

WEST VIRGINIA LEGISLATURE
Performance Evaluation and Research Division

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John Sylvia
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October 18, 2015

The Honorable Craig Blair
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The Honorable Gary G. Howell
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Dear Chairmen,

Since the Performance Evaluation and Research Division (PERD) audits the purchasing functions of higher education institutions except West Virginia University (WVU) and Marshall University (MU), you requested that PERD examine the independent purchasing audits that WVU and MU are required to have performed pursuant to W. Va. Code §18B-5-4(r)(1) and report the findings and recommendations of the independent audits. Five audits were identified. After review of the audits, our basic observations are that the two universities have not had the audits performed within the statutory time frames (at least once in a three-year period), and the universities' procedures are inadequate in identifying and responding to violations of competitive bidding. There are other issues identified in the audits but these are the most significant findings. PERD had no communication with the universities or independent auditors concerning the audits; however, we spoke to staff of the Higher Education Policy Commission (HEPC) to confirm the number of audits conducted on the two schools. Below is a detailed discussion of these issues, the recommendations¹ made, and the universities' written responses to the recommendations contained in the audit.

¹ The recommendations from the reports are enclosed.

WVU and MU Have Not Complied With the Statutory Time Frame for Having Purchasing Audits Performed.

WVU and MU are exempt from the purchasing performance audits conducted by the Legislative Auditor. Instead, the Legislature requires WVU and MU to have independent purchasing audits conducted at least once in a three-year period. The independent audit company used in all five audits was Matrix Consulting Group (Matrix). These audits are also required to be provided to the Joint Committee on Government and Finance, and the Legislative Oversight Commission on Education Accountability. West Virginia Code §18B-5-4 (r) states:

An independent performance audit of all purchasing functions and duties which are performed at any state institution of higher education shall be performed at least once in each three year period. [emphasis added]. . . (2) Each audit shall be inclusive of the entire period that has elapsed since the date of the preceding audit.

The law went into effect July 1st, 2005, which means that WVU and MU should each have had at least three audits completed. The audits on the schools were performed by the same audit firm. WVU had completed two audits and MU one during our initial evaluation. WVU was compliant in submitting its first two audits, published April 30th, 2008 and May 12th, 2011. MU completed its first and only audit to date on January 4th, 2011, two and a half years after it should have been submitted.

In April 2015, the HEPC informed PERD that WVU and MU currently had audits under contract but were not completed. Upon receipt of this letter in October 2015, WVU and MU provided copies of the audits to the Legislative Auditor. The WVU audit was issued on May 19 and it was provided to the HEPC in early June. According to a WVU representative the school is “in the process of implementing some data analytics tools that will allow us to do much more monitoring in becoming more efficient in spending and monitoring our purchases for compliance. We are also in the process of reviewing our procurement rules for best practices.” The MU audit was issued on June 19. A MU representative said, “There was some discussion with the former President to have a separate audit of the P-card Unit which is under the Chief Financial Officer's division. However, the audit did not occur,” but made no other comment pertaining specifically to the findings of the draft. Both the WVU and MU 2015 audits identify the same issues with procedures that are significantly deficient in promoting competitive bidding, identifying potential misuse and stringing, and maintaining a strong sole-source procurement policy.

PERD reviewed the five completed audits and supporting materials and concludes that the audits do not require a significant amount of time that would preclude the audits from being conducted at least once every three years. WVU's audits took about six months to complete and MU's audit took three months.

Matrix Examined Performance Effectiveness, Compliance and Internal Controls of Purchasing Functions.

Although statute stipulates that the purchasing functions and duties of the universities be reviewed, the specific objectives are left to the universities' discretion. The universities requested Matrix review their purchasing functions and duties and report on program effectiveness, internal controls and compliance. Program effectiveness looks at the institution's effectiveness in achieving its overall purchasing goals and objectives. Compliance audits focus on compliance with established purchasing procedures such as approval signatures, completion of forms and file documentation. Internal control audits focus on determining if management has adequate controls in place to minimize fraud and abuse, and review staff compliance.

All five audits requested Matrix to perform the following audit tasks:

- *Compliance with state law, the rules, policies, procedures of the [Marshall University or West Virginia University] Board of Governors as they apply to purchasing, receiving, supplies and equipment.*
- *Determine whether professional procurement procedures are established and maintained within the University.*
- *Has the [Chief Procurement Officer] CPO been properly designated as CPO by the President or executive officer of the institution and is there a properly executed Designation of Chief*
- *Procurement Officer Form on file at the institution and has this form been properly filed as required? In general, is the CPO performing the CPO's responsibilities, duties and remedies outlined in the [Marshall University or West Virginia University] Board of Governors Policy and duly adopted Purchasing Manual.*
- *Has the CPO delegated authority to Buyers and has the delegation been made according to the [Marshall University or West Virginia University] Board of Governors Policy and duly adopted Purchasing Manual? Do the buyers meet the minimum qualifications established in the West Virginia Code to be employed as buyers?*
- *Specifically, are the provisions of the [Marshall University or West Virginia University] Board of Governor's Policy and duly adopted Purchasing Manual are being followed for purchases in the following categories:*
 - *Purchases not exceeding \$5,000;*
 - *Purchases greater than \$5,000 but not exceeding \$25,000; and*
 - *Purchases greater than \$25,000.*
- *Have institutional guidelines and procedures for purchases of \$5,000 and less been established, approved and filed by the CPO as required by the [Marshall University or West Virginia University] Board of Governors Policy and duly adopted Purchasing Manual.*
- *Are the requirements of the Governing Boards Purchasing procedures manual being followed?*
- *Determine if the Purchasing Card Program is being managed by the institutions in conformance with West Virginia code Section 12-3-10a and Title 148CSR7.*
- *Determine if the provisions of State Law and Board of Governors approved*

- *Procurement Rules are being followed for purchases in the following categories:*
 - *Purchases under \$5,000 made on the P-Card;*
 - *Purchases of Services;*
 - *Purchases of Construction.*
- *Identify “Best Business Practices” at [Marshall University or West Virginia University], from other states or the private sector that the audit firm would recommend be adopted by the institutions to improve efficiency and performance.*
- *Evaluate purchasing staff levels and activity at the institutions and compare them to staffing and purchasing activities for other public entities.*
- *Make recommendations that the audit firm believes would improve efficiency and accountability at the institution level and system-wide, including combining some or all purchasing functions.*
- *Identify factors inhibiting efficient and satisfactory performance and identify ways of making purchasing work better at both the system and institution levels.*
- *Recommendations on utilizing bulk purchasing, reverse bidding, electronic marketplace, etc. to take advantage of economies of scale and efficient operations.*
- *Recommendations on additional flexibility in purchasing rules, policies, procedures and state law that would improve efficiency and execution.*
- *Identify internal controls that should be implemented at the institutions and at the system level by the Commission.*

Matrix fulfilled the tasks requested by examining university and HEPC policy, state law, and best purchasing practices. Matrix sampled several different types of purchasing transactions and measured them for compliance against established policies and conducted a user satisfaction survey. Both audits conducted for WVU compare the university’s purchasing policies to other universities within the United States.

PERD’s Understanding of the Independent Audits Indicates That the Universities’ Procedures Do Not Maximize the Use of Competitive Bidding.

Matrix concluded that the universities had “*no material findings of deficiencies.*” Matrix came to this conclusion based on the fact that the institutions were in compliance with their own procedures. **However, Matrix pointed out that the schools’ procedures, particularly with respect to competitive bidding, are not best practices.** PERD’s review of the audits concludes that Matrix’s statement that “*no material findings of deficiencies*” were found gives the impression that there are no significant problems identified at the schools. While the schools may have been in compliance with their own procedures, the procedures are not best practices, and as a result, **the procedures are significantly deficient in promoting competitive bidding and in identifying potential misuse and stringing.** Matrix implies this by indicating that best practices would enhance the universities’ “*evaluation of transactions for potential misuse and stringing.*” This is the case not only with respect to awarded contracts through invoices but also in the use of purchasing card utilization. A brief discussion of these deficiencies is given below.

Deficiencies in Competitive Bidding

In all five audits, Matrix recommended the universities develop best practices related to making use of competitive bidding when required, and being able to detect misuse or stringing. The basis for these recommendations is that both universities evaluate purchasing transactions to the same vendor for each department separately, which means that competitive bidding will only be used when an individual department purchases more than \$25,000 to a vendor. However, evaluating purchasing transactions to the same vendor for all departments combined would require competitive bidding when the collective transactions exceed \$25,000. Matrix recommended that the universities review department transactions to vendors collectively rather than by individual departments. Matrix stated that *“This is a critical issue to maintaining compliance with the State requirements that purchases in excess of \$25,000 should be competitively bid.”*

The second deficiency involves internal controls for identifying stringing, potential misuse, abuse and other violations of competitive bidding. Matrix found that the universities were reviewing purchase card transactions to vendors using a relatively short time period. This means that the violation of stringing is narrowly defined and determining patterns of purchase card use was limited. For example, the West Virginia Purchasing Division would review all transactions to a vendor over a 12-month period in order to determine if the total amount of transactions to the vendor exceeded \$25,000. However, Matrix found in WVU’s first audit that its review of purchasing card transactions to vendors *“are only reviewed on a seven-day basis (e.g., Sunday to Saturday).”* *Monthly, quarterly and annual reviews are not conducted to look at broader patterns of use and/or potential misuse and abuse.”* This indicates that identifying instances of stringing and other competitive bidding violations is limited. In addition, Matrix found that WVU staff provided limited review of transactions that it had flagged as potential violations. In the second audit of WVU three years later, Matrix recommended that WVU *“expand the sample period of transactions to identify patterns over longer periods of time, including monthly, quarterly and annually.”* This indicates that WVU did not implement the original recommendation three years earlier to expand the review of transactions from seven days to a much longer period. It should be noted that the HEPC does not have a time period requirement for identifying stringing. Also, there is no indication in the audits that Matrix conducted any procedures to determine if stringing occurred over a longer time frame than seven days.

In 2011, Matrix found that MU’s review of purchase card transactions to vendors to identify stringing, abuse and misuse was limited to one day. In other words, Marshall would not identify a \$5,000 purchase every day to the same vendor for six days in a row as stringing. The controls currently in place to identify stringing or misuse are restricted, and consequently competitive bidding is not being encouraged. It should be noted that Matrix found that MU was in compliance with its procedures, and considered the one-day review period for identifying stringing as a “minor” point. Matrix did not indicate if it conducted audit procedures to determine if stringing actually occurred using a longer time frame than one day.

Sole-Source Purchases

In all five audits, Matrix identified a “*limited number*” of sole-source purchases that lack documentation that the universities had evaluated and approved the transactions as required by university and HEPC policy. Matrix did not note the number of sole-source procurement files examined or the significance of files lacking documentation. Sole-source purchasing procedures are used when a product or service is not available through other vendors. These types of purchases require a justification for obtaining a product or service with approval from various purchasing staff from the universities. Matrix recommended that both universities review prices the vendor gave to other entities for the same service or goods to achieve competitive pricing. In the second WVU audit, Matrix noted that WVU had implemented a best-pricing clause and that staff were supposed to also conduct “price reasonableness” as part of its evaluation of sole source purchases.

Several recommendations were made by Matrix. MU agreed with 16 of the 19 recommendations made in its audit, disagreed with two, and partially agreed with one. WVU’s audits do not indicate the university’s agreement or disagreement with the audit firm recommendations. In the second WVU audit, Matrix noted that of the 33 recommendations made in the first audit, WVU implemented 7, partially implemented 10, and did not implement 16.

Conclusion

WVU and MU’s purchasing procedures do not adequately encourage the use of competitive bidding. The universities are not using purchasing best practices by virtue of not reviewing the university’s purchase transactions to vendors from all departments collectively. By reviewing individual department transactions to vendors, the universities are not maximizing opportunities for competitive bidding. Furthermore, when WVU’s own stringing report identified potential serious deficiencies, the university frequently did not document that it pursued the potential violations. The Legislative Auditor recommends that WVU and MU implement Matrix’s recommendations that pertain to enhancing the use of competitive bidding and improving enforcement procedures.

Since Matrix did not report whether stringing actually occurred, PERD examined whether or not other auditing entities had identified occurrences of stringing. The State Auditor’s Office and the Legislative Auditor’s Post Audit Division both indicated that they have not audited the schools’ purchase transactions in over 10 years.

WVU and MU have not contracted for, or released, independent purchasing audits in compliance with §18B-5-4 (r). MU is significantly behind in releasing audit reports in compliance with statute. After the review of the independent audits, PERD makes the following recommendations to the universities and the HEPC.

Recommendations

1. *West Virginia University and Marshall University should comply with §18B-5-4 (r) by obtaining purchasing audits at least once in each three year period.*
2. *West Virginia University and Marshall University should implement Matrix’s recommendations to use best practices by expanding the review of transactions to vendors*

to monthly, quarterly or annual time periods, review department transactions collectively instead of individually, and that enforcement of purchasing requirements be strengthened.

I hope that this addresses your questions with respect to West Virginia University and Marshall University's independent purchasing audits. If there are any further questions that you have in this area we are always available to assist you.

Sincerely,


John Sylvia

Enclosures

Purchasing Performance Audit

MARSHALL UNIVERSITY

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Issue Date: January 4, 2011

C. LISTING OF RECOMMENDATIONS

The following table is provided for ease of reference as a summary of the major recommendations contained within the report.

Recommendation
The procurement manual should be reviewed at least every three years for updating as needed. Ideally, this review would occur the year prior to the conduct of a performance audit.
A formal on-going training program should be established for all buyers to maintain skills and provide skills enhancement.
An annual vendor training sessions should be provided to acquaint potential vendors on how to do business with the University. When available, Marshall University should participate in vendor training / fairs conducted by the Director of Purchasing for the State of West Virginia.
Additional vendor training programs should be implemented – especially to assist smaller and local vendors in navigating the procurement process. An on-going vendor evaluation system should be established that required evaluation of each vendor’s performance. Initially, this effort should be focused on contracts exceeding \$100,000.
Vendors should be able to request inclusion on vendor lists for future procurement opportunities on-line through the Marshall University website.
The Office of Purchasing should work with WVU to determine the applicability and potential to share in the utilization of “best in class” efforts that have been implemented by WVU in the last several years. These include the SciQuest system (a system that makes available, through a central source, purchasing of commodities off established contracts). This system is designed to increase utilization of purchasing cards, increase the availability of business intelligence, and enable payments to be made immediately upon receipting.
Buyers should be provided p-cards to enable immediate procurement of selected goods without the need for issuance of a purchase order for small dollar value purchases.
The weekly and monthly reports developed by staff regarding p-card utilization should be more fully utilized and enhanced to enable greater evaluation of transactions for potential misuse and stringing.
Procedures to utilize standard reports and conduct periodic analysis should be put into place to review non-competitively awarded contracts that are given to vendors in an effort to limit the number awarded to the same vendor from different departments. This is a critical issue to maintaining compliance with the State requirements that purchases in excess of \$25,000 should be competitively bid.
On-line services should be enhanced to include: <ul style="list-style-type: none"> - Electronic submission of RFQ processes. - Electronic signature authority should be developed and implemented to enable greater utilization of on-line services for formal bid responses. - Posting of bid tabulations on-line after bid opening. - Posting of award notifications.

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Recommendation
Marshall University should enter into discussions with WVU for acquiring use of the small construction projects software system that enables electronic bid distribution, response receipt, and processing for minor construction projects (i.e. – those under \$25,000).
On-going spend analysis and procurement reports should be developed that enable staff to better evaluate procurement actions including identification of additional opportunities for developing university wide contracts, conducting spend analysis, and identification of potential purchase order stringing. Available business intelligence is currently limited due to high use of p-cards and the inability to retrieve detailed commodity code purchase details from these transactions. The University should work to standardize the commodity codes utilized for purchase orders and p-card transactions.
The procurement software should be modified to provide for easier and more detailed tracking of special procurement actions (such as sole source purchases, emergency purchases, etc.). Currently these are not identifiable within the system.
Additional efforts should be made to ensure that all supporting documentation relative to purchases is filed in the purchase order file. The CPO should develop an internal policy outlining documentation requirements for procurement files.
Departments should be required, as part of their submission in support of a sole source purchase, to provide copies of the relevant sections of any applicable research grants or contracts. A sole source authorization form should be implemented to ensure consistent provision of information and formal documentation of the approval.
Marshall University should implement a "best pricing" clause within sole source purchase orders to assist in obtaining better pricing.
Greater education of user department staff should be conducted to make them aware of available cooperative purchasing opportunities and established contracts for procuring goods. Consideration should be given to requiring users to purchase off established contracts unless a reasonable operational reason exists for procuring from an alternative source (even if the p-card is utilized). All authorized departmental users should attend a training session on the procurement policy at least once every three years.
Additional staff support should be provided to those individuals in buyer functions to provide them additional time to spend on the "high value" procurement responsibilities rather than clerical functions. At the present time, the only staff support is a temporary part-time office assistant. The Office of Purchasing should have at least one full-time administrative support position.
The Office of Purchasing should work with the Marshall University Board of Governors to adopt a records retention policy in accordance with State of West Virginia requirements. Following adoption, the Office of Personnel should seek authorization for destructions of records that fall outside of the statutory requirements for record retention.

More detailed discussion and background on these recommendations is contained in the following sections.

Purchasing Performance Audit
MARSHALL UNIVERSITY

FINAL REPORT



Issue Date: June 19, 2015

recent evaluation and field work remain a recommendation for improvement. It is important to note that these are operational improvements that can enhance the procurement operation but are not findings of non-compliance with state regulation.

Recommendation
A formal on-going training program should be established for all buyers to maintain skills and provide skills enhancement.
An on-going vendor evaluation system should be established that required evaluation of each vendor's performance. Initially, this effort should be focused on contracts exceeding \$100,000.
More timely reports summarizing p-card transactions should be provided to Purchasing, along with data extracts where feasible, to enable greater evaluation of spending, need for new contracts, and completion of more comprehensive spend analysis.
On-line services should be enhanced to include: <ul style="list-style-type: none"> - Electronic submission of RFQ processes. - Electronic signature authority should be developed and implemented to enable greater utilization of on-line services for formal bid responses. - Posting of bid tabulations on-line after bid opening. - Posting of award notifications.
Marshall University should enter into discussions with WVU for acquiring use of the small construction projects software system that enables electronic bid distribution, response receipt, and processing for minor construction projects (i.e. – those under \$25,000).
On-going spend analysis and procurement reports should be developed that enable staff to better evaluate procurement actions including identification of additional opportunities for developing university wide contracts, conducting spend analysis, and identification of potential purchase order stringing. Available business intelligence is currently limited due to high use of p-cards and the inability to retrieve detailed commodity code purchase details from these transactions.
The procurement software should be modified to provide for easier and more detailed tracking of special procurement actions (such as sole source purchases, emergency purchases, etc.). Currently these are not identifiable within the system.
A sole source authorization form should be implemented to ensure consistent provision of information and formal documentation of the approval.
Marshall University should implement a "best pricing" clause within sole source purchase orders to assist in obtaining better pricing.

More detailed discussion and background on these recommendations is contained in the following sections.

Purchasing Performance Audit

WEST VIRGINIA UNIVERSITY

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April 30, 2008

The Procurement Staff have identified and are currently pursuing the implementation of several items that will greatly increase the effectiveness and efficiency of the procurement function at WVU.

C. LISTING OF RECOMMENDATIONS

The following table is provided for ease of reference as a summary of the major recommendations contained with in the report.

Section	Recommendation
3.9	The WVU website should be expanded to provide greater purchasing information and functionality.
4.2	The legal authority and precedence of the WVU Board of Governors purchasing manual must be clarified.
4.2	The purchasing manual should be updated over the next year to eighteen months.
4.2	An on-going staff development program should be implemented.
4.2	Specific procurement staff should be assigned as liaisons to individual user departments to provide a single point of contact with purchasing staff.
4.2	A "How to Do Business" Manual should be developed for WVU and posted on the website.
4.2	Additional vendor training programs should be implemented to assist small and local vendors navigate the procurement process.
4.2	An on-going vendor survey should be implemented.
4.2	A vendor evaluation system should be developed and implemented to track vendor performance.
4.2	The weekly and monthly p-card reports should be more effectively utilized.
4.2	P-card utilization should be limited in certain areas (inter-departmental transfers and large recurring payments).
4.2	A coordinating mechanism should be put into place to enable procurement staff to identify and manage the contracts awarded to vendor in a non-competitive basis to reduce likelihood of compliance issues with the \$25,000 bidding threshold.
4.2	Efforts should be explored to implement electronic purchase orders.

**WEST VIRGINIA UNIVERSITY
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Section	Recommendation
4.2	On-line services should be enhance to provide access to the purchasing manual, enable electronic bidding opportunities, and enable full implementation of Sci-Quest. Electronic signature authority should be sought.
4.2	Additional efforts should be placed on finalizing development of the project dashboard.
4.2	Procurement staff should conduct periodic spend analysis and procurement reports to identify additional opportunities for implementing university-wide contracts.
4.2	Departments should provide, as part of their submission of sole source documentation, copies of relevant sections of research grants and contracts.
4.2	WVU should implement a "best pricing" clause in all sole source purchases.
4.2	A vendor evaluation system for construction contractors should be implemented.
4.2	A comprehensive listing of university-wide contacts, as well as cooperative purchasing opportunities, should be developed and posted on the website for departmental use.
4.2	Additional clerical staff support should be provided to buyers to provide more time for them to focus on "higher value" procurement functions.
4.B	P-card administration staff should continue to perform transactions audits on an ongoing basis and should also expand the sample period of transactions to identify patterns over longer periods of time, including monthly, quarterly and annually. This will better enable staff to determine patterns of use, misuse and abuse in the procurement card program.
4.B	The P-card administration staff should develop a formal, written policy and audit program that outlines the process for auditing transactions and clearly delineates departmental responsibilities and responsibilities of WVU Procurement staff.
4.B	Procurement Services should develop a process by which transactions flagged for noncompliance are investigated. Results of each investigation should be thoroughly documented, including findings, resulting consequences and actions.
4.B	P-Card Administration should also develop performance reports to be provided to the Unit's supervisor, as well as Procurement Services management team.
4.B	Procurement Services should create and conduct ongoing spend analyses to ensure that the University is maximizing competitive bidding opportunities
4.B	Procurement Services should develop policies to promote the use of negotiated contracts on items such as travel (e.g., hotel brands, rental car agencies, etc.), office supplies, hardware supplies, cell phones, etc.

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Section	Recommendation
4.B	Procurement Services should expand the procurement card audit function to include periodic audits of transactions to ensure use of negotiated contracts and relevant discounts, including State negotiated rates, etc.
4.B	Procurement Services should develop a policy governing the use of blanket purchase orders for frequently used vendors (e.g., office supplies stores, book stores, food / beverage vendors) and / or routine payments, such as utility bills, cell phones, newspaper subscriptions, etc.
4.B	Procurement Services should reduce the use of procurement cards for intra-University transactions and establish intra-University fund transactions and / or internal blanket purchase orders.
5	All contested invoices should be centrally logged noting deficiency of the invoice and the action taken. Vendors should be promptly notified of the deficiency or cause of delay in processing to prevent concerns relative to compliance with the Prompt Payment Act.
5	All documentation supporting sole source purchases should be maintained in the purchase order file.
5	Practices related to date and time stamping of bids received should be slightly modified to improve compliance.

More detailed discussion and background on these recommendations is contained in the following sections.

Purchasing Performance Audit
WEST VIRGINIA UNIVERSITY

Final Report



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May 12, 2011

**WEST VIRGINIA UNIVERSITY
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Recommendation # / (Section / Page #)	Recommendation
1. (3.3 / pg.35)	Enhanced staff training, especially for Procurement Services staff, should be implemented to ensure all procurement staff are following the same procedures in a consistent fashion.
2. (3.3 / pg. 35)	The procurement policy should be comprehensively reviewed at least one every three years for necessary revisions / updates. Ideally, this would occur the year prior to scheduled performance audit.
3. (3.3 / pg. 35)	A formal training program for all procurement staff should be implemented in the next year.
4. (3.3 / pg. 35)	At least an annual training session should be provided to all users.
5. (3.3 / pg. 36)	A how to do business guide should be developed and posted on the website.
6. (3.3 / pg. 36)	An effective vendor feedback system should be implemented that provides for both on-going feedback (through a "feedback" link on the website) and an annual survey of vendors to monitor service provision.
7. (3.3 / pg. 36)	An on-going vendor evaluation system should be established for all contracts awarded in excess of \$25,000. This could be phased in initially for contracts exceeding \$100,000.
8. (3.3 / pg. 38)	Additional efforts should be made to eliminate the use of purchase orders for small purchases (those under \$5,000) by increasing use of p-cards. This may entail issuance of additional cards to departmental users and/or require Buyers to return requisitions to departments with notification to procure directly on their p-card.
9. (3.3 / pg. 39)	Annual evaluation of vendor awards should be conducted to assess extent / level of risk associated with this. Staff should work with information technology staff to determine if automated solution exists to identify when vendors are receiving multiple "non-competitive" awards that would exceed threshold.
10. (3.3 / pg. 42)	<p>The effort to implement SciQuest should continue to be given high priority. However, absent a "requirement" that University staff utilize SciQuest, it is unlikely that cost-savings will be sufficient to cover the cost of implementation and on-going maintenance costs. This concern is somewhat mitigated by recent decision for the state to cover annual maintenance costs associated with Sci-Quest software.</p> <p>The University should continue to evaluate whether implementation of Sci-Quest makes operational sense given policy decision not to require use of it by operating departments.</p>
11. (3.3 / pg. 43)	Implement on-line submission of electronic bid and RFP responses.

**WEST VIRGINIA UNIVERSITY
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Recommendation # / (Section / Page #)	Recommendation
12. (3.3 / pg. 43)	All final award notifications for bids and RFPs should be posted on-line.
13. (3.3 / pg. 43)	An annual spend analysis report should be conducted to determine future potential for expanding number and types of established contracts.
14. (3.3 / pg. 44)	Implement standard report that will flag vendors who received multiple awards / purchase orders that exceed pre-determined threshold levels.
15. (3.3 / pg. 45)	The sole source policy should clearly outline actions to be taken for violation of sole source policy.
16 (3.3 / pg. 47)	An annual report should be developed summarizing sole source purchase activity to enhance business intelligence
17. (3.3 / pg. 48)	A master database / report of all sole source purchases should be developed and maintained to enhance business intelligence and for evaluative purposes.
18. (3.3 / pg. 50)	The University should continue efforts to "encourage" if not require use of established contracts to increase utilization levels and reduce total costs of acquisition.
19. (3.3 / pg. 50)	A vendor evaluation process should be established.
20. (3.3 / pg. 52)	Standard reports should be established to enable procurement staff to identify high-utilization vendors and/or commodities (especially those utilized by multi-departments) that are suitable for placement on contract to reduce costs and/or increase procurement process.
21. (3.3 / pg. 53)	An annual spend analysis report should be conducted to identify additional goods, services or commodities areas that should be placed on contract, or procured cooperatively among departments.
22. (3.3 / pg. 53)	Additional training efforts should be undertaken to inform departments of established contracts and the availability of cooperative purchasing schedules available for use.
23. (3.4.B / pg. 57)	P-card administration staff should continue to perform transaction audits on an ongoing basis and should also expand the sample period of transactions to identify patterns over longer periods of time, including monthly, quarterly and annually. This will better enable staff to determine patterns of use, misuse and abuse in the procurement card program.
24. (3.4.B / pg. 57)	The P-card administration staff should develop a formal, written policy and audit program that outlines the process for auditing transactions and clearly delineates departmental responsibilities and responsibilities of WVU Procurement staff.

**WEST VIRGINIA UNIVERSITY
PURCHASING PERFORMANCE AUDIT**

Recommendation # / (Section / Page #)	Recommendation
25. (3.4.B / pg. 57)	The P-card administration staff should develop a formal, written policy and audit program that outlines the process for auditing transactions and clearly delineates departmental responsibilities and responsibilities of WVU Procurement staff.
26. (3.4.B / pg. 57)	P-Card Administration should also develop performance reports to be provided to the Unit's supervisor, as well as Procurement Services management team.
27. (3.4.B / pg. 57)	Procurement Services should further develop policies to promote the use of negotiated contracts on items such as travel (e.g., hotel brands, rental car agencies, etc.), office supplies, hardware supplies, cell phones, etc.
28. (3.4.B / pg. 57)	Procurement Services should continue to expand the procurement card audit function to include periodic audits of transactions to ensure use of negotiated contracts and relevant discounts, including State negotiated rates, etc.
28. (3.4.B / pg. 57)	Procurement Services should reduce the use of procurement cards for intra-University transactions and establish intra-University fund transactions and / or internal blanket purchase orders.
29. (3.5 / pg. 61)	The website for the Office of Purchasing, Contracts and Payment Services should continue to be enhanced to improve the availability of information to site visitors, and increase the services provided to users. Specific items that should be added / improved include: FAQ section, training session information, vendor evaluation tools, and online submission of bid and RFP responses.
30. (4.2 / pg. 67)	All contested invoices should be centrally logged noting deficiency of the invoice and the action taken. Vendors should be promptly notified of the deficiency or cause of delay in processing to prevent concerns relative to compliance with the Prompt Payment Act. Departments purchasing supplies should be contacted to assist in the prompt resolution of disputed or contested invoices.
31. (4.2 / pg. 67)	Additional efforts should be made to ensure that all supporting sole source documentation (specifically relative to the evaluation conducted by purchasing staff prior to recommendation for approval) is filed in the purchasing order file.

More detailed discussion and background on these recommendations is contained in the following sections.

Purchasing Performance Audit

WEST VIRGINIA UNIVERSITY

Final Report

matrix 
consulting group
101 Southpointe Drive, Suite E
Edwardsville, IL 62025
v.618.692.9085

Issue Date: May 19, 2015

foundation for the Department to make necessary changes to implement these recommendations.

3. DETAILED ASSESSMENT OF BEST MANAGEMENT PRACTICES.

The following table contains a more detailed summary of the diagnostic assessment that was conducted of the procurement, payments and p-card functions of the West Virginia University's Office of Purchasing, Contracts and Payment Services. For each best practice, the project team has identified whether it is a current strength of the Office or an opportunity for improvement.

Performance Target	Strengths	Potential Improvements	Recommendation
A comprehensive procurement policy has been developed and distributed to all staff outlining required practices in procuring goods, services, and construction services.	WVU has developed and distributed a comprehensive procurement manual for use by staff and departments.		
The procurement policy has been reviewed and revised within the last three years.	The procurement manual has been updated and made available online for easy access by staff and vendors.		
All key staff in procurement functions has attended required training on the WVU Procurement Policy. All new staff assigned to procurement functions is required to receive, review and attend training on the University's policy upon appointment.	Periodic procurement meetings are held with departments to update them on changes in procurement rules.		Training of staff and user departments should remain a priority to ensure full understanding of existing policies and procedures, and to increase compliance.
The procurement policy outlines procurement authority levels by position title with increasing levels of authority based upon position level.	The WVU manual provides clear delineation of authority levels by position and function.		

**WEST VIRGINIA UNIVERSITY
PURCHASING PERFORMANCE AUDIT**

Performance Target	Strengths	Potential Improvements	Recommendation
The procurement policy contains an ethics section governing staff and vendor actions.	WVU's procurement manual contains a section outlining ethics in public procurement.		
The Procurement Division has published a "How To Do Business" Guide for vendors. The guide has been revised within the last three years.		No comprehensive how to guide is available on WVU's website for use by vendors in understanding how to provide good or services to the University.	A how to do business guide should be developed and posted on the website.
Formal vendor training is offered annually to acquaint potential vendors on the University's policies and procedures.	Periodic vendor training has occurred in the past with vendors to acquaint them with the University's requirements.		
A customer survey has been conducted within the last three years to elicit feedback regarding WVU service levels and practices.		Periodic user surveys should be implemented to enable the Chief Procurement Officer to know customer perceptions regarding service levels and timeliness.	A customer survey should be conducted annually.
A policy is in place requiring periodic vendor evaluation and outlines criteria for designating a vendor as approved / disapproved regarding eligibility for continued business with the University.		No on-going vendor evaluation system is in place.	An on-going vendor evaluation system should be established for all contracts awarded in excess of \$25,000. This could be phased in initially for contracts exceeding \$100,000.

**WEST VIRGINIA UNIVERSITY
PURCHASING PERFORMANCE AUDIT**

Performance Target	Strengths	Potential Improvements	Recommendation
<p>Contracts entered into by WVU staff are either:</p> <ul style="list-style-type: none"> Reviewed prior to signing by University legal staff; or Within procedure guidelines where legal review is not conducted based upon contract templates having received prior University legal approval. 	<p>All contracts are prepared on form approved by legal counsel (either University legal staff and/or the State Attorney General). All changes to standard terms and conditions must have prior legal approval.</p>		
<p>The use of procurement cards is based upon a defined policy and procedure adopted by the University.</p>	<p>The University has a defined policy and procedure regarding procurement card utilization.</p>		
<p>Procurement card use if periodically audited by the University to ensure compliance with policies and procedures.</p>	<p>P-Card utilization is audited both by the State Auditor and by the University. Procurement staff who conduct on-going review, on a monthly basis, of all p-card transactions to identify problem areas (i.e. – stringing, misuse, attempt to exceed authority levels). Weekly and monthly reports are utilized to manage internal review. All items noted as “suspect” are fully examined and addressed. Improvement in this area noted since last audit.</p>		
<p>Utilization of p-cards is well defined regarding the types and number of services that may be paid for through the p-cards.</p>	<p>The University’s policy provides clear guidance on the services that may be paid through p-cards.</p>		

**WEST VIRGINIA UNIVERSITY
PURCHASING PERFORMANCE AUDIT**

Performance Target	Strengths	Potential Improvements	Recommendation
Procurement Services maintains a master listing of authorized purchasers for each department with designated authority level.	Procurement staff maintains a comprehensive listing of authorized users.		
All changes in designated users (addition of new staff, termination of existing staff) are communicated within 24 hours to Procurement by the appropriate department.	Departments are responsible for notifying procurement staff of all changes in designated users for p-cards and for approval / authorization of purchase requisitions.		
Guidelines have been developed to limit the number and dollar amount of non-competitively bid contracts that can be awarded to a single vendor.	Procurement has access to information regarding all contracts awarded to enable periodic review and analysis.	No coordination mechanism is in place to provide a review of non-competitively awarded contracts to a single vendor. Given authority levels that can be approved at department level, multiple awards can be made to the same vendor.	Annual evaluation of vendor awards should be conducted to assess extent / level of risk associated with this. Staff should work with information technology staff to determine if automated solution exists to identify when vendors are receiving multiple "non-competitive" awards that would exceed threshold.
A written appeal procedure is in place for non-selected vendors.	The procurement manual provides direction and guidance regarding the filing and processing of appeals in Section 7.		
The University's policies and procedures outlines the process, guidelines and criteria to be utilized in making a determination regarding the appropriateness of executing a contract extension versus conducting a new solicitation.	Clear compliance guidelines are provided in the manual outlining the basis on which decisions to award should be made.		

**WEST VIRGINIA UNIVERSITY
PURCHASING PERFORMANCE AUDIT**

Performance Target	Strengths	Potential Improvements	Recommendation
<p>The Procurement Division serves as the centralized procurement authority with responsibility and authority to oversee all University purchasing and review of compliance with established policies and procedures.</p>	<p>The University's Procurement Division serves as the centralized procurement entity and is charged with not only the processing of purchasing actions but the duty to ensure compliance with established policies and procedures.</p>		
<p>Procurement Services is responsible for maintaining a centralized listing of registered vendors.</p>	<p>Vendor registration is available online and the University maintains a centralized registry of registered vendors.</p>		
<p>The WVU utilizes a common procurement software system across all departments.</p>	<p>The university utilizes common software systems for all component units and departments – MAP/Oracle.</p>		
<p>Staff involved with procurement is able to view historical purchases online to evaluate current bids, proposals, and quotations against prior purchase experience.</p>	<p>Buyers have access to a full complement of historical information for use in evaluating current bids, proposals and quotations on current bids.</p>		
<p>Access to vendor maintenance files is limited to designated procurement staff.</p>	<p>Vendor management is assigned to specific individuals within the Department.</p>	<p>For the State FMIS system, vendor maintenance files are available to other user agencies in addition to WVU.</p>	
<p>Appropriate internal controls are in place within the procurement system to generate reports or flag actions where:</p>			

**WEST VIRGINIA UNIVERSITY
PURCHASING PERFORMANCE AUDIT**

Performance Target	Strengths	Potential Improvements	Recommendation
<ul style="list-style-type: none"> • Total purchase expenditures for common services and/or goods across multiple departments exceed established approval levels. • Identification of requested payments that would exceed authorized contract or purchase order limits. • Contract amendments or change orders exceed a pre-determined percentage of the original authorized amount. • Multiple stand-alone purchase orders with the same vendor are entered into by departments. 	<p>The invoice and payment reviews conducted prior to payment prevent payments from being processed that would exceed the authorized contract limits. Additionally, requests for payments received outside of the contract time period are not permitted without contract modification. Contract amendments and change orders are reviewed individually for each contract to determine appropriateness.</p>	<p>Currently reports are not generated to identify purchases that exceed pre-determined levels to identify potential opportunities for university wide contracts.</p> <p>Current reports do not identify potential stringing issues with purchase orders.</p>	<p>An annual spend analysis report should be conducted to determine future potential for expanding number and types of established contracts.</p> <p>Implement standard report that will flag vendors who received multiple awards / purchase orders that exceed pre-determined threshold levels.</p>
<p>A sole source policy has been developed and/or reviewed within the last three years.</p>	<p>The University has, within its purchasing manual, a defined sole source policy.</p>		
<p>All departments are required to follow the University's approval for sole source contracts.</p>	<p>All university departments must follow the sole source requirements. The Chief Procurement Officer, or designee, must sign off on all forms prior to processing.</p>		

**WEST VIRGINIA UNIVERSITY
PURCHASING PERFORMANCE AUDIT**

Performance Target	Strengths	Potential Improvements	Recommendation
There is a clear policy in place for addressing violations of the sole source contract policy, including disciplinary actions.	The policy outlines actions to be taken when violations occur.		
There is a standard form utilized by departments for requesting sole source contract approval.	A single sole source purchase form has been developed by the Procurement Division for use by all departments.		
All sole source purchases are reviewed by Procurement Services Division and approved prior to entering into a purchase agreement.	The Chief Procurement Officer, or his designee, must sign all sole source forms prior to the issuance of a purchase order.	Methods should be established to increase tracking of sole source purchases, and denials, for business intelligence on purchasing practices to be developed.	An annual report should be developed summarizing sole source purchase activity to enhance business intelligence.
Departments provide research and backup documentation in writing justifying sole sourcing (e.g., letters from manufacturers about local distributors, solicitation of quotes from vendors, systems integration requirements, etc.)	Case files reviewed generally indicated that departments provide sufficiently detailed backup documentation to support the sole source request.		
For large contracts and / or random sample of small dollar contracts, Procurement Services Division conducts research to validation sole source justification (e.g., attempts to identify additional vendors, etc.)	Research is conducted based upon time and resource availability and the nature and size of the purchase.		
Appropriate procurement processes are utilized to achieve competitive pricing on service contracts not requiring formal bidding / RFPs.	The procurement manual outlines suggested methods for achieving competitive pricing where formal bidding is not required.		

**WEST VIRGINIA UNIVERSITY
PURCHASING PERFORMANCE AUDIT**

Performance Target	Strengths	Potential Improvements	Recommendation
Master databases are maintained of all service and construction contracts entered into by the WVU.	All construction and service contracts are maintained in Procurement and all contracts over \$25,000 are provided to the State Auditor.		
Contract amendments are reviewed by appropriate legal authority and/or the Procurement Services Division when the total dollar value of the amendment exceeds 25% of the original contract amount.	Procurement staff is involved in the review and approval of all contact amendments and change orders.		
Appropriate documentation is maintained supporting the selection decision reached by staff.	Selection processes are required, in accordance with the guidelines, to be maintained as part of the procurement file.		
Contracts for services exceeding a pre-determined threshold must receive authorization from Procurement Services Division prior to approval.	Procurement services is involved in the development and issuance of all contracts for service.		
All contracts entered into for service contracts are either based upon contracts approved by the WVU or if based upon a vendor supplied contract are reviewed by legal staff prior to signature.	All contracts are based upon forms approved by legal counsel and that incorporate all standard terms and conditions.		
Assistance by Procurement Services is provided to departments in negotiating pricing for service contracts. Prior contracts and external research is utilized for determining the appropriateness of consultant rates and fees.	Procurement staff provide assistance and historical information, as appropriate, to evaluate pricing rates provided on service contracts during the evaluation phase.		

**WEST VIRGINIA UNIVERSITY
PURCHASING PERFORMANCE AUDIT**

Performance Target	Strengths	Potential Improvements	Recommendation
<p>Services and commodities utilized by multiple departments are acquired through a joint effort coordinated by the Procurement Services Division to achieve best value for the University.</p>	<p>Procurement is involved in the development of university-wide contracts to cover certain services and commodities of general use within the University (such as car rental, shipping services, office supplies).</p> <p>Procurement is in the process of implementing through SciQuest a contract portal that will provide access to various established contracts for departments to purchase from through a coordinated system.</p>	<p>However, many of these contracts are not required use contracts and departments are free to utilize other service or commodity providers. There are additional opportunities, as identified by staff, to expand the utilization of university-wide contracts.</p>	<p>The University should continue efforts to “encourage” if not require use of established contracts to increase utilization levels and reduce total costs of acquisition.</p>
<p>A master contract approach is utilized for pre-qualifying firms able to provide construction, engineering and design services.</p>	<p>The University utilizes a good master contracting approach. The process for small projects is one of the more efficient and effective programs reviewed by the project team and is clearly a model approach for others to follow. The University should continue open end task order system for minor construction.</p>		
<p>Vendors are evaluated at the completion of the provision of design and engineering services. Those vendors not receiving a satisfactory rating are not eligible for continued placement on the master contract.</p>		<p>Formal evaluation mechanisms are not in place to evaluate specific performance.</p>	<p>A vendor evaluation process should be established.</p>

**WEST VIRGINIA UNIVERSITY
PURCHASING PERFORMANCE AUDIT**

Performance Target	Strengths	Potential Improvements	Recommendation
<p>A standard policy has been established across all departments outlining the process to be followed in evaluating and selecting vendors for service contracts (i.e. – numerical ratings, consensus selection, etc.).</p>	<p>Some flexibility is provided in vendor evaluations however; guidelines are outlined in the procurement manual regarding which measure (best value, lowest responsible bidder) must be utilized for specific types of procurements.</p>		
<p>Basic documentation on service contracts including RFPs/RFQs, vendor submissions, selection process, etc. is maintained by Procurement for all contracts.</p>	<p>Procurement services maintains files on each solicitation processed including bid responses and evaluations conducted.</p> <p>As part of monthly meeting of procurement management staff, sample files are audited for compliance with established procedures and to evaluate individual buyers.</p>		
<p>Project Managers are responsible for evaluating performance of vendors on construction contracts and documenting and approving the need for change orders.</p>	<p>Project managers perform these duties on an on-going basis.</p>		
<p>The procurement documentation file for all construction and service contracts contain the following information:</p> <ul style="list-style-type: none"> • Purchase requisition, planning information, and other pre-solicitation documents. • Evidence of availability of funds. 	<p>The file documentation for construction contracting found no problems. The purchase order files were thoroughly maintained and contained all necessary documents as outlined in the following points. Documentation maintained.</p> <p>Documentation maintained.</p>		

**WEST VIRGINIA UNIVERSITY
PURCHASING PERFORMANCE AUDIT**

Performance Target	Strengths	Potential Improvements	Recommendation
<ul style="list-style-type: none"> • Rationale for the method of procurement (negotiations, formal bidding, sole source, etc.) • List of sources solicited. • Independent cost estimate. • Statement of work / scope of services. • Copies of published notices. • Copy of the solicitation, all addenda and all amendments. • Summary of each offer, quote or proposal received. • Selection documentation. • Cost or pricing data. • Notice of award and notice of non-selection to unsuccessful bidders/offerors and records of any debriefing sessions. • Record of any protest. • Required bid, performance or other bond documents including insurance forms, if any. • Notice to proceed. 	<p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p> <p>Documentation maintained.</p>		
<p>Procurement staff conduct periodic spend analysis to determine commodity areas where group purchasing would be more effective.</p>	<p>Areas for use of group purchasing efforts are evaluated and identified informally.</p>	<p>A routine spend analysis report is not generated.</p>	<p>An annual spend analysis report should be conducted to identify additional goods, services or commodities areas that should be placed on contract, or procured cooperatively among departments.</p>



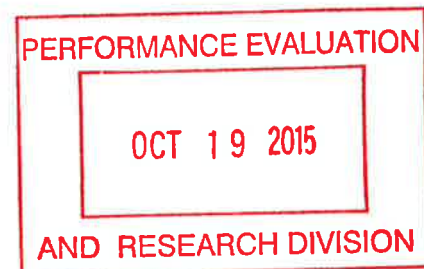
West Virginia University

STATE, CORPORATE AND LOCAL RELATIONS

October 18, 2015

The Honorable Craig Blair
Room 217W, Bldg. 1
1900 Kanawha Boulevard, East
Charleston, WV 25305

The Honorable Gary G. Howell
Room 213E, Bldg. 1
1900 Kanawha Boulevard, East
Charleston, WV 25305



Dear Chairmen Blair and Howell:

Please consider this letter a response to the Performance Evaluation & Research Division's ("PERD") letter dated October 18, 2015 concerning procurement audits for West Virginia University and Marshall University. First, we think it is important to underscore that the following overall conclusion our external auditor made in May of 2015 concerning our procurement practices and compliance:

The projects teams evaluations noted no material findings of deficiency in the performance audit of the WVU procurement practices and compliance with state and university laws and regulations. ***The University's procurement operation is being handled in compliance with the applicable regulations and statutory requirements.*** Several strengths were identified as part of the best practices assessment and are detailed in Section 2 of this report. At the same time, several opportunities for improvement were noted and are also contained within Section 2 of the report. The final section (Section 4) provides a more detailed analysis and discussion of the procedures utilized to evaluate compliance with established statutory and regulatory requirements as required under West Virginia Code Section 18B-5-4.

The Procurement Staff have identified and are currently pursuing the implementation of several items that will greatly increase the effectiveness and efficiency of the procurement function at WVU. Many of the items noted for improvement in the prior audits have either been implemented or are under consideration / development.

Matrix 2015 Audit, pp. 3-4 (emphasis added). We think it is important that the auditors found that, not only were we operating in compliance with our own procedures, but that our operation is being handled in compliance with statutory requirements.

Indeed, the Matrix 2015 Audit noted that WVU had “numerous positive aspects of the current procurement functions in place.” We note that the 2015 Matrix Audit concluded that the “University has developed a sole source policy and form to ensure the appropriate utilization of sole source purchasing. Sole source purchases must be approved by Procurement staff based upon established criteria” and noted strengths for several performance targets related to sole sourcing. Matrix 2015 Audit at pp. 12, 19.

Moreover, we are working diligently to improve our procurement functions. For example, the Matrix 2015 Audit referenced 31 recommendations from previous audits. At the current time, we have implemented 21 of those recommendations and we are working on implementing the 10 remaining recommendations. In fact, the Audit Committee of our Board of Governors was presented with a presentation relating to the 2015 Matrix Audit and ongoing procurement transformation initiatives during its September meeting. Attached for your information are the relevant portions of the presentation made to the Audit Committee.

Additionally, for the 2015 Matrix Audit, Matrix identified 51 performance targets for WVU as best practices. The 2015 Matrix Audit noted strengths for WVU in all or parts of 42 of those targets, noted 11 potential improvements, and made 11 recommendations related to those potential improvements. The University is working on implementing the recommendations on these performance targets.

Over the past year, the University has been undergoing a significant transformation within our Procurement department to drive savings, efficiency, and effectiveness. The key changes are focused on People, Technology and Strategy.

1. People: In addition to a new Chief Procurement Officer, the University has hired two Associate Directors with extensive strategic sourcing experience. We have also focused our job descriptions and activities around commodities versus departments, allowing for better view of spend across the entire organization. We have also developed a strong partnership with WVU’s Supply Chain Management academic program.

2. Technology: The University has implemented a Spend Analytics Tool (“Spend Radar”) which categorizes all WVU vendor spend by standard internationally developed codes. This new tool allows WVU to categorize spend by commodities and identifies vendors in each commodity along with the departments utilizing these vendors. This capability has allowed us to identify strategic sourcing opportunities to consolidate vendor base and reduce spend. The University has also implemented a “Market Analysis” tool to give Category Managers better insight into the competitive market

conditions of the commodities they are managing thus giving them better negotiation leverage. We have also launched a project to fully integrate the Sci Quest Procure to Pay (P2P) system. This will drive compliance, allow employees to select previously negotiated items and reduce WVU reliance on P-Card purchases. The Sci Quest system also includes a Contract Repository and Electronic Invoicing system that will be implemented concurrently with the e-procurement system.

3. Strategy: The University has developed a strategic sourcing methodology (It is a 7 step, repeatable process designed to find, get, and keep savings across WVU), including the following:

- a. Moved to Commodity based versus Departmental Procurement;
- b. Developed a Small Purchase team to focus on small/routine transactional purchases to reduce cycle time from weeks/months to days;
- c. Created a Supplier Performance Management Team to develop vendor scorecards, track vendor compliance, and better engage with small business and minority vendors; and
- d. Created a Procurement System team to implement and support systems and to develop and maintain WVU supplier catalog strategy.

Throughout 2014 and 2015, WVU also completed a restructuring of its PCard Internal Control review and assessment process to allow for more meaningful and effective outcomes. In tandem with WVU's Internal Audit Office, a new internal control questionnaire was developed and completed by each College/Administrative Division with the objective of identifying their current departmentally based control environment. The questionnaire responses were reviewed centrally and compared to internally identified best practices. The resulting gap analysis was then shared with each College/Administrative Division and used to refine their final internal controls. This process is scheduled for completion later this Fall.

WVU also manages PCard risk through controlling certain attributes of the cards themselves. For example, in 2015, a PCard utilization was again completed to determine if individual PCard per-transaction and monthly balance limits were reasonable and appropriate. Every cardholder's limits were reviewed against prior period activity and revised limits were determined based on the specific business needs of the cardholder. From a holistic approach, WVU also took steps to limit the types of transactions that can be charged to PCards. Specifically, effective July 1, 2015, no purchases equal to or greater than \$5,000 are permitted on the PCard with the exception of certain travel expenses, Dining Services resale items, and facilities' warehouse items.

We also note that WVU utilizes three different programs to review/audit PCard transactions. First, a weekly screening of transactions based on specific criteria is performed. This includes reviews for stringing, "sin Merchant Codes" (ex. bars), transactions of \$5,000 or greater, gift cards, and other detail. Also, beginning in FY16 we began focused reviews directed at specific College/Administrative Division levels. WVU

management believes that these PCard reviews should include looking at a broad spectrum (areas, activities and types of transactions) to ensure overall program compliance.

WVU's PCard section has teamed with a Forensic Accounting faculty member in its College of Business Accounting to utilize a fraud detection tool that helps identify inappropriate activity. Thus far approximately 18 months of PCard activity has been filtered through this process with no significant findings.

We hope that this information is helpful to you. We would be pleased to answer any questions or discuss our procurement activities with you in the future.

Sincerely,

Rob Alsop

Rob Alsop

West Virginia University

**Summary of Purchasing
Performance Audit**

September 2015

**Dan Durbin
Senior Associate Vice President-Finance**

**Dave Beaver
Assistant Vice President-Procurement**

Overview of Audit

- Required by State Code
 - To conduct and “independent performance audit of all purchasing functions and duties”
- Activities between July 1, 2010 – June 30, 2013
- Required every three years
- Auditor: Matrix Consulting Group
 - Performed audit two prior times
 - National Firm: four offices
 - Management and operational analysis consultants
- Results: “the University’s Procurement Operation is being handled in compliance with applicable regulations and statutory conditions” (page 3)

Overview of Audit (ctd.)

- Scope
 - Compliance with State rules/laws
 - Existence of Institutional rules/policies
 - Compliance with Institutional rules/policies
 - Review of the Procurement Card Program
 - Identify Best Practices and Benchmark to WVU's operations

Overview of Audit Report

- Section 1 (page 4) Status of Prior Recommendations
 - 31 Recommendations:
 - 21 Adopted and implemented
 - 10 In process:
 - 6 related to pending SciQuest implementation
 - 3 related to recent spend analytics tool implementation
 - 1 related to supplier relationship management team implementation

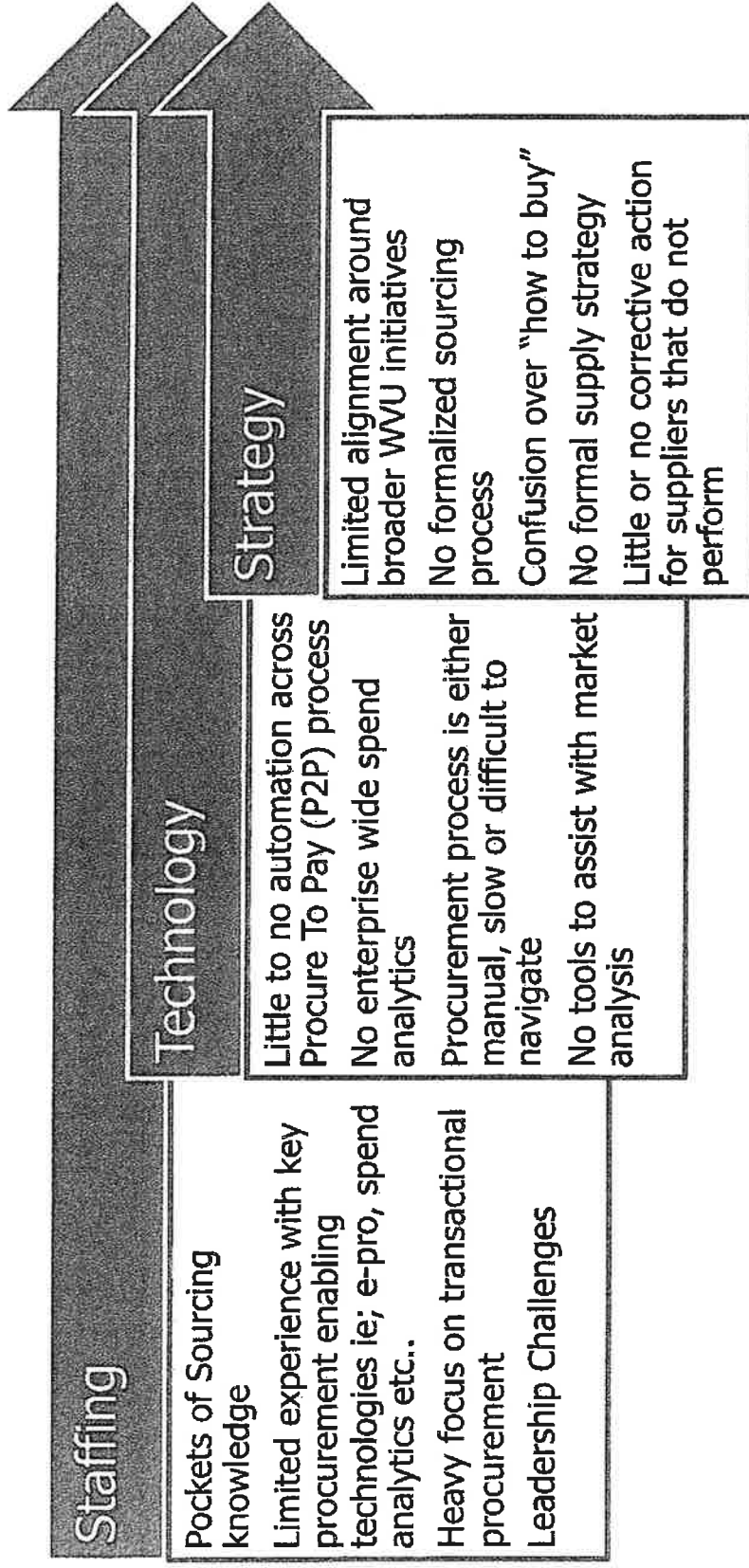
Overview of Audit Report (ctd.)

- Section 2 (page 14) Assessment of Best Practices
 - 51 Performance Targets Identified (based on industry best practices)
40 Targets already met by WVU —
 - 11 Potential Targets/Improvements (all in process)
 - User surveys ✓
 - Vendor evaluation system ✓
 - Lack of spend data ✓
 - Greater use of existing contracts ✓
 - Expand PCard audit process ✓

Overview of Audit Report (ctd.)

- Summary of compliance testing (page 29)
 - 17 Areas reviewed for compliance
 - No Findings noted

Procurement Transformation Update



Staffing Progress

Recruited New/Experienced Talent

- Hired New Associate Directors
- Created Category Managers (hired from outside and within department)
- Better blend between Industry and Higher Ed Experience



20+ Years of Procurement and Operations Experience

Live Nation, Sony Pictures, PWC

20+ Years of Procurement and Operations Experience

House of Blues, extensive food, beverage and retail experience

20+ Years of Procurement and Operations Experience

Dicks Sporting Goods, Ariba, strong understanding of eProcurement systems and applications

Led prior "procurement transformation" initiatives

Managed spend profiles in excess of \$5B

Process automation expertise

Managed spend profiles in excess of \$3B

Strong category expertise

Managed spend profiles in excess of \$5B

Staffing Progress (ctd.)

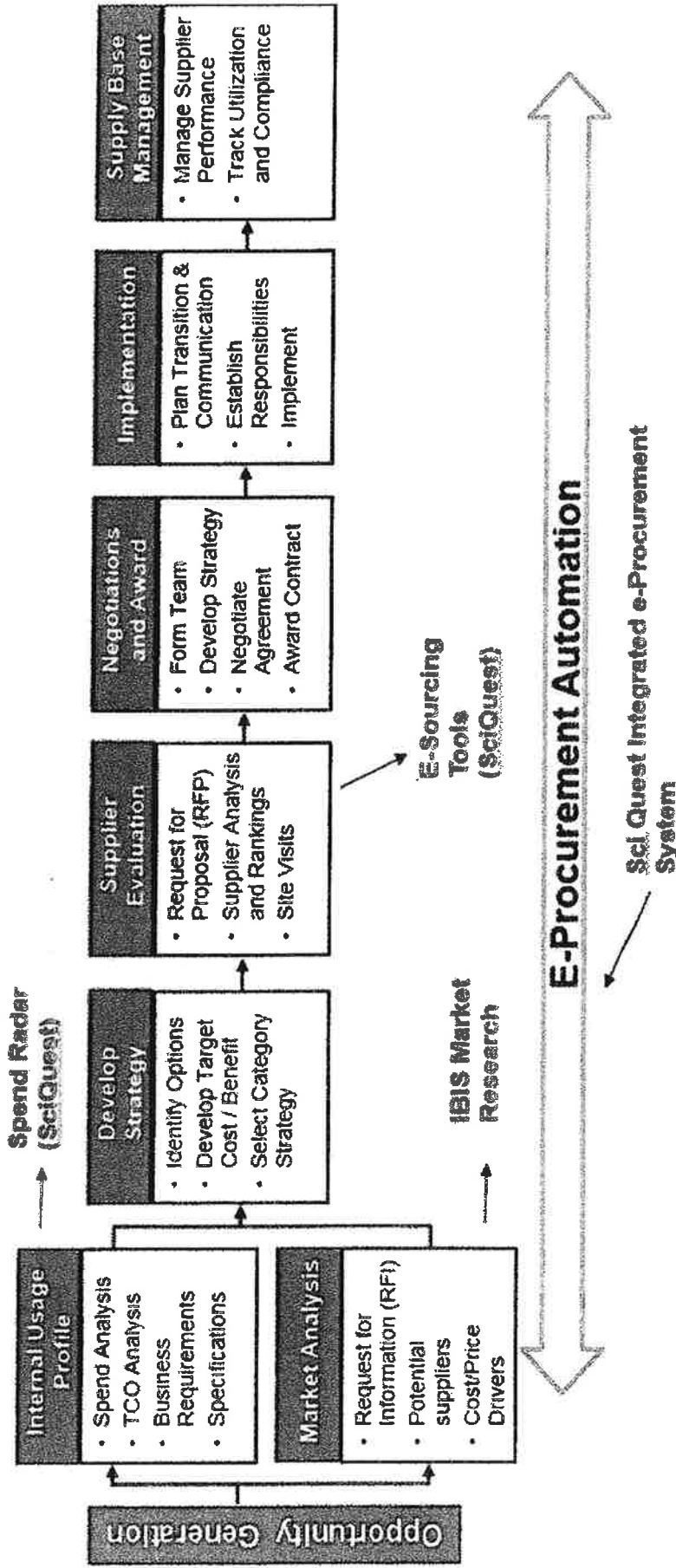
Grow Talent From Within WVU:

- Strong Partnership with GSCM major within B&E
- (4) Student Interns from Supply Chain major are now working within department
- Hired recent Supply Chain graduate in June
- Plan to hire additional graduate in December

Technology Progress

- Purchased and Deployed Spend Analysis Tool
- Purchased and Deployed "Market Analysis" Tool
- Launched Project to fully integrate Sci-Quest into MAP – (6 – 9 months till go-live):
 - Change end-user experience – "drive them to negotiated suppliers – grab and go"
 - Contract Repository being loaded
 - Electronic Invoice Receipt and Processing will be part of new capabilities
- Completed Phase 1 of e-Form Automation Roadmap:
 - E-Forms (automate I/U form) – Phase 1, remove from P-Card Phase 2 – automate within Sci-Quest
 - Automate Vendor Registration

Technology Progress (ctd.)



Strategy Progress

- Implemented Commodity Based vs. Departmental Procurement
- Better Aligned with WVU Goals (One Way, Cost Reductions)
- More Engaging and Cooperative – Quickly becoming a Respected and Valued Partner
- Developed Small Purchasing Team to:
 - Focus on small/routine transactional purchases
 - Reduce cycle time from weeks/months to days
- Created Supplier Relationship Management Team to:
 - Develop Vendor Scorecards for Strategic Vendors
 - Monitor Contract Performance & Compliance (Republic, B&N, Coke, etc.)
 - Engage with Small Business and Minority Vendors
- Created Procurement Systems Team to:
 - Implement and Support P2P Enabling Technology
 - Develop Catalog Management Strategy

Strategy Example 1 – WVU Dining Services Food and Beverage

Current Situation

- Procurement proactively identified significant savings opportunity
- Food and Beverage Purchases at WVU is a significant spend category
- Current process is paper intensive, burdensome and highly inefficient
- Staff involved in this activity is focused on “daily activity” with little ability or time to identify and capitalize on strategic opportunities
- Predictable consumption patterns which should allow for significant savings when presented to the supplier market
- Large, repeatable savings opportunities

Implementation Plan

- Contract primary broad line distributor as an 80% single source provider either directly or through a GPO to establish a more efficient supply chain and leverage stronger pricing across all categories
- Identify and contract primary suppliers for produce and dairy to better control margins and automate replenishment
- Contract directly with manufacturers to realize sponsorship opportunities and to exercise greater control over supply chain
- Reduce delivery points within campus to minimize receiving labor and add another box truck to handle more internal transfers

Implementation Plan (ctd.)

- Implement a back office system which includes: electronic ordering, inventory management, internal transfer process, labor controls, and recipe management-(paperless!)
- Integrate BOH system with oracle to push spend, transfers, and inventories
- Partner with student life & dining services to realize savings in excess of **\$1.2 million** per year
- Goal to have new contracts and reduced pricing in place by October

Bruce L. Berry, M.D.
Chair



Paul L. Hill, Ph.D.
Chancellor

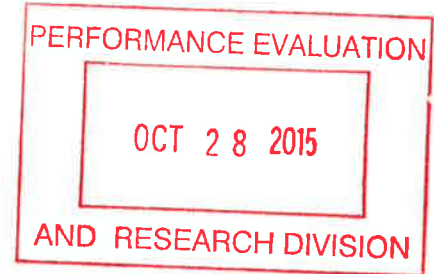
Leading the Way:

Access. Success. Impact.

West Virginia Higher Education Policy Commission

1018 Kanawha Boulevard, East, Suite 700
Charleston, West Virginia 25301
www.hepc.wvnet.edu

October 27, 2015



Mr. John Sylvia
West Virginia Legislature
Performance Evaluation and Research Division
Building 1, Room W-314
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0610

Dear Mr. Sylvia:

Thank you for the opportunity to review the October 18, 2015 letter-report regarding the independent purchasing audits of Marshall University and West Virginia University.

As noted in the letter-report to Chairmen Blair and Howell, the West Virginia Higher Education Policy Commission does not have statutory authority over the purchasing practices of Marshall University and West Virginia University. Those institutions sought and were granted certain independence from oversight in those areas by the Legislature. West Virginia Code §18-5-4(d) and other statutory provisions adopted in Senate Bill 603 in 2005 grants specific authority regarding purchasing to the governing boards of Marshall University and West Virginia University. The West Virginia Higher Education Policy Commission, however, strongly encourages and advocates all public colleges and universities to follow best practices related to purchasing and procurement procedures.

I do plan to attend the interim meeting of the Joint Committee on Government Organization scheduled to be held on November 15, 2015. However, for the reasons stated above, you may wish to invite Dr. Gordon Gee, President, West Virginia University, and Mr. Gary White, Interim President, Marshall University to attend the meeting as well to address any institutional specific questions or concerns that may be offered by members of the Committee.

Thank you for your continued interest in West Virginia public higher education.

Sincerely,

A handwritten signature in blue ink, appearing to read "Paul L. Hill".

Paul L. Hill
Chancellor

CHANCELLOR'S OFFICE
(304) 558-0699 phone • (304) 558-1011 fax

Senior Vice President for Operations

October 28, 2015

The Honorable Craig Blair
Room 217W, Bld1
1900 Kanawha Blvd. E.
Charleston, WV 25305

The Honorable Gary G. Howell
Room 213E, Bldg. 1
1900 Kanawha Blvd. E.
Charleston, WV 25305

Dear Chairmen:

Thank you for the opportunity to respond to Mr. John Sylvia's, Director, Performance Evaluation & Research Division (PERD) letter to you dated October 18, 2015. As you are aware, in that letter, Mr. Sylvia made two recommendations concerning Marshall University and West Virginia University.

- 1. Marshall University should comply with W. Va. Code § 18B-5-4(r) by obtaining purchasing audits at least once in each three year period.**

Marshall University agrees with this recommendation. Our last purchasing audit was completed, as stated in the letter, on June 19, 2015. It is anticipated that the Request for Proposal for the next audit will be released no later than January 15, 2018 and be completed by the end of the FY 2017-2018.

- 2. Marshall University should implement Matrix's recommendations to use best practices by expanding the review of transactions to vendors to monthly, quarterly or annual time periods, review department transactions collectively instead of individually, and that enforcement of purchasing requirements be strengthened.**

A. Review of Transactions

Marshall University is reviewing these recommendations and determining how to proceed. Marshall University has had a long standing practice of reviewing all purchase card (P-Card) transactions for improper purchases.

With respect to purchases made through the traditional accounts payable, all purchases are required to have a purchase order (PO) or an encumbrance in our system. If the purchase is being made by purchase order, it is approved by the department and forwarded to purchasing for final approval. Payments of \$5,000 or more must be approved by Marshall University's



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Accounts Payable department. The West Virginia State Auditor's office also reviews all payments above \$5,000 in wvOASIS. Finally, these purchases are regularly reviewed for stringing by the West Virginia State Auditor.

B. Strengthen Enforcement of Purchasing Requirements

Through Marshall's 20/20 strategic planning process many university processes have been reviewed. One of the major objectives of the strategic plan is finding ways to save and more effectively use the resources that we have. Part of that includes, making sure that the competitive bidding process is utilized to fullest extent possible and that it is not circumvented.

Again, Marshall University agrees that as a state agency we must encourage the use of the competitive bidding process. Accordingly, Marshall University intends to implement the findings and recommendations in Mr. Sylvia's letter.

Sincerely,



Brandi D. Jacobs-Jones
Chief of Staff & Senior Vice President for Operations

and



Mary Ellen Heuton
Senior Vice President for Finance &
Chief Financial Officer

**WEST VIRGINIA UNIVERSITY
PURCHASING PERFORMANCE AUDIT**

Performance Target	Strengths	Potential Improvements	Recommendation
The Procurement Division has established ID/IQ (indefinite demand / indefinite quantity) contracts on a qualification basis to increase purchasing speed and effectiveness.	The procurement unit is utilizing a variety of ID/IQ contracts within limitations imposed by procurement regulations.		
The Procurement Division identifies and makes users aware of available cooperative purchasing agreements and GSA-like/State schedules available for direct purchases.	The Procurement staff has the ability to and do utilize a variety of cooperative and GSA-like purchasing schedules.	Additional efforts should be made to publicize available cooperative purchasing and "schedule" opportunities for departments. Staff should be trained in the appropriate utilization of these efforts to prevent them from being used for "convenience" when needs may be better met through other procurement methods.	Additional training efforts should be undertaken to inform departments of established contracts and the availability of cooperative purchasing schedules available for use.
The Procurement Division has a defined compliance function with defined tasks, duties, and required reviews.	Individual staff members have been assigned compliance functions for their individual areas (purchase orders, payments, p-card). Individual buyers are periodically evaluated on compliance through formal reviews of actions.		

For each of the performance targets with a recommendation, the recommendations have been incorporated into the Executive Summary to provide an overall summary of recommended operational changes. It is important to note, that these recommendations are based upon our evaluation and analysis of opportunities to improve or enhance services but are not reflective or indicative of "non-compliance" with