



PAT FRANK
Clerk of the Circuit Court
13th Judicial Circuit

COUNTY AUDIT

HILLSBOROUGH COUNTY, FLORIDA

DEPARTMENTAL PURCHASE ORDERS

REPORT # 225

NOVEMBER 09, 2011

November 09, 2011

The Honorable Al Higginbotham, Chairman
The Honorable Kevin Beckner
The Honorable Victor Crist
The Honorable Ken Hagan
The Honorable Lesley "Les" Miller
The Honorable Sandra Murman
The Honorable Mark Sharpe

Dear Chairman Higginbotham and Commissioners:

We have performed an audit of Departmental Purchase Orders, Audit Report #225, dated November 09, 2011. Responses to our recommendations were received from the Director of Business & Support Services (Procurement) and the County Administrator's Executive Team and have been included in the report after each finding and recommendation.

We appreciate the cooperation and professional courtesies extended to our auditors by the Director and personnel of Procurement and other Divisions/Departments (Children's Services, Head Start, Fleet Management, Public Works, and Water Resource Services) during this audit.

Sincerely,

Daniel A. Pohto, CPA, CIA
Director, County Audit

cc: Mike Merrill, County Administrator
Lucia Garsys, Deputy County Administrator, Infrastructure & Development Services
Helene Marks, Chief Administrative Officer
Sharon Subadan, Deputy County Administrator, Public Safety & Community Services
Bonnie Wise, Chief Financial Administrator
Tom Fesler, Director, Business & Support Services (Procurement)
Bruce Dangremond, Manager, Performance Mgmt, Business and Support Services

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION:

Department Purchase Orders (DPOs) are intended to provide an effective and efficient system for small Departmental purchases not exceeding \$10,000. Posted on the County's Intranet (COIN) is the Business and Support Services (Procurement) *Hillsborough County Department of Procurement Services Procurement Policy & Procedures* (Procedures) manual. Chapter 3 states that the Department Directors are responsible for the implementation and use of DPOs and for ensuring that DPO purchases satisfy the requirements of the Procedures.

According to data provided by Procurement, 33 Departments issued 3,210 DPOs for a total of \$8,986,530.20 during the 15-month scope period of 10/01/09 - 12/31/10.

The following summary shows the Top 5 DPO issuing Departments for the 3,210 DPOs:

Water Resource Services (WRS)	796 DPOs issued for a total of \$1,953,717.23
Public Works (PW)	492 DPOs issued for a total of \$1,217,313.36
Real Estate (RE)	375 DPOs issued for a total of \$678,199.00
Children's Services/Head Start (CS)	262 DPOs issued for a total of \$752,686.32
<u>Fire Rescue (FR)</u>	<u>200 DPOs issued for a total of \$856,705.51</u>
Totals for Top 5	2,125 DPOs issued for a total of \$5,458,621.42

At the time of audit testing, actual cash payments totaling \$6,567,119.45 had been made for 32 Departments against 2,403 of the 3,210 DPOs issued. The following shows the Top 10 vendors receiving DPO payments, totaling \$739,798.83, for the scope period of 10/01/09 - 12/31/10.

Top 10 Vendors	VENDOR NAME	Department	DEPT. DPO COUNT	<u>Department Amount of Payments</u>	<u>County-Wide Amount of Payments</u>
1	Medtronic Emergency Response Systems	Fire Rescue	19	\$ 132,485.25	\$ 132,485.25
2	Health Aid Co Inc	Aging Service	13	\$ 117,553.61	\$ 117,553.61
3	Bound Tree Medical LLC	Fire Rescue	12	\$ 91,063.50	\$ 91,063.50
4	Progressive Medical International	Fire Rescue	14	\$ 78,003.04	\$ 78,003.04
5	Hach Co	Environmental Protection Commission	2	\$ 8,562.00	\$ 74,384.02
	Hach Co	Water Resource Services	23	\$ 65,822.02	\$ 74,384.02
6	Dsm.Net Inc	State Attorney	12	\$ 57,117.39	\$ 57,117.39

Top 10 Vendors	VENDOR NAME	Department	DEPT. DPO COUNT	Department Amount of Payments	County-Wide Amount of Payments
7	Firstline Gloves Inc	Fire Rescue	8	\$ 50,575.00	\$ 50,575.00
8	Jim & Slims Tool Supply	Fleet Management	6	\$ 47,720.00	\$ 48,653.71
	Jim & Slims Tool Supply	Public Works	1	\$ 933.71	\$ 48,653.71
9	Library Interiors Of Florida Inc	Library Services	7	\$ 47,133.31	\$ 47,133.31
10	Commercial Interiors Inc	Public Works	1	\$ 4,998.00	\$ 42,830.00
	Commercial Interiors Inc	Water Resource Services	11	\$ 37,832.00	\$ 42,830.00

OBJECTIVE:

To review and evaluate internal controls and compliance with Procurement’s Procedures related to Departmental Purchase Orders (DPOs).

SCOPE:

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by The Institute of Internal Auditors. The audit period was from October 1, 2009, through December 31, 2010. Our audit procedures included interviewing County personnel (both Procurement and Departments), performing various data extractions and analyses, and testing the internal controls within, and compliance with, Procurement’s Procedures. Section 3.4.1 (B) (II) of the Procedures provides instructions and restrictions on the use of DPOs.

OVERALL EVALUATION:

County personnel were responsive to our inquires and provided thorough information when requested. We found knowledgeable and dedicated employees that were receptive to our suggestion for improvements. The Departments provided data and other information in a prompt and courteous manner. Our audit identified several opportunities to strengthen and improve the internal controls over purchases made via DPOs.

FINDING	DESCRIPTION	PAGE REFERENCE
1	Procurement's Procedures need to be updated to further clarify the related activities and responsibilities for Departments using DPOs.	See page 4 of this report.
2	Procurement's DPO activity monitoring processes need to be updated.	See page 11 of this report.
Observation	The County should periodically review the cost effectiveness and best business practices for its various procurement options.	See page 13 of this report.

OPINION:

Based on the results of our audit testing, and as noted in our audit report, opportunities to strengthen the system of controls and processes over Departmental Purchase Orders do exist. We believe that our recommendations, if implemented, will enhance the controls and processes used by Procurement and the Departments.

The exit conference was conducted on October 3, 2011.

AUDIT BY:

Daniel A. Pohto, Director, County Audit
 Mark R. Kolman, Audit Manager
 Ed B. Tobias, IT Audit Manager
 Mary Ann Kominsky, Senior Internal Auditor

FINDINGS & RECOMMENDATIONS

Control Activities: Listed below are findings that represent opportunities for Procurement to strengthen the internal controls surrounding the County's DPO activities. For each finding, a recommendation has been included.

FINDING 1

Procurement's Procedures need to be updated to further clarify the related activities and responsibilities for Departments using DPOs.

Management is responsible for implementing and maintaining an adequate system of internal controls, including policies and procedures used to achieve management's objectives.

We reviewed Procurement's Procedures and tested for various attributes (splits, documentation, crossing quote threshold, fixed assets) a total of 302 individual DPOs of the 2,403 DPOs with actual cash payments to determine if Procurement's Procedures represented adequate internal controls and were being followed.

Various testing techniques, including interviews of user department personnel, were used to identify the issues outlined in this Finding. Due to the nature of these testing techniques, the issues listed in a – m below should not necessarily be considered "errors" but are specific areas where enhanced Procedure language may provide better direction to DPO users.

REVIEW OF PROCEDURES

Based on our reviewed Procurement's Procedures the County needs to clarify the following areas related to the use of DPOs:

- a) **The combined value of DPOs that can be issued by a department over a defined period of time** - Our summary of the Top 5 DPO issuing Departments, as seen in the Executive Summary on page 1, reflected 2,125 DPOs issued for a total of \$5,458,621.42 for the scope period. There are no clear definitions of whether or not this level of activity is appropriate.

The Procedures state that DPOs are intended to provide an effective and efficient system for small Departmental purchases not exceeding \$10,000. The DPO limit of \$10,000 represents the maximum amount for each DPO. The Procedures do not place dollars limits on the combined value of DPOs that can be issued by a department over a defined time period.

- b) **The definition of "total value"** - The Procedures say that DPOs are not to be used for regularly occurring or scheduled needs when the total value is projected to exceed \$10,000 during a one-year period. Additional information is needed to clarify whether the phrase "total value" applies to each individual DPO or the entire projected need and if the "one-year period" is a calendar or a fiscal year.

c) **Consideration to be given to Minority Businesses when using DPOs** - The Procedures mention giving consideration to Minority and Small Businesses when making DPO purchases. For Departments to know if they are in compliance with this requirement, additional information needs to be provided describing the actions that are to be taken in giving such consideration and where and how to document the actions taken. A directory of Minority and Small Businesses is available on COIN.

d) **Guidance for monitoring DPO use** – The Procedures state that the Department Directors are responsible for the implementation and use of the DPO system and for ensuring the requirements of the Procedures are met. To ensure consistent compliance with DPO requirements, the Departments could benefit from Procurement further clarifying the types of monitoring processes that are expected, for example, how the Departments should monitor for split transactions, consideration of minority/small business enterprises, and other requirements. Additionally, the consequences for not complying should be stated within the Procedures.

e) **System-generated report for monitoring quotes** - For purchases exceeding \$5,000, the Procedures include a choice of two places in the ADPICS procurement purchasing computer system to document obtaining three competitive quotations: Screen 2361 (Direct Purchase Order Quotation Entry) or Notepad. Screen 2361 is formatted for documenting three quotes and reports could be created from it to monitor documentation. This is not an option with Notepad. If the Procedures required the use of Screen 2361, then the Departments and Procurement could use these reports for monitoring.

DISCUSSIONS WITH PROCUREMENT

Based on our discussions with Procurement, the County needs to clarify the following areas related to the use of DPOs:

f) **Use of State contracts when making DPO purchases** - Procurement has identified a need to clarify the Procedures so that the issuance of multiple DPOs to a State Contract vendor does not appear to be split DPOs.

g) **Obtaining approval for alternate uses of DPOs** - Departments may use DPOs, with Procurement's knowledge, to fill in procurement gaps until special circumstances have been resolved. The Procedures should clarify these alternative uses of DPOs, when such activities are permitted, and the related documentation requirements.

h) **Obtaining Interlocal Agreements** - Although Procurement does have interlocal agreements with elected officials using the County's Procurement Services for PCards, these agreements do not include other methods of Procurement (e.g., DPOs) made available to elected officials.

DPO ANALYSIS AND DISCUSSIONS

Based on our analysis of a sample of DPOs and discussions with Procurement and various County Departments, the County needs to clarify the following areas related to the use of DPOs:

i) **The definition of “split purchases”** - The Procedures say that DPOs “are not to be split among several DPOs to avoid regular procurement procedures.” Because the definition of split purchases was not clear, Procurement and the Departments maintained differing viewpoints on the usage of DPOs.

As part of testing, 239 DPOs were analyzed for potential split purchases. Procurement identified 24 of these 239 DPOs across 3 Departments that Procurement considered to be split transactions. When these DPOs were discussed with the Departments, they presented various reasons to support their interpretation of the Procedures and their methods of using DPOs.

Additional information is needed to clarify how this requirement applies to purchases from the same vendor, or from different vendors, for the same goods/services, as well as the defined time period to which this applies (e.g., calendar year, fiscal year, rolling 12-month period across fiscal years). A clearer definition of what constitutes a split transaction would help to reduce confusion between Procurement and the Departments.

j) **Documentation requirements for the effect of change orders** – Our audit testing identified 18 DPOs (across 10 different Departments) that were issued for amounts less than \$5,000 and then later increased to amounts exceeding \$5,000. While the Procedures did address the need to document the reasons for change orders and obtaining three competitive quotes when a DPO was in excess of \$5,000 upon being first issued, there was no mention of what level of documentation the Departments should include when a Change Order resulted in an already issued DPO exceeded \$5,000. The documentation provided by the 10 Departments varied widely from extremely detailed to no documentation that addressed the crossing of the \$5,000 quote threshold.

DPOs that exceed \$5,000 via change orders may be an attempt to circumvent the quote threshold without adequate documentation of the reasons. The Procedures need to further clarify how the Departments should document when Change Orders result in an already issued DPO exceeding \$5,000.

k) **Documentation of DPO activity** - The Departments expressed their need for more detailed instructions from Procurement on how they should document: 1) breaking tie bids and 2) conversations with Procurement, vendors, or department staff regarding DPO activity.

l) **Training on how to use DPOs in accordance with County requirements** - The Departments said that there is a need for additional instructions and training in their procurement decision making processes, including:

- How to look up vendors on FAMIS and/or Onvia DemandStar.
- How to select the best available vendors.
- How to prioritize the various procurement objectives in selecting the right vendor.
- How to determine when getting the lowest price is the highest priority.

- How to determine when to select just one vendor and consolidate the work versus when to select multiple vendors and distribute the work.
- How to meet DPO requirements without additional training from Procurement given changes in staffing and procurement needs.

m) **Additional Blanket Purchase Orders (BPOs) guidance** - The Departments expressed a need for additional BPO guidance on topics such as:

- What is the best way to check for current or pending BPOs before issuing a DPO.
- How to determine common goods/services for which the County uses BPOs.
- How to and where to document that a BPO search has been conducted.

Policy & Procedures should provide clear direction on activities and responsibilities. If Departments are not following the Procedures it might be an indicator that they do not understand the Procedures or that DPO activities are not being carried out in accordance with management's intentions

More clear guidance on DPO usage may help Procurement, the Departments, and elected officials avoid differences of opinion on how DPOs should be used, thereby achieving management's objectives for DPO usage.

RECOMMENDATION:

It is recommended that Procurement update the *Procurement Policy & Procedures* to clarify the Department's responsibilities and activities relating to Departmental Purchase Order (DPO) usage.

As addressed in the previously mentioned paragraphs a – m above, listed below are suggested areas for clarifications:

- a) The combined value of DPOs that can be issued by a department over a defined period of time.
- b) The definition of “total value.”
- c) Consideration to be given to Minority Businesses when using DPOs.
- d) Guidance for monitoring DPO use.
- e) System-generated report for monitoring quotes.
- f) Use of State contracts when making DPO purchases.
- g) Obtaining approval for alternate uses of DPOs.
- h) Working with County Administration to try to obtain interlocal agreements from elected officials that are using the County's Procurement Services to document their agreement to follow the County's Procedures for all procurement methods.
- i) The definition of “split purchases.”
- j) Documentation requirements for the effect of change orders
- k) Documentation of DPO activity.
- l) Available training on how to use DPOs as per County requirements and prioritizing procurement objectives.
- m) Additional Blanket Purchase Orders (BPOs) guidance

CLIENT RESPONSE:

- a) *Partially Concur*
- b) *Concur*
- c) *Concur*
- d) *Concur*
- e) *Partially Concur*
- f) *Concur*
- g) *Concur*
- h) *Concur*
- i) *Concur*
- j) *Concur*
- k) *Concur*
- l) *Concur*
- m) *Partially Concur*

CORRECTIVE ACTION PLAN:

- a) *We believe that section (B)(II)(vi) in Chapter 2 of the procurement procedures does specify a time period and maximum combined DPO value. However, as part of the procedures review and editing resulting from this audit, this important policy will be reiterated and supported with examples.*
- b) *The procedures state that DPO's are not to be used for regularly occurring or scheduled needs when the total value is projected to exceed \$10,000 during a one year period. The procedures will be revised to clarify that "total value" means the collective project value over the course of a year and not each DPO.*
- c) *Language that discusses minority business consideration when using DPO's will be added to the procedures.*
- d) *The procedures will be revised to include guidance for monitoring DPO activity in a department.*
- e) *The Advanced Procurement Inventory and Control System (ADPICS) system cannot presently generate a monitoring report that contains all quote information in a single report. The complete information is available by combining the currently used general quote report with information found in the ADPICS Notepad Screen.*

A single report would be more convenient, and will be available in the future from the planned Enterprise Resource Planning (ERP) system. In the interim, Procurement staff is confident that the needed information is available through other means.
- f) *The procedures will be revised to clarify that issuing multiple DPO's to a state contract does not constitute a "split purchase."*
- g) *The procedures will be revised to clarify that the use of DPO's may be authorized by Procurement work group of the Business and Support Services Department in situations not otherwise addressed.*

- h) *Elected officials who use the County's Procurement Services for PCards will be asked to amend the joint interlocal agreement to include other methods of procurement, to include DPO's. However, elected officials may not choose to amend the interlocal agreement.*
- i) *The procedures will be revised and amended as necessary to very strongly emphasize the current policy of not splitting purchases among multiple DPO's.*
- j) *Procurement procedures require documentation of the reason for a change order, but do not identify a process for change order review to determine if DPO procedures were circumvented. The procedures will be reviewed and amended to describe the level of documentation and review needed.*
- k) *The procedures will be revised to address how departments should document breaking tie bids, and how they should document conversations with Procurement, vendors and department staff regarding DPO activity.*
- l) *Corrective actions for specific areas of DPO training mentioned in this audit are discussed below.*

FAMIS/Onvia Training: FAMIS training is provided by the Clerk's Office - System Support and is available to any employee by registering for the training. Only Procurement uses OnviaDemandStar for obtaining quotes. Information regarding Onvia DemandStar will be provided in future DPO training.

Vendor Selection: Current policy requires that the award is to be to the low, responsive, responsible bidder. Additional information will be provided in future DPO training

Prioritizing Selection Criteria: Additional information will be provided in future DPO training.

Prioritizing the Lowest Price: Additional information on how to determine the priority of lowest price will be provided in future training.

Selecting One Versus Multiple Vendors: Additional discussion on selecting a single, versus multiple vendors will be provided in future training.

Training to Accommodate Department Reorganization: The Procurement section of the Business and Support Services Department will develop and conduct any additional DPO training that may be required as a result of the current reorganization of departments reporting to the County Administrator.

- m) *Discussed below are the additional areas of concern identified as needing BPO guidance.*

Checking for Current or Pending BPO's: Procurement has been posting the list of Blanket Purchase Orders on COIN for many years. The report is updated monthly and includes the BPO number, title, vendor, amount, expiration date, and other detailed information. The procedures will be revised to remind staff where departments can locate the information.

Determining Goods and Services for County BPO Use: The procedures will be revised to include guidance to help staff determine goods and services.

Documenting BPO Searches: The procedures will be revised to guide staff in how to document a BPO search, if needed.

TARGET COMPLETION DATE:

- a) 09/30/12
- b) 09/30/12
- c) 09/30/12
- d) 09/30/12
- e) 10/01/13
- f) 09/30/12
- g) 09/30/12
- h) 12/31/12
- i) 09/30/12
- j) 09/30/12
- k) 09/30/12
- l) 09/30/12
- m) 09/30/12

FINDING 2

Procurement's DPO activity monitoring processes need to be updated.

The County's reorganization has resulted in a change in reporting lines within the organization. Some former departments are now positioned within the County as Divisions, Sections, or Groups under larger Departments. For example, Head Start was formerly under the Children's Services Department. After the reorganization, both Head Start and Children's Services are Divisions under the Family and Aging Services Department. Additionally, various fiscal operations were consolidated under two Fiscal & Support Services (FSS) groups. At this time it has not been determined if future DPOs will be issued by Departments, Divisions, and/or the FSS groups.

The prior monitoring reports and processes based on department codes may no longer be adequate to monitor DPO activities due to the changes in the County's organizational structure and processes. Some larger Departments may have Divisions that require separate and/or additional consideration when monitoring DPO activities.

RECOMMENDATION:

It is recommended that for future DPO monitoring:

1. The methods and reports used by Procurement to monitor DPO activities be updated in coordination with Departments to account for the changing organizational structure and differences in areas that have been combined into larger Departments.
2. Analysis be performed to determine if different DPO monitoring methods will be needed for very large, complex departments with multiple divisions/sections/groups versus smaller, more compact departments. If it is determined that different DPO monitoring methods will be used based on Departmental size and/or structure, then Procurement should meet, discuss, and document with each affected Department to ensure that it is understood how their DPO activities will be viewed by Procurement for future monitoring purposes.

CLIENT RESPONSE:

1. *Concur*
2. *Partially Concur*

CORRECTIVE ACTION PLAN:

1. *Once all of the restructuring is complete and the functions are established, DPO monitoring procedures will be updated.*
2. *Once all of the restructuring is complete and the functions are established, an analysis will be performed to determine if different DPO monitoring methods are needed. Any new methods of communication and documentation of DPO procedures and monitoring that are identified by the analysis will be implemented.*

TARGET COMPLETION DATE:

1. 12/31/12
2. 12/31/12

OBSERVATION

Listed below is an item that we observed during the audit that we felt was either outside the scope of our audit or not directly within the control of Procurement, but was worthy of being brought to the attention of County management.

OBSERVATION

The County should formally document its periodic review of the current use, the future viability, and the cost effectiveness of its various procurement options.

The County does not currently have a formalized, written plan to document the periodic consideration of the future viability and cost effectiveness of various procurement methods (for example the cost to the County to process DPOs transactions versus the cost to process PCard transactions, etc.).

Consideration for DPOs and Purchasing Cards (PCards)

In October 2010, the County updated the Procurement Work Flow, available on COIN (<http://coin/departments/procurementservices/ProcurementWorkFlow.pdf>), making PCards the procurement method of choice for purchases of \$10,000 or less, if the vendor accepts PCards. PCards may be eligible for rebates and are subject to a well-established monitoring system.

The Procedures state that DPOs are intended to provide an effective and efficient system for departmental purchases that are small (not exceeding \$10,000). The following data was provided by Procurement and shows the downward trend in DPO usage data over the past three fiscal years:

	<i>Number of DPOs Issued</i>	<i>Dollars of DPO Issued</i>
FY08	4,095	\$9,816,156.30
FY09	3,417	\$8,271,733.67
FY10	2,612	\$7,367,323.22

While many factors could play into the downward trend seen in both the volume and dollar value for DPO usage, the County may benefit from considering questions such as:

- Are DPOs still meeting their objectives and are they anticipated to meet their objectives in the future?
- Are there other means for departmental purchases that may be more cost effective and provide a better-controlled procurement option?

The County's Performance Dashboard (see on the County's website at <http://www.hillsboroughcounty.org/administrator/dashboard.cfm>) included data provided by Procurement, which reflected an overall decrease of \$0.36 in the cost per \$100 of goods/services procured (data through 12/31/10). Since the advent of PCards, it may be that DPOs are not serving their intended purpose of providing an effective and efficient system for small Departmental purchases not exceeding \$10,000. If, through Procurement's analysis, PCards were

found to be a more cost effective means of making such Departmental purchases, then the increased use of PCards and the decreased use of DPOs may serve to reduce this cost per \$100 of goods/services.

Other Potential Areas to Consider

Procurement has stated that they are continuously analyzing cost effectiveness and best business practices for its various procurement options. There are a number of time, cost, and efficiency factors for the County to consider in determining the appropriate procurement tool for making a purchase. As part of the DPO audit, several areas were observed that could be beneficial for the County to consider in making future decisions about procurement options. Note: No specific audit testing was performed in these areas.

- How does DPO usage factor into the County's future plans for procuring goods/services? Are there projected targets or trends for DPO usage?
- What is the County's average transaction cost to use DPOs? Are there other more cost effective options available?
- Are DPOs the best procurement vehicle for the County to use for consulting or other services? From a legal and monitoring perspective, would a contract with performance based specifications and protections be a better fit?
- How does the County know that the most cost effective procurement method was used to fill each procurement need? Are the current methods used for choosing among procurement options projected to be viable going forward?
- Do the Departments have adequate written guidance for choosing among the various procurement options and selecting the most efficient and effective option?
- Are the thresholds for the various procurement options periodically reviewed and adjusted (e.g., increases to PCard limits, decreases to DPO limits, etc.)?
- Is the threshold for the formal bid limit (over \$25,000) still set at an adequate level? Is it periodically evaluated for an increase or decrease or indexed to some measurement to keep pace with changes in the procurement environment?

Changes in the County's external and internal environment must be considered to ensure that the County is using the most efficient and effective procurement option when purchasing goods and services.

RECOMMENDATION:

It is recommended that Procurement work with the County Administration's Executive Team (or their designees) to develop a formal, written plan to document the County's periodic review of the future use of available procurement options, their respective thresholds, and cost effectiveness to determine if any changes are needed to ensure that the County's procurement needs and objectives are satisfied.

Examples of procurement options include, but are not limited to, DPOs and PCards, as well as the various other procurement methods available (e.g., state contract, cooperative purchasing, formal competition, etc.).

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

Various procurement options and thresholds will be reviewed and recommendations made to the Executive Team.

TARGET COMPLETION DATE:

12/31/12

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