



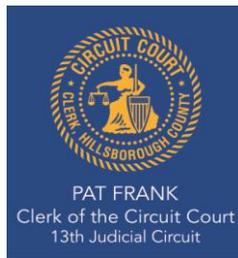
PAT FRANK
Clerk of the Circuit Court
13th Judicial Circuit

COUNTY AUDIT

HILLSBOROUGH COUNTY, FLORIDA

Barney's Pumps, Inc. Contract Management

REPORT # 302



March 23, 2016

The Honorable Lesley "Les" Miller, Chairman
The Honorable Kevin Beckner
The Honorable Victor D. Crist
The Honorable Ken Hagan
The Honorable Al Higginbotham
The Honorable Sandra L. Murman
The Honorable Stacy R. White

Dear Chairman Miller and Commissioners:

The Audit Team performed an audit of the Barney's Pumps, Inc. Contract Management (Audit Report # 302, March 23, 2016). Responses to the Audit Team's recommendations were received from the Director of Public Utilities and have been included in the Report after each audit comment and recommendation.

The purpose of this Report is to furnish management independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. It is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors by the Director and personnel of Public Utilities during this audit.

Sincerely,

Steve Hooper, CIA, CGAP, CCSA, CFE
Director of County Audit

CC: Mike Merrill, County Administrator
Lucia Garsys, Chief Development & Infrastructure Services Administrator
Kevin Brickey, Management & Budget Office
Dan Klein, Chief of Staff
Rick VanArsdall, Chief Deputy, Finance & Budget
George Cassady, Director of Public Utilities

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION

The Public Utilities Department (PUD) has various pumps and blowers in use at County facilities. In 2013, the PUD endeavored to standardize pump and blower systems with similar products. To accomplish this standardization, a \$7.5 million, five-year agreement was approved by the Board of County Commissioners (BOCC) on February 6, 2013 (the Agreement). The Agreement was awarded for the sole source purchase of pumps and blowers from Barney's Pumps, Inc. (Barney's). The "Notice of Intent to Sole Source" was advertised; one challenge was received and resolved. Barney's is the sole authorized municipal distributor in Florida for Hydromatic, Aurora, and GR Roots products and related labor services. This equipment is on the PUD's products list approved by the Product Review Committee. The Agreement is a consolidated contract for the purchase of pumps, blowers, associated components, specialty parts, and labor based on an established discount of the manufacturer's list price.

OBJECTIVE

The objective of the audit was to determine whether or not the Agreement:

- Was procured in compliance with applicable sole source requirements and with reasonable justification.
- Is adequately monitored by PUD to ensure purchases are in compliance with the terms and conditions of the Agreement.

SCOPE

The audit was conducted in accordance with the *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that County Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. County Audit believes that the evidence obtained provides this reasonable basis.

The Audit Team evaluated the purchases made under the Agreement from February 6, 2013, through August 4, 2015.

OVERALL EVALUATION

The employees of the PUD were responsive to the Audit Team's inquiries and provided the information requested in a timely and courteous manner. The Audit Team encountered knowledgeable and dedicated employees during the course of the audit.

AUDIT COMMENT	CONCLUSION OF OBJECTIVE	PAGE
1	Procurement of the Agreement complied with policy and was reasonably justified.	3
2	Discount pricing was negotiated for the Barney's Pump Agreement, but variations to the discount terms have not been formalized.	5
3	Opportunities exist to enhance the contract management of the Agreement.	7
4	All purchases for items related to the Barney's Pumps Contract were appropriately applied against the blanket purchase agreement.	11

OPINION

Consolidation of the Barney's pump purchases into a single, sole source agreement has allowed PUD management to negotiate additional discounts and contract terms which provide the opportunity for significant cost savings. Some pricing exceptions and opportunities for improvement were identified during audit testing. However, no material price discrepancies were found for purchases associated with the Agreement.

The control environment relative to the management of the Barney's Agreement is at a formal (defined) maturity level. PUD management has developed processes and controls which reasonably ensure that purchases are appropriate and in compliance with the terms of the Agreement. Addressing the opportunities identified throughout this report will enhance the overall control structure and provide additional assurance and monitoring.

The exit conference was held on February 15, 2016.

Other minor concerns not included in this Report were communicated to management and/or corrected during fieldwork.

AUDITED BY

Steve Hooper, CIA, CGAP, CCSA, CFE, Director of County Audit
 Mary Ann Kominsky, CIA, CISA, CPA, former Audit Manager
 Heidi Pinner, CIA, CFE, CISA, CRMA, General & IT Audit Manager
 Lovonia Scott, CGAP, Auditor II

AUDIT COMMENTS & RECOMMENDATIONS

AUDIT COMMENT 1

Procurement of the Agreement complied with policy and was reasonably justified.

The objective was to determine whether or not the Agreement was procured in compliance with sole source procurement requirements. The Audit Team reviewed County procurement policy, Florida Statutes, supporting documentation from the Barney's procurement file, BOCC Official Records and online vendor records.

The Audit Team determined that the Hillsborough County procurement policy is the governing document for sole source procurements and the Agreement was procured in compliance with these policies:

- The department's request for sole source procurement was appropriately documented and authorized.
- A notice of intent to sole source was posted online for 5 business days.
- The sole protest received was reviewed and resolved prior to the award of the agreement.
- Sole source confirmation letters were provided by all applicable manufacturers. However, one sole source letter was not signed by the manufacturer.

The Audit Team also reviewed the justification provided for the sole source procurement of the Agreement to determine if it was reasonable and within procurement policy. At the time of the procurement, Chapter 2.6 of the County procurement policy defined a sole source purchase as one in which the needed commodity or service is only available from one source. It further identified considerations for the justification of sole source procurements. One such consideration is that the commodity is a component, repair, or replacement part of existing equipment for which no commercially available substitute exists and the purchase can only be made from the manufacturer or sole distributor.

The justification for the sole source procurement of the Agreement appears to reasonably meet these criteria:

- Per management, specific types of pumps and blowers were authorized and put into use by the Public Utilities Department in 2003. Attempting to replace or repair these products with any other manufacturer's equipment would increase costs and delay repairs.
- Barney's is the sole Hillsborough County municipal distributor for several of these types of pumps and blowers. This was supported by manufacturers' letters at the time of procurement and confirmed by the Audit Team via online distribution inquiries.

RECOMMENDATION

Management should consider ensuring that any sole source certification received by a vendor or manufacturer is endorsed and/or verified for authenticity.

CLIENT RESPONSE: *Concur*

CORRECTIVE ACTION PLAN

The sole source documentation from Barney's Pumps, Inc. (Barney's) and the manufacturers they represent were verified for authenticity. Barney's represents multiple manufacturers and one manufacturer's letter was not signed, but was on the manufacturer's letterhead and identified (in type) the manufacturer's representative that was providing the verification. In the future we will also require an actual signature.

TARGET COMPLETION DATE: March 1, 2016

AUDIT COMMENT 2

Discount pricing was negotiated for the Agreement, but variations to the discount terms have not been formalized.

Consolidating the purchase of Barney's sole source products into the Agreement allowed the PUD to negotiate additional price discounts ranging from 2% to 7% per item for Hydromatic, Aurora, and Barney's products. These discounts were estimated to save the department at least \$41,000 annually (\$200,000 over the life of the contract). The PUD also negotiated savings and reduced cost exposure by having freight excluded and shipping terms converted to Free-On-Board (FOB) destination.

To determine whether or not the estimated savings were reasonably stated and realized, the Audit Team reviewed the cost savings analysis supplied by the PUD Contracts Management Division and confirmed that the negotiated discounts were actually received. Barney's has also offered the County an additional discount, quoted annually, for Hydromatic parts purchases. The purchases of Hydromatic parts account for a significant portion of the purchases made under the Agreement. The discount for Hydromatic parts is 26.5% off the manufacturer's list price. The actual discount offered ranged from 26.5% to 51%. Per management, the varying discounts are intended to offset fluctuations in the manufacturers' list prices. The additional discounts are offered annually by Barney's but have not been formalized into the Agreement.

Management reviews the annual price lists submitted by Barney's for reasonableness. However, an aggregate trend analysis is not performed to monitor price and discount fluctuations over time. To determine what impact price fluctuations and variable discounts have had on the overall cost of purchases under the Agreement, the Audit Team identified 77 common items listed on the 2013, 2014, and 2105 Hydromatic price lists. Overall, the list price of these 77 items has increased by 45% since January 2013, while the discount has increased by 13%. Therefore, if the variable discount was consistently applied, PUD should expect to pay approximately 20% more for a product than it did in 2013, prior to the award of the Agreement.

The table below was prepared by the Audit Team and details the fluctuations in both list price and discounts for the 77 common items identified above.

	2013 Prior to Agreement	2013 After Agreement	Change	2014	Change 2013-2014	2015	Change 2014-2015	Overall Change 2013-2015
Total List Price (77 items)	\$112,755	\$116,983*	+3.75	\$178,739	+53%	\$163,420	-8.6%	+45%
Variable Annual Discount Offered (% off manufacturers list price)	25%	26.5%	+1.5%	51%	+24.5%	38%	-13%	+13%
Total Discounted Price (77 items)	\$84,566	\$85,982	+1.7%	\$87,582	+1.9%	\$101,320	+15.7%	20%

* The 2013 After Agreement list price could not be determined for the same 77 items. The Total List Price in this column is based on the average increase (3.75%) for all 2013 After Agreement items which could be matched with the 2013 Prior to Agreement Price. The Total Discounted Price was calculated from this result.

Per the Agreement, the percent off pricing is a reduction of the manufacturer's list price. The manufacturer of Hydromatic and Aurora products was able to provide the Audit Team with a letter

certifying that list prices are set solely by the manufacturer and Barney's does not have authority to alter or adjust the list price. However, annual price lists detailing the manufacturer's list price are traditionally provided to PUD by Barney's and not directly from the manufacturer.

Addressing the opportunities identified above will allow management to further ensure that;

- The pricing on Barney's invoices are appropriately supported and in compliance with the terms of the Agreement.
- The additional negotiated discount is applied consistently and remains in effect for the agreed upon amount of time.
- Future contract negotiations are based on accurate information, reflect the actual discount realized for past Barney's purchases and take into account any fluctuations in list prices.
- The PUD is able to quantify all cost savings gained through the consolidation of the Agreement.
- The PUD has the information necessary to evaluate the cost effectiveness of continuing to utilize products in the Barney's Agreement.

RECOMMENDATION

PUD management should consider:

- Utilizing a change order or addendum to incorporate the variable discounts offered by the vendor into the Agreement.
- Monitoring the price fluctuations, over time, for products purchased under the Agreement.
- Obtaining price lists directly from the manufacturer for all items associated with the Agreement.

CLIENT RESPONSE: *Concur*

CORRECTIVE ACTION PLAN

- *The County is receiving the variable discounts identified in the contract, and additional discounts are also being realized. Management has requested the incorporation of the additional discounts through the term of the contract. However, if the vendor is unwilling to extend the additional discounts through the term of the contract, annually staff will communicate and request documentation from the vendor regarding any additional discounts.*
- *Price fluctuations are monitored and that process will continue.*
- *We will attempt to obtain price lists directly from the manufacturer. However, some manufacturers will only provide price lists to their authorized representative.*

TARGET COMPLETION DATE: May 1, 2016

AUDIT COMMENT 3**Opportunities exist to enhance the contract management of the Agreement.**

The objective was to determine whether or not adequate and effective controls were in place for the management of the Agreement.

Purchases under the Agreement are made via purchase order and each purchase order has a paid invoice(s) associated with it. The Audit Team identified a population of 119 unique purchase orders, totaling \$3,375,615, issued against the Agreement as of August 4, 2015.

To determine if adequate and effective controls were in place, the Audit Team selected the 49 highest dollar purchase orders, totaling \$2,921,072, for sample testing. There were 301 paid invoices associated with these purchase orders. The Audit Team selected a sample of 91 high dollar invoices, totaling \$2,278,070, or 67% of the purchase order population. The selected purchase orders and invoices were reviewed to determine if they met the audit test criteria detailed below.

Pump Purchase Pricing: Per the Agreement, the manufacturer's list price is to be discounted by 35% for Hydromatic pumps, 17.5% for Aurora pumps and 32% for Barney's private label products.

No material price discrepancies were noted for the pump purchases reviewed. The following exceptions account for less than 1% of the pump purchases tested.

- Thirty (30) of the 49 purchase orders reviewed had invoices which included the purchase of a pump or pump package.
- Twenty-eight (28) of 30 (93%) had pump purchases which complied with the pricing defined in the Agreement. Two purchase orders contained purchases with pricing errors, resulting in an overcharge of \$496.28.

Parts Purchase Pricing: Per the Agreement, parts purchases are to be discounted by 26.5% for Hydromatic parts, 3% for Aurora parts, or 32% for Barney's Pumps Inc products. In addition to the required discounts, an additional variable discount has been offered by Barney's with each annual Hydromatic price list. Audit Comment 2 provides further detail on the variable discounts.

No material price discrepancies were noted for the part purchases reviewed. The following exceptions account for less than 1% of the parts purchases tested.

- Twenty-one (21) of the 49 purchase orders had invoices containing parts purchases.
- Fifteen (15) of 21 (71%) had purchases which complied with the pricing terms of the Agreement. Six purchase orders contained exceptions.
 - Four exceptions were a result of an incorrect multiplier or incorrect list price being utilized by the distributor. These instances resulted in an overpayment of \$236.58.

- Two exceptions were for the purchase of an item not on the original manufacturer price list. This item's list price was separately quoted by the distributor at the time of purchase. Information was provided to the Audit Team by the distributor and manufacturer to certify that the appropriate list price was utilized. However, on two separate occasions, the manufacturer also supplied information to indicate that the items had a lower list price. As a result of the conflicting information, the Audit Team was unable to determine with certainty which amount is accurate. If the lower list price is accurate, PUD would have overpaid by \$2,756.25 for these items.
- The Audit Team also observed instances where initial errors in product price or contract terms were detected and corrected by PUD's established controls.
- Eleven (11) of 21 (52%) had purchases which complied with the variable annual discount quoted. The remaining 10 (48%) contained purchases which did not comply with the variable annual price discounts. The pricing on these 10 purchases did, however, meet or exceed the requirements of the contract pricing. PUD management did not pursue a refund. Had the additional variable discount been received for these items, PUD's savings would have increased by \$4,784.02.

Requisition Process and Approval: Requisitions should be appropriately documented and approved and the requisitioning, approval and receiving functions appropriately segregated.

- The Audit Team reviewed the electronic records and work flow approvals for 39 of the 49 purchase orders to determine if the associated requisitions were appropriately documented and approved. The remaining 10 purchase orders had been issued in the historical ADPICS system and were not available for review.
- All 39 purchase orders reviewed had the appropriate support and work flow approvals within the Oracle EBS system.

Other Agreement Terms: Per the Agreement, all purchases should exclude freight charges, be FOB Destination and include language stating that Hillsborough County contract terms prevail.

- 100% of the 49 purchase orders reviewed had freight charges appropriately excluded.
- Barney's quotes and invoices include, by default, standard terms and conditions which contradict the terms of the Agreement. To compensate for this, PUD management requires all Barney's quotes associated with the Agreement to have a statement indicating that the Agreement terms prevail over all other stated terms.
 - Of the 49 purchase orders reviewed, 21 included a quote as supporting documentation. Seventeen of 21 (81%) included FOB destination terms and the statement regarding prevailing terms. The remaining 4 quotes did not contain the prevailing terms language.

- Five (5) of 91 (5%) invoices included the appropriate FOB destination and prevailing terms language. The remaining 86 (95%) included FOB Origin and Barney's Pumps, Inc. standard terms and conditions. Per management, invoices are not received or reviewed by the PUD contract management office. Therefore, the inclusion of the appropriate terms on the invoice had not been previously considered or addressed.

Other Observations

- All 91 invoices reviewed were paid within 45 days of receipt in compliance with the agreement terms and Florida Statute 218.74 (Florida Prompt Payment Act).
- The Agreement allows for the purchase of specialty items and ancillary components. These items are purchased as needed, based on a quote provided by Barney's and not included on the annual price lists. Of the 91 invoices reviewed, 29 (32%) included specialty parts or ancillary components which were priced as quoted. The Agreement does not have any negotiated discount established for these items.
- PUD management has agreed upon an alternate brand and pricing structure with Barney's for certain O-rings, nuts and bolts. This alternate pricing was agreed upon so the items can be purchased more readily and in more desirable quantities. These products range in price from \$1.00 to \$200.00 each. The items received are not Hydromatic parts, but are ordered and invoiced with a Hydromatic part name and item number. Of the 91 invoices reviewed, 20 (22%) contained one of the substitute items billed as a Hydromatic or Barney's product.

RECOMMENDATION

To ensure that the terms of the Agreement are met and the best value is realized for purchases made under the Agreement, PUD management should consider:

- Continuing to closely monitor and verify the pricing for purchases associated with the agreement.
- Ensuring that the appropriate FOB designation and terms are included on all quotes and invoices received from Barney's.
- Monitoring and evaluating the purchases of items categorized as specialty or ancillary components to determine whether these items should be included on the standard price list and whether the County could benefit from negotiating a discount for this category of items in any future agreements.
- Requiring Barney's to quote and invoice all items with the actual manufacturer, part name, and item number listed.
- Formalizing any alternate pricing, additional discounts and product substitutions agreed upon into the Agreement.
- Ensuring that the alternate pricing and additional discounts are realized.

CLIENT RESPONSE: *Concur*

CORRECTIVE ACTION PLAN

- *Monitoring of pricing will continue.*
- *When we were made aware the FOB designation and terms were not appearing on the invoices we contacted the vendor and the issue has been corrected. Although the reference wasn't appearing on the invoice the appropriate FOB designation and terms were being administered and the County was invoiced in compliance with the contract.*
- *Monitoring of specialty and ancillary components will continue. Evaluation of specialty and ancillary components will occur and be a consideration of future agreements.*
- *Communication has occurred with Barney's and it is our expectation that Barney's will quote and invoice all items with the actual manufacturer, part name, and item number listed.*
- *During evaluation of a new price list, staff identified some price increases that were higher than anticipated. Due to that increase Barney's offered an additional discount, and that discount is reviewed annually. Additionally, staff has requested formalizing the discount through the contract term. If Barney's declines, the annual monitoring will continue.*
- *Monitoring of additional discounts offered will continue, and we will ensure that additional discounts are realized.*

TARGET COMPLETION DATE: May 1, 2016

AUDIT COMMENT 4

All purchases for items related to the Barney's Pumps Contract were appropriately applied against the contract purchase agreement and not duplicated with an alternate payment method.

The audit team identified 122 purchase orders and 5 purchasing card transactions associated to the vendor Barney's Pumps, Inc. for the period from February 6, 2013 through July 30, 2015.

Of the 122 purchase orders, 117 were applied to the contract purchase agreement.

- The five purchase orders not applied to the Agreement were reviewed and determined to contain items unrelated to the sole source Agreement. These purchase orders were therefore appropriately excluded from the contract purchase agreement.
- All purchase orders reviewed as part of the audit sample were determined to be purchases appropriately related to the Agreement. No exceptions were noted.
- Five Barney's purchasing card transactions were identified and reviewed for this period. None of the transactions duplicated a purchase made via a purchase order related to the Agreement.
- The items purchased via purchasing card were for non sole source items offered by Barney's and therefore appropriately excluded from the contract purchase agreement.

RECOMMENDATION

No exceptions were noted. Therefore, no corrective action is warranted.