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**MICHAEL POST, C.P.A., M.B.A.**  
**HARRIS COUNTY AUDITOR**

June 25, 2021

Mr. DeWight Dopslauf, Purchasing Agent  
Harris County Purchasing Department  
1001 Preston St., Suite 670  
Houston, Texas 77002

Dear Mr. Dopslauf:

The Harris County Auditor's Office Audit Division has completed an audit of the Purchasing Department's procurement processes and procedures. The results of our audit are included in the attached report.

We appreciate the time and attention provided by you and your staff during this engagement. Please anticipate an email request to complete the Audit Division's Post Engagement Survey. We look forward to your feedback. If you have any questions, please contact me or Errika Perkins, Chief Assistant, 713-274-5673.

Sincerely,

A handwritten signature in blue ink that reads "Michael Post". The signature is written in a cursive style with a long horizontal stroke at the end.

Michael Post  
County Auditor

Report Copies:  
District Judges  
County Judge Lina Hidalgo  
Commissioners:  
R. Jack Cagle  
Rodney Ellis  
Adrian Garcia  
Tom Ramsey  
Christian Menefee

AUDIT REPORT  
**PURCHASING PROCUREMENT AUDIT**  
JUNE 25, 2021

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## Executive Summary

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### OVERALL CONCLUSION

The controls surrounding the competitive bid, request for qualification (RFQ), and request for proposal (RFP) processes were found to be effective. However, controls related to federal and state funded procurements, sole source exemptions, certain purchase types, and communication with departments have opportunities for improvement. The issues below have been discussed with the Purchasing Agent, and management action plans have been developed, which will address the issues identified by December 31, 2021.

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### SCOPE AND OBJECTIVE

The scope of the audit for the six months ending November 30, 2020, was to evaluate the design and effectiveness of controls supporting the following objectives:

- Competitive bid and request for proposal procurements and sole source exemptions comply with Texas Local Government Code (LGC) § 262 and internal policies and procedures.
- Request for qualification procurements comply with Texas Government Code (TGC) §2254 and internal policies and procedures.
- Federal funded procurements comply with 2 Code of Federal Regulations (CFR) § 200.317-326 and internal policies and procedures.
- State funded procurements comply with Texas Grant Management Standards.
- Informal procurements and blanket purchase orders comply with internal policies and procedures.

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### SUMMARY OF AUDIT ISSUES

1. Noncompliance with Federal Requirements Regarding Completion of Independent Cost Estimates (ICE)
2. Lack of Monitoring Over the Informal Purchasing Process
3. Unauthorized Issuance of a Purchase Order (PO)
4. Lack of Vendor Quotes
5. Lack of Communication of Purchasing Policy – Repeat Issue
6. Miscoded Procurement Types within the PeopleSoft System

The audit issues, management's action plan to address the issues, and background information regarding this audit are discussed in more detail on the following pages. Each audit issue is ranked based on the likelihood and impact of the risk to Harris County.

## AUDIT ISSUES

### **ISSUE #1: Noncompliance with Federal Requirements Regarding Completion of Independent Cost Estimates (ICE) [HIGH]**

**What is the Issue:** Testing of 13 federal funded procurement identified four (31%) procurements with the following compliance exceptions:

- One (1) ICE for a competitive bid was completed after quotes were received, using a quote from the awarded vendor, rendering it not independent.
- Two (2) ICE for competitive bids lacked the required supporting documentation.
- One (1) Request for Proposal (RFP) lacked an ICE.

**Why it Matters:** Noncompliance with federal compliance requirements may result in clawback of federal funds, which increases the risk of financial liability to the County.

**What is Expected:** Per 2 CFR § 200.324(a) and Federal Procurement Procedures Manual, Section 5.1, the County must complete and document an ICE for every federal funded procurement in excess of the simplified acquisition threshold of \$50,000 before receiving quotes, bids, or proposals. An ICE is not to be completed using vendor quotes, but instead independently.

**Why it Happened:** Staff did not adhere to the approved Federal Procurement Procedure Manual regarding not completing an ICE prior to receiving price quotations and not including sufficient supporting documentation. This issue was not detected through management review.

**What Action(s) are Suggested:** It is recommended that Purchasing strengthen the management level review of all federal funded procurements to ensure that an ICE is independently completed before receiving quotes, bids, or proposals. The documentation of a completed ICE should be properly maintained for compliance reviews or audits.

### **MANAGEMENT'S ACTION PLAN**

**Responsible Party:** Harris County Purchasing Department – DeWight Dopslauf, Purchasing Agent

The current Federal Procurement Procedures Manual outlines the process as follows:

*Harris County shall complete and document an Independent Cost Estimate (ICE) prior to receiving price quotations, bids, or price proposals. The level of detail required in an Independent Cost Estimate will depend upon the dollar value of the proposed contract and the nature of the goods or services to be acquired, and should contain any relevant sources or information used in formulating the estimate.*

The Purchasing Office does acknowledge that all ICE shall be completed prior to obtaining a proposal; however, specific circumstances surrounded these projects, which was documented within the file. Please note the Purchasing Supervisor and Management review all projects prior to advertising to ensure all requirements are compliant.

The Purchasing Office will be requesting a full-time position for a “Compliance Officer” to ensure all Federal Funded projects are documented throughout the process accurately. The anticipated hire of this position is July-August 2021.

**Due Date:** August 31, 2021

## **ISSUE #2: Lack of Monitoring Over the Informal Purchasing Process [HIGH]**

**What is the Issue:** Two of the thirteen informal purchase orders tested were for the same service and federal funded project that had a combined total that exceeded the simplified acquisition threshold of \$50,000. Both were requested by the Community Services Department and approved by Purchasing. The purchase orders were issued before a formal contract was procured.

**Why it Matters:** Noncompliance with Local Government Code (LGC) and 2 CFR § 200.317-320 could result in penalties and/or clawback of previously awarded federal funds.

**What is Expected:** Per the Federal Procurement Procedure Manual, the simplified acquisition threshold is currently set at \$50,000. When the value of the procurement for services using a federal award exceeds the simplified acquisition threshold, formal procurement methods are required. Procurement actions must not be split into separate procurements to avoid competition thresholds.

**Why it Happened:** Purchasing staff did not adhere to required policies and procedures, and there is no preventative or detective control in place to identify related purchase orders that when combined would warrant a formal bid and contract.

**What Action(s) are Suggested:** We recommend that Purchasing work with Universal Services to increase reporting capabilities in PeopleSoft to track and monitor purchases of similar goods or services for the same project and department. The report should be reviewed prior to approving an informal purchase and a copy kept in the purchasing file as evidence of monitoring.

## **MANAGEMENT'S ACTION PLAN**

**Responsible Party:** Harris County Purchasing Department – DeWight Dopslauf, Purchasing Agent

The Purchasing Office acknowledges that procurements shall not be split into separate procurements to avoid competition; in this instance, the two procurements in question were not received from the using department in a close timeframe. When the second request was received, the Purchasing team began drafting the request for bid for the services to ensure we complied with the federal procurement process. While the procurement was being completed, the services for the “Home Repair Program” could not be delayed so we obtained additional quotes for the services and issued the purchase order (PO).

A term contract is now in place to handle the services in question.

The Purchasing Office will utilize Bonfire for projects under \$50,000 to obtain proposals so Buyers will have the ability to search the system to see if like services are being purchased and if a formal procurement is needed for future goods/services.

Positions are being reclassified within Purchasing to add additional staff to process procurements under \$50,000 utilizing Bonfire.

**Due Date:** August 31, 2021

### **ISSUE #3: Unauthorized Issuance of a Purchase Order [MODERATE]**

**What is the Issue:** A sole source vendor purchase order totaling \$61,250 was issued without Commissioners Court approval. This 1 exception was identified from a sample of 14.

**Why it Matters:** Non-compliance with LGC 262.024 could result in penalties.

**What is Expected:** Per LGC 262.023, an expenditure exceeding \$50,000 must comply with the competitive bidding or competitive proposal procedures, which includes Commissioners Court approval. However, LGC 262.003 exempts sole-source purchases from competitive bidding. According to the Purchasing Manual, Section 4b, Commissioners Court grants a sole source designation at the request of the Purchasing Agent who shall submit a signed statement verifying the sole source.

**Why it Happened:** Due to a control design failure, there is no system or manual control in place to prevent issuance of purchase orders not authorized by Commissioners Court.

**What Action(s) are Suggested:** It is recommended that Purchasing implement a control (e.g., management review or system completion check) to prevent unauthorized purchase orders exceeding the simplified acquisition threshold from being issued and enforce adherence to internal policy and procedures.

### **MANAGEMENT'S ACTION PLAN**

**Responsible Party:** Harris County Purchasing Department – DeWight Dopslauf, Purchasing Agent

The item in question was an oversight by the Buyer who issued the PO; the Buyer did not review the approved Sole Source list to ensure it had Commissioners Court approval.

To address the issue, all Buyers will be required to include the Sole Source approved letter within PeopleSoft before issuing the Purchase Order to ensure it complies with LGC 262.023.

**Due Date:** July 15, 2021

### **ISSUE #4: Lack of Vendor Quotes [MODERATE]**

**What is the Issue:** Four of the thirteen (31%) informal purchase orders tested did not include adequate documentation of competitive quotes as required by Purchasing's guidelines.

**Why it Matters:** Harris County may not obtain goods and services at the best possible price because costs could be overstated by the awarded vendor. It may also hinder the openness, fairness, and integrity of the purchasing operation.

**What is Expected:** At management's discretion, Purchasing guidelines advise Buyers to obtain the following number of quotes based on project value thresholds:

1. Less than \$5,000 - one quote
2. \$5,000 to \$10,000 - two quotes
3. Greater than \$10,000 and less than \$50,000 - three quotes

**Why it Happened:** Management indicated that in some cases there are insufficient vendors to meet the thresholds.

**What Action(s) are Suggested:** If the required number of quotes are not acquired, the reasons surrounding the circumstances should be adequately documented.

## **MANAGEMENT'S ACTION PLAN**

**Responsible Party:** Harris County Purchasing Department – DeWight Dopslauf, Purchasing Agent

The current Rules and Procedures Manual states:

*The buyer will allow for as much competition as practical, consistent with user requirements, dollar value of procurement, and purchasing directives.*

The buyer is responsible for reviewing each procurement under \$50,000 to ensure the price received for a good or services is fair, reasonable, and best value to the County. Best practice is to obtain as much competition as necessary to ensure best value is obtained.

Management will conduct training on the current process/procedure to ensure the County is obtaining best value and the backup documentation and/or notes are included in PeopleSoft.

**Due Date:** August 31, 2021

## **ISSUE #5: Lack of Communication of Purchasing Policy [MODERATE] – REPEAT ISSUE**

**What is the Issue:** Policy manuals and other important documents for the Purchasing Department are not easily accessible to user departments.

**Why it Matters:** It could be challenging for user departments to locate and access the manuals and documents for the Purchasing Department due to information being located at various Harris County sites. This could result in non-compliance with County internal policy and local, state, and federal requirements leading to risk of clawback of federal funds and financial liability to the County.

**What is Expected:** The manuals and documents should be in a centralized location that is communicated to user departments.

**Why it Happened:** A previous recommendation made to the Purchasing Office in the Vendor Federal Procurement Review of Health Planning Studies Project report dated May 18, 2020, to place all essential documents for user departments in one central location has not been acted upon by management.

**What Action(s) are Suggested:** We recommend all Purchasing manuals and documents for use by County departments be placed in one centralized location that is communicated to all user departments.

## **MANAGEMENT'S ACTION PLAN**

**Responsible Party:** Harris County Purchasing Department – DeWight Dopslauf, Purchasing Agent

The referenced report was issued on May 18, 2020, during the early stages of the COVID pandemic; the Purchasing Office was entrenched with responding to the pandemic and overlooked the recommendation by the Auditor's Office.

**Status:** Completed

## **ISSUE #6: Miscoded Procurement Types within the PeopleSoft System** [LOW]

**What is the Issue:** Various PO types have been established in PeopleSoft (e.g., Sole Source, Blanket PO, Amount Only PO). The PO type for 14 of the 18 (78%) Blanket Purchase Orders selected for testing were miscoded.

**Why it Matters:** If procurements are miscoded in PeopleSoft, Purchasing cannot effectively identify procurement types to ensure that they properly monitor and comply with federal, state, and local requirements. Non-compliance with these requirements could result in legal and/or financial liability to the County along with damage to public perception and future grant funding opportunities.

**What is Expected:** Purchasing's policies and procedures should define the codes used in PeopleSoft and the specific procurement type associated with each code. The Purchasing Department should work with Universal Services to ensure proper procurement codes are available for use in PeopleSoft and the instruction of coding for specific procurement types is communicated to users.

**Why it Happened:** Per management, the lack of clarification and training on the new PeopleSoft system resulted in misinformation on the utilization of the purchase order type function.

**What Action(s) are Suggested:** Purchasing should continue to work with Universal Services to ensure that proper PO coding attributes are established and to educate staff on the proper coding expectations.

## **MANAGEMENT'S ACTION PLAN**

**Responsible Party:** Harris County Purchasing Department – DeWight Dopslauf, Purchasing Agent

The Purchasing Office is aware of the need to identify additional codes to capture the various types of Purchase Orders issued. Due to the fact this was the initial year of using PeopleSoft, we are still working closely with Universal Services and the Auditor's Office to reconfigure and add controls that improve the operations of PeopleSoft.

Purchasing will continue to provide training and refresher courses to staff to ensure they use the correct procurement codes as well as create necessary codes with the assistance of Universal Services.

**Due Date:** December 31, 2021

## BACKGROUND

The Purchasing Department was created for the purpose of providing a “checks and balances” system for expenditure of public funds to be made timely and in a prudent manner. The department’s primary function is to acquire goods and services essential to the operation of Harris County government and other governmental agencies, while actively pursuing opportunities for cost savings, economies of scale, and broadening and diversifying of its vendor base.

The Purchasing Agent establishes rules and procedures, subject to Commissioners Court approval, to provide procurement methods that ensure openness, fairness, and integrity. Purchasing employees must adhere to the highest standards of honor and integrity regarding all business and personal relationships in order that they may inspire the confidence of those served.

The Purchasing Agent also provides an expenditure control function and ensures compliance with the County Purchasing Act. All purchases must be made in compliance with the LGC, TGC, federal and state requirements when applicable, and best business practices. The Purchasing Office is also subject to the Texas Public Information Act and Section 552 of the TGC.

The Purchasing Agent provides services to Harris County departments, the Harris County Flood Control District, the Harris County Hospital District (Harris Health), Harris County Community Supervision and Corrections, and Community Health Choice Inc. Departments play a vital role in supporting the Purchasing Agent’s efforts to comply with Federal, State, and Local regulations. The Purchasing Agent educates departments on how to request procurements with federal awards and timeline expectations for the procurement process.

## ACCOUNTABILITY

The work performed required our staff to exercise professional judgment in completing the engagement’s scope. As the engagement’s scope did not include a detailed examination of all transactions, there is a risk that fraud, errors, or omissions were not detected during this engagement. The official, therefore, retains the responsibility for the accuracy and completeness of their financial records and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.