMB did not monitor the use of the commodity codes to ensure that all nondelegated purchases of commodities and services were properly approved by OOP.

Section 18.1261 of the *Michigan Compiled Laws* (Act 431, P.A. 1984, as amended) provides that DMB is responsible for oversight of the procurement of supplies, materials, equipment, printing, and services needed by State agencies. DMB Administrative Guide procedure 510.02 provides guidance to State agencies for procuring commodities and services.

ADPICS contains various approval paths used to electronically route documents to the appropriate individuals for document approval prior to authorizing purchases. The commodity code approval path is centrally controlled by DMB. As of August 2000, 4,657 of the 172,000 active commodity codes did not require OOP review and approval.

We reviewed purchase orders using the 4,657 commodity codes not requiring OOP approval and determined that agencies issued 809 purchase orders during our audit period. Agencies used 99 (12%) of the 809 purchase orders to procure items that did not agree with the commodity identified in the commodity codes. Our review noted:

- a. Agencies issued 55 purchase orders directly to vendors for noncontract printing. DMB Administrative Guide procedure 0510.02 requires all

noncontract printing to be requisitioned through OOP regardless of dollar amount.

- b. Agencies issued 34 purchase orders directly to vendors for open-space office furniture not on contract. DMB Administrative Guide procedure 0510.02 requires nondelegated purchases of commodities to be requisitioned through OOP unless they are purchased from existing contracts.
- c. Agencies issued 10 purchase orders to vendors for purchases of goods and services using commodity codes identified as miscellaneous financial transactions. DMB had not provided any written guidance to the agencies regarding the use of these commodity codes when the agencies prepared and issued purchase orders. DMB staff informed us that these commodity codes should be used for miscellaneous payments to include travel reimbursements, membership fees, and registration fees that do not require OOP approval.

OOP's lack of monitoring of these purchasing activities limits its ability to determine the propriety of purchases made on behalf of the State and to accumulate accurate data.

RECOMMENDATION

We recommend that DMB monitor the use of the commodity codes to ensure that all nondelegated purchases of commodities and services are properly approved by OOP.

AGENCY PRELIMINARY RESPONSE

OOP agreed with the recommendation. OOP indicated that a procedure to remove the approval path on printing under \$25,000 has been drafted and is pending approval. OOP will begin working with DMB's Office of Financial Management regarding commodity codes for financial transactions. OOP will comply by October 1, 2002.

SUPPLEMENTAL INFORMATION

OFFICE OF PURCHASING
 Department of Management and Budget
Summary of Survey Responses

Summary Overview

We sent surveys to 74 procurement officers from State agencies under the purchasing authority of the Office of Purchasing (OOP). This included all State agencies in the executive branch of State government. We received 51 responses from the 74 delivered surveys, a response rate of approximately 69%.

Following is a copy of the survey that includes the number of responses for each item.

- How would you rate your satisfaction with the information provided by the Department of Management and Budget (DMB) Administrative Guide and DMB directives that relate to purchasing and contracting?

Very Satisfied	Somewhat Satisfied	Somewhat Dissatisfied	Very Dissatisfied	No Opinion
13	21	12	1	4

- Are there purchasing and contracting topics that you believe have not been sufficiently addressed either by the DMB Administrative Guide or by DMB directives? If yes, please list below.

Yes	No	No Response
13	31	7

- On average, how frequently does your agency consult with OOP on purchasing issues?

0 to 3 times per month	4 to 6 times per month	7 to 9 times per month	10 or more times per month	No Response
28	9	1	10	3

- How satisfied are you with the timeliness in which your agency's questions or concerns are addressed by OOP staff related to the following?

Purchasing Issues	Very Satisfied	Somewhat Satisfied	Somewhat Dissatisfied	Very Dissatisfied	No Opinion
Procurement cards	26	10	3	0	12
Delegated authority	19	16	2	1	13
Change orders	18	14	6	1	12
Vendor selection	18	17	7	0	9
Statewide contracts	14	16	12	5	4
Commodity codes	17	18	5	2	9
Requests for proposals	11	20	2	2	16

5. How satisfied are you with the quality of the responses provided by OOP to your questions or concerns related to the following?

Purchasing Issues	Very Satisfied	Somewhat Satisfied	Somewhat Dissatisfied	Very Dissatisfied	No Opinion
Procurement cards	26	10	3	0	12
Delegated authority	19	14	5	1	12
Change orders	16	17	5	0	13
Vendor selection	20	15	7	1	8
Statewide contracts	16	20	6	4	5
Commodity codes	18	15	8	0	10
Requests for proposals	13	18	3	1	16

6. How would you assess your agency's need for guidance by OOP in preparing requests for proposals (RFPs) and making purchases that relate to delegated limits?

Very Necessary	Somewhat Necessary	Unnecessary	No Opinion
6	32	5	8

7. How would you rate your satisfaction with OOP's timeliness in processing purchase requests (purchase orders and/or requisitions) and change orders?

Very Satisfied	Somewhat Satisfied	Somewhat Dissatisfied	Very Dissatisfied	No Opinion
11	20	14	3	3

8. How would you rate your satisfaction with OOP's communication to your agency on the status of the following purchasing processes?

Purchasing Process	Very Satisfied	Somewhat Satisfied	Somewhat Dissatisfied	Very Dissatisfied	No Opinion
Requisitions	14	20	8	2	7
Purchase orders	15	21	7	3	5
Invitations to bid	11	14	12	3	11
Change orders	13	20	6	2	10

9. How would you rate OOP's coordination of purchase requests and contracts for purchases from Statewide contracts?

Very Satisfied	Somewhat Satisfied	Somewhat Dissatisfied	Very Dissatisfied	No Opinion
9	15	13	3	11

10. How would you rate your satisfaction with the ease of use and flexibility of MAIN (ADPICS) screens used to enter purchase requests?

Very Satisfied	Somewhat Satisfied	Somewhat Dissatisfied	Very Dissatisfied	No Opinion
<u>20</u>	<u>19</u>	<u>5</u>	<u>4</u>	<u>3</u>

11. How would you assess the need for MAIN (ADPICS) enhancements that would allow better monitoring of procurement transactions by your agency?

Very Necessary	Somewhat Necessary	Unnecessary	No Opinion
<u>9</u>	<u>23</u>	<u>12</u>	<u>7</u>

12. How often have you found the use of MIDB queries for monitoring procurement transactions to be useful to your agency?

Always	Sometimes	Never	Not Applicable
<u>8</u>	<u>16</u>	<u>6</u>	<u>21</u>

13. Please identify (or list) what methods you use to pay vendors if they are not on the approved vendor list:

Responses to this question varied. The most common responses were to pay the vendor through the use of the procurement card (25) and to help the vendor get registered with the State of Michigan (23).

14. Approximately how many times in the last three years have you or your staff entered a positive or negative comment regarding a vendor into the MAIN Vendor Performance screen?

None	1 to 5 times	6 to 10 times	More than 10 times
<u>15</u>	<u>22</u>	<u>5</u>	<u>9</u>

15. Approximately how many times in the last three years have you used another method (e.g., telephone or e-mail) to contact OOP regarding a vendor performance issue?

None	1 to 5 times	6 to 10 times	More than 10 times
<u>12</u>	<u>21</u>	<u>6</u>	<u>12</u>

16. If you submitted a negative comment or complaint regarding a vendor, approximately how long did it take for OOP to acknowledge receipt of your comment or complaint?

1 to 5 business days	6 to 10 business days	More than 10 business days	OOP did not acknowledge	Not applicable
9	1	6	19	16

17. If you have submitted a negative comment or complaint regarding a vendor, did OOP update you on action taken in relation to your comment or complaint?

Yes	No	No Response
18	19	14

18. How satisfied were you with OOP's handling of your vendor complaints?

Very Satisfied	Somewhat Satisfied	Somewhat Dissatisfied	Very Dissatisfied	Not Applicable
7	8	13	8	15

19. When handling your issues, what could OOP do to improve the purchasing process?

Responses to this question varied. The most common responses were to improve communication between OOP and the user agencies (8), to promote uniformity of policies and procedures among buyers and units (7), to keep agencies informed of contract status and changes in contracts and OOP procedures (6), and to improve time frames of the purchasing process (9).

Glossary of Acronyms and Terms

Advanced Purchasing and Inventory Control System (ADPICS)	The purchasing and materials management system used by the State; part of MAIN FACS. ADPICS is fully integrated with R*STARS in supporting the purchasing, receiving, payment process, and inventory management within State agencies.
advice of change	A document that requests the change of a posted procurement document. Once an advice of change is posted, the status of the referenced document changes to CINP (change in process). This allows the document to be changed and reposted.
blanket purchase order	Contracts between the State and a vendor for commodities to be purchased on an as-needed basis for a specified period of time. Blanket purchase orders can be created by OOP for Statewide use or by an agency for that agency's use only. Purchases are made by creating releases against the blanket purchase order. Releases are created by purchase orders or direct purchase orders.
change notice	A written notice to the contractor and contract users that a change or amendment has been made to a contract.
direct purchase order	A contract between the State and a vendor for the direct purchase of goods or services at a specified price that were not previously requisitioned.
DMB	Department of Management and Budget.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of

resources required to attain a certain level of outputs or outcomes.

electronic note pad

An electronic message screen that can be accessed from any ADPICS screen that includes a Note Pad field. Notes can be attached to posted or unposted documents.

emergency purchase

A purchase made under extraordinary procedures to protect the immediate health, safety, or welfare of individuals or property.

goals

The agency's intended outcomes or impacts for a program to accomplish its mission.

invitation to bid (ITB)

The State's request for a bid quote from a list of vendors that can supply the goods or services requested.

joint evaluation
committee (JEC)

A committee that is (1) an advisory body that evaluates proposals and makes recommendations to the State purchasing director, and (2) a temporary working level procurement committee that may be initiated for each major procurement to create bid documents and to evaluate vendor bid responses and vendor demonstrations and benchmarks for that procurement.

MAIN FACS

MAIN Financial Administration and Control System.

MAIN HRS

MAIN Human Resources System.

MAIN Management
Information Database
(MIDB)

A management information database designed to respond to a manager's need for information and to reduce traffic from the transaction databases on the mainframe. MAIN MIDB is used by management to develop ad hoc queries and reports. Users are not allowed to enter or change data. Data is extracted from R*STARS, ADPICS, and MAIN HRS, and historical data is maintained for three years.

Michigan Administrative Information Network (MAIN)	A fully integrated, automated financial management system for the State of Michigan. MAIN supports the State's accounting, payroll, purchasing, contracting, budgeting, personnel, and revenue management activities and requirements. MAIN consists of four major components. These components are MAIN HRS, MAIN FACS, MAIN MIDB, and MAIN Enterprise Information System (EIS).
mission	The agency's main purpose or the reason that the agency was established.
objectives	Specific outputs that a program seeks to perform and/or inputs that a program seeks to apply in its efforts to achieve its goals.
OOP	Office of Purchasing.
outcomes	The actual impacts of the program. Outcomes should positively impact the purpose for which the program was established.
outputs	The products or services produced by the program. The program assumes that producing its outputs will result in favorable program outcomes.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
performance indicators	Information of a quantitative or qualitative nature indicating program outcomes, outputs, or inputs. Performance indicators are typically used to assess achievement of goals and/or objectives.

performance standards	A desired level of output or outcome as identified in statutes, regulations, contracts, management goals, industry practices, peer groups, or historical performance.
post	Final completion of an ADPICS document. Posting generates any accounting transactions associated with the document. Posting also allows the next step in the procurement process to begin.
purchase order	A contract between the State and a vendor for the purchase of requisitioned goods or services at a specified price.
reportable condition	A matter coming to the auditor's attention that, in the auditor's judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
request for proposal (RFP)	A request to vendors which invites the submission of a formal plan addressing the needs that have been set forth in the solicitation or invitation to bid.
requisition	A request to purchase goods or services.
R*STARS	Relational Standard Accounting and Reporting System.