Florida Gulf Coast University Board of Trustees
June 10, 2015

SUBJECT: Procurement Audit

PROPOSED BOARD ACTION

Accept the Procurement Audit Report provided on May 13, 2015 to President Wilson Bradshaw, Vice President for Administrative Services and Finance Steve Magiera, Assistant Vice President for Administrative Services/Controller Linda Bacheler, Director of Procurement Services Maryan Egan, and Associate Director of Procurement Services Richard Pence.

BACKGROUND INFORMATION

This report presents the results of an audit of the purchasing function within the Office of Procurement Services during calendar year 2014. The purchasing function provides value by maintaining procedures that foster fair and open competition among vendors, thereby inspiring public confidence that all contracts are awarded equitably and economically. Its purpose is to acquire the greatest possible value and quality in the services and products purchased while providing for timely delivery. The limited-scope audit had four objectives that appear on page 2 of the report.

The audit was part of the 2014-2015 internal audit work plan approved by the FGCU Board of Trustees at its June 17, 2014 meeting.

Upon acceptance of the report by the FGCU Board of Trustees, a copy of the report will be sent to the Board of Governors as required.

Supporting Documentation Included: Procurement Audit Report issued May 13, 2015

Prepared by: Director of Internal Audit Carol Slade

Legal Review by: Vice President and General Counsel Vee Leonard (May 14, 2015)

Submitted by: President Wilson G. Bradshaw
INTEROFFICE MEMORANDUM

To: Steve Magiera, Vice President, Administrative Services and Finance
   Linda Bacheler, Assistant Vice President of Administrative Services/Controller
   Maryan Egan, Director, Procurement Services
   Richard Pence, Associate Director, Procurement Services

Cc: Dr. Wilson Bradshaw, President
    Susan Evans, Vice President and Chief of Staff

From: William Foster, Senior Auditor
       Carol Slade, Director, Internal Audit

Date: May 13, 2015

Re: Procurement Audit (FINAL REPORT)

Please see the attached final report of the Procurement Audit, which includes the management response. The report is dated April 29, 2015, which is the date Internal Audit received the management response from the Director, Procurement Services.

On May 7, 2015, Vee Leonard, General Counsel, completed a legal review of the audit report.

The audit was performed by William Foster, Senior Auditor and reviewed by Carol Slade, Director, Internal Audit.
Florida Gulf Coast University
Procurement Audit
Internal Audit Report
Report Date: April 29, 2015
PROCUREMENT AUDIT

EXECUTIVE SUMMARY
This Report represents a limited-scope audit of the purchasing function during calendar year 2014 within the Office of Procurement Services. Procurement Services supports the University by contracting for commodities and services, as well as lease of space. Value is provided by maintaining procedures which foster fair and open competition, inspiring public confidence that all contracts are awarded equitably and economically, and by acquiring the greatest possible value and quality in the services and products purchased with timely delivery. The University must demonstrate financial stewardship by making the best use of its resources.

In our opinion, Procurement regulations, policies, and procedures are in place; however, they are not consistently followed by those outside Procurement Services and thus not operating as effectively as possible. As of the date of this report, Management needs to enhance controls to ensure the regulations, policies, and procedures are consistently followed.

OBJECTIVES

A. Determine whether bidding and contract piggybacking provide purchasing economies and compliance with laws and regulations
B. Determine whether a procedure to obtain contract review by General Counsel exists and operates effectively
C. Determine whether the procedure to delegate authority to purchase is documented and operates effectively
D. Determine whether contract management processes include segregation of duties and other appropriate controls

This 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 procedures provided a reasonable basis for our opinion and the following reportable observations and recommendations.

AUDIT SCOPE – End of Fieldwork was April 8, 2015

- Review of Florida Statutes Sections 287.017, 287.057, 288.058
- Review of Florida Board of Governors Purchasing Regulations: Chapter 18
- Review of Florida Gulf Coast University Purchasing Regulations: FGCU PR6.012 – PR6.024
- Review of Purchasing Policies and Procedures: FGCU Office of the Controller’s website
- Review of FGCU Office of General Counsel website: Frequently Asked Questions, Contracts-FAQ
• Review of Auditor General Operational Reports
• Review of prior Internal Audit Reports

BACKGROUND

The Office of Procurement Services includes the functions of procurement, accounts payable, the travel desk, and the purchasing card program. Although the Office of Procurement Services includes these related functions, this audit was limited in scope solely to the procurement function and does not include accounts payable, the travel desk and the purchasing card program. The activity of all purchasing cards is audited every year by the Purchasing Card Administrator. In addition, our office audits purchasing card disbursements, accounts payable and travel as part of every audit that includes disbursement testing.

Regulation FGCU-PR6.012 states in part: “It is the intent of the Florida Gulf Coast University Board of Trustees to acquire quality goods and services within reasonable or required time frames, while promoting fair and open competition in the public procurement process. The process will reduce the appearance and opportunity for favoritism, ensure that contracts are awarded equitably and economically, and establish effective management oversight in the acquisition of commodities and contractual services, in order to preserve the integrity of public purchasing and contracting.”

Procurement Services assists in preparing both formal and informal quotations and facilitating public solicitations to include solicitation specifications, solicitation evaluations, and the award and administration of contracts until final completion or termination.

The Florida Board of Governors has established Regulation 18.001( c) which states in part that it encourages universities to evaluate, approve and utilize “contracts let by any State of Florida agency or department, the Federal Government, other states, political subdivisions, not-for-profit cooperatives or consortia, or any independent college or university for the procurement of commodities and contractual services, when it is determined to be cost-effective and in the best interest of the University, to make purchases under contracts let by such other entities.”

When the University relies on contracts originally created by another organization, these contracts are referred to as “piggyback contracts.” Based upon the goods and services needed, Procurement Services evaluates contracts available for piggybacking at that time. By using Procurement Services’ expertise and evaluation, contract selection can provide purchasing economies and efficiencies for FGCU.

Our test consisted of the 10 highest dollar FGCU piggyback contracts. The 10 contracts represented 58% of the all 2014 calendar year piggyback contracts that totaled $8.1 million.
We also assessed procurement risk as higher for those purchases that should have been made through Procurement Services but were not. This did not include purchases of the type and amount that should be made by purchasing cards.

When a department or unit of the University by-passes Procurement Services by ordering and receiving goods or services directly without Procurement Services’ price and quality comparisons, the purchase order to pay the related invoice is referred to as a confirming order.

For this test, we selected a sample of 50 confirming orders representing the highest dollar amounts from a variety of Department Codes. The sample represented 31% of the $3.6 million of total confirming orders issued during calendar year 2014.

**OBSERVATIONS AND RECOMMENDATIONS**

1. **Objective A - Documenting Piggyback Vendor Selection**

   **Condition:** For three of the 10 piggyback contracts reviewed, an eligible entity other than FGCU awarded a contract to multiple vendors. Based upon what it determined to be its best interest, FGCU selected vendors from these contracts. For one contract, Procurement Services had documented the reasons supporting its selection of a particular vendor. For the remaining two of the three contracts with multiple vendors, Procurement Services did not document reasons supporting its selection of particular vendors.

   **Criteria:** Best practices indicate that documentation may provide evidence that a selected vendor was cost-effective and in the best interest of the University.

   **Cause:** For many years, the University has been using the two contracts in question to obtain the products and services of certain vendors. Since the contracts were renegotiated periodically, in addition to pricing, Procurement Services reviewed for other advantages, such as maintenance costs and compatibility with existing assets.

   **Effect:** Appropriate vendors were selected in the best interest of the University. However, in the future, insufficient documentation may reduce confidence in the selection process.

   **Recommendation:** To improve transparency, when choosing particular vendors from a contract awarded to multiple vendors, Procurement Services should document the reasons a particular vendor was selected including the identification of any anticipated savings or other benefits to the University.

   **Procurement Management Response:** Procurement Services agrees with this recommendation and is in the process of developing a new Vendor Selection Justification Form to document when a vendor is selected through a shared services contract and determined to be in the best interest of the University. This form will be incorporated into Procurement Services written procedures.
2. **Objective B - Contract Review**

Based on our test of 50 Confirming Orders, the procedure for contract review by General Counsel is generally effective and operates most effectively when purchases are made though Procurement Services. We found only one contract of the five contracts within our sample of 50 confirming orders that should have received legal review but did not.

3. **Objective C - Delegation of Authority**

A delegation of authority is a written authorization made by one University officer or body to another to exercise an authority. A delegation confers authority upon a specific University position or office and to any incumbent of such position or office, i.e. procurement related matters and personnel actions from the President to the Vice President for Administrative Services and Finance, dated February 7, 2014. It operates effectively except for the condition or situation described below under Objective D. That Observation encompasses testing for both Objectives C and D.

4. **Objective D - Failure to Follow Regulation FGCU-PR6.014 – Purchasing Authority of the University**

*Condition:* For 17 of 60 purchases tested, various units had ordered and received goods or services without following the university regulation that requires the use of Procurement Services and its purchase requisitioning system. Such purchases were noted in Athletics (9), Student Affairs (5), and Academic Affairs (3).

*Criteria:* Regulation FGCU-PR6.014 states that “the President or designee is delegated authority to serve as the central procurement officer for the University and has the duty to canvass sources of supply and contracting for the purchase or lease of all commodities and contractual services for the University…”

In addition Regulation FGCU-PR6.018 states that “contracts for goods or services shall consist of a purchase order or bilateral agreement signed by the President or designee and the contractor prior to good or services being rendered.”

The Controller’s Procedures, Section 4, Purchasing Cycle, require that purchase requisitions are to be sent to Procurement Services prior to the actual purchase, allowing enough lead time for deliveries to be completed without placing the requesting department into an emergency
situation, and if a contract is part of the purchase, extra lead time may be required to allow for both procurement and legal review.

Cause: There may be many reasons. Units want to obtain the goods or services more quickly by avoiding certain steps in the purchasing process. Units may have a favorite vendor or vendors for a variety of reasons.

Effect: Unplanned purchases of goods or services prevent Procurement Services from planning and coordinating purchases in volume, taking advantage of existing agreements, and ensuring that contracts receive legal review. Purchasing from favorite vendors limits fair and open competition in the University’s procurement process.

Recommendation:

1) All units of the University must comply with FGCU purchasing regulations. Whenever possible, they must use Procurement Services and follow its procedures including the use of requisitions and purchase orders before goods or services are obtained. They should consult Procurement Services documentation on the Controller’s website and call Procurement Services with questions. This purchasing procedure does not include purchases using a purchasing card, which has its own set of procedures.

Athletics Management Response: Athletics agrees with Internal Audit’s findings in relation to this Objective. The Athletics Business Office has reviewed University Regulations FGCU-PR6.014 and FGCU-PR6.018 and communicated these purchasing requirements outlined in the regulations at an Athletics department meeting in April. The Associate Athletic Director of Internal Affairs met with Procurement Services in April to review the audit observations to ensure the purchasing regulations are followed. When the fall term begins, the Associate Athletic Director of Internal Affairs will invite the Director and Associate Director of Procurement Services to a regularly scheduled, monthly meeting in order to review purchasing regulations with all coaches and staff.

Response Provided By: William Blood, Associate Athletic Director of Internal Affairs

Person Responsible: William Blood, Associate Athletic Director of Internal Affairs

Implementation Date: September 30, 2015

Student Affairs Management Response: In the five (5) instances where staff in the Division of Student Services did not follow Regulation FGCU-PR6.014 – Purchasing Authority of the University appropriately, there was a combination of unique circumstances with construction projects, contracts with performers and emergency repairs that caused changes in purchasing to occur outside the guidance established by the University. In some cases, the purchase could not
be avoided and in all circumstances, closer communication with Procurement Services would have mitigated the situation and provided opportunities for staff of Procurement Services to authorize expenditures to bring purchases within established regulation guidelines. All staff in the Division of Student Affairs will be informed of the expectation to:

1. Plan accordingly for timely completion of purchase orders,
2. Use Procurement Services for purchases, except for those permitted by use of purchasing card, and
3. Maintain close communication with Procurement Services in the event conditions or circumstances change which would require immediate delivery prior to completion of the procurement process.

Response Provided By: J. Michael Rollo, Vice President, Student Affairs
Person Responsible: J. Michael Rollo, Vice President, Student Affairs
Implementation Date: June 1, 2015

Academic Affairs Management Response: The auditor’s recommendation is noted. The Academic Affairs Budget Office will send out an email communication to the Division, reiterating the procurement services procedure on the use of requisitions and purchasing orders and encourage training by Procurement Services, if needed. The office will also require the three units that fell within this audit, to seek training from Procurement Services within 60 days to ensure that future purchases will comply with this recommendation.

Response Provided By: Ronald Toll, Provost & Vice President, Academic Affairs
Person Responsible: Jennifer Baker, Academic Budgets & Management Services
Implementation Date: June 30, 2015

2) Internal Audit also recommends that Procurement Services create a periodic report that is sent to the appropriate vice presidents of departments or other units that make purchases in violation of these FGCU regulations.

Procurement Management Response: Procurement Services agrees with this recommendation and will create a confirming order report that can be sent to the appropriate vice presidents on a periodic basis. This report will be incorporated into Procurement Services procedures as shown on their website.
3) It is our understanding that Procurement Services provides purchasing training as required for new hires. We recommend that Procurement Services institute periodic “refresher” courses to remind appropriate personnel who make purchases of the required procedures and of the services Procurement can provide.

*Procurement Management Response:* Procurement Services agrees with this recommendation and will offer “refresher” training to appropriate University personnel. This will be added to the available training listed on the Procurement Services website.

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*Response Provided By:* Maryan Egan, Director, Procurement Services  
*Person Responsible:* Richard Pence, Associate Director, Procurement Services  
*Implementation Date:* July 1, 2015