Purchasing Performance Audit

WEST VIRGINIA UNIVERSITY

Final Report

matrix consulting group

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1.   INTRODUCTION AND EXECUTIVE SUMMARY

1.   INTRODUCTION AND EXECUTIVE SUMMARY

This report presents the results and findings of the purchasing performance audit conducted for West Virginia University by the Matrix Consulting Group.

A.   AUDIT SCOPE AND OBJECTIVES.

The purpose of the purchasing performance audit was to conduct an "independent performance audit of all purchasing functions and duties" pursuant to West Virginia Code Sections 18B-5-4. This review is required to be conducted every three years and to cover the time period that had elapsed from the preceding audit. For this study, the time period covered was July 1, 2010 through June 30, 2013. Unlike prior audits, which included a much broader evaluation of the procurement operation, this engagement focused only on completing the review necessary to address compliance requirements outlined in the above referenced West Virginia Code. This review was conducted in accordance with GAGAS for performance audits.

Specific tasks included in the review included, but were not limited to, the following areas:

- Compliance with state law, the rules, policies, procedures of the West Virginia University Board of Governors as they apply to purchasing, receiving, supplies and equipment.

- Assessing whether professional procurement procedures are established and maintained within the University.

- In general is the CPO performing the CPO's responsibilities, duties and remedies outlined in the West Virginia University Board of Governors Policy and duly adopted Purchasing Manual.

- Specifically, are the provisions of the West Virginia University Board of Governor's Policy and duly adopted Purchasing Manual 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 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.

• Identify "Best Business Practices" at WVU and its regional campuses, from other states or the private sector that the audit firm would recommend be adopted by the institutions to improve efficiency and performance.

• 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 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.

Each of these areas were evaluated and items of note are outlined in the

following sections of the report. The field work on this engagement was principally

done in March through May of 2014 with analysis and evaluation conducted thereafter.

The report chapters have been developed to provide in Section 2 an overall assessment

of all best management practices related to procurement operations and in Section 3 an

overall assessment of compliance with required statutes and regulations.   Items recommended in Section 2 are those that the project team have identified as opportunities to enhance or improve services but are not indicative of non-compliance with established regulation or statutory requirements.   Any non-compliance is addressed in Section 3 of this report.

B.   OVERALL ASSESSMENT.

The project teams evaluation 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 this 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 the 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.

C. STATUS OF PRIOR AUDIT RECOMMENDATIONS.

The project team evaluated the progress made by the West Virginia University Office of Purchasing, Contracts and Payments Services in implementing recommendations from the prior performance audit over the last three years. This quick overview provides a useful snapshot of changes and progress made over the last three years. The majority of the recommendations made in the prior audit can be classified as "service enhancement" recommendations (i.e. – designed to improve services to the users, enhance internal operations) rather than issues related to critical compliance issues. The following table provides a brief summary overview of the status of implementation of individual recommendations.

#	Recommendation (from Prior Audit)	Status
1.	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.	Selected training for staff has increased since the last audit.
2.	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.	Modifications were made to the procurement policy to maintain in current status.
3.	A formal training program for all procurement staff should be implemented in the next year.	While a detailed training program was not implemented, specific training for individuals based upon need was conducted.
4.	At least an annual training session should be provided to all users.	Training is provided to users on an as needed basis.
5.	A how to do business guide should be developed and posted on the website.	No guide has yet been implemented but more information is now available on the website for vendors.

#	Recommendation (from Prior Audit)	Status
6.	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.	This has not yet been implemented. However, WVU has recently created a Supplier Relationship Management (SRM) Team within PCPS to actively manage strategic vendors and provide vendor scorecards and Key Performance Indicators (KPI's)
7.	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.	This has not yet been implemented. SRM team will first focus on the larger vendors providing either critical, revenue generating or service across multiple departments.
8.	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.	P-card usage has remained a significant focus for the University and use is extensive. PCPS is focused on a more extensive deployment of SciQuest. Part of the strategy will be the extensive use of preferred vendor catalogs for many of the daily use items across WVU. These small dollar transactions can be facilitated more efficiently thru the e-procurement system as opposed to placing orders on individual p-cards
9.	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.	This has not yet been implemented. PCPS is in the process of scanning and entering all contracts into the SciQuest contract repository. Once complete, this will allow PCPS to conduct more thorough analysis of vendor awards.

#	Recommendation (from Prior Audit)	Status
10.	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. 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.	Implementation has progressed though the program (WVU Buy) is different than evaluated during the prior audit. WVU Buy is being re-implemented which will include full integration with WVU's ERP system along with additional Sci Quest modules (Spend Analysis, full e-Procurement Functionality, Strategic Sourcing and Electronic Invoicing). As part of the project, WVU will move toward a more mandated model with respect to the use of preferred vendors with negotiated pricing.
11.	Implement on-line submission of electronic bid and RFP responses.	This has been implemented and is currently being utilized.
12.	All final award notifications for bids and RFPs should be posted on-line.	Bid results are available through WVU Bid service.
13.	An annual spend analysis report should be conducted to determine future potential for expanding number and types of established contracts.	An annual spend analysis has not been conducted. WVU recently purchased the Sci Quest spend analytics system (Spend Radar). The project started on 4/17/15 and will include 24 months of historical spend data along with quarterly refreshes. Spend will be categorized by UNSPSC code and will allow for better identification of strategic sourcing and other cost saving opportunities.
14.	Implement standard report that will flag vendors who received multiple awards / purchase orders that exceed pre-determined threshold levels.	This has not yet been implemented.
15.	The sole source policy should clearly outline actions to be taken for violation of sole source policy.	This has been addressed in the policy.
16	An annual report should be developed summarizing sole source purchase activity to enhance business intelligence	This has not yet been implemented.
17.	A master database / report of all sole source purchases should be developed and maintained to enhance business intelligence and for evaluative purposes.	This has not yet been implemented.

#	Recommendation (from Prior Audit)	Status
18.	The University should continue efforts to "encourage" if not require use of established contracts to increase utilization levels and reduce total costs of acquisition.	This effort continues as a focus are for staff. Efforts are made to inform buying departments of existing contracts. See comments from #10 above. The use of established contracts will be easier to manage within an e-procurement environment. On-contract spend and spend leakage will be better controlled and tracked thru a combination of the e-procurement and spend analysis system and "maverick" spend will be strongly discouraged
19.	A vendor evaluation process should be established.	This has not yet been implemented. See items #6 and #7 above. This is part of the SRM teams charter
20.	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.	This has not yet been fully implemented but informal reviews of spend are conducted to identify potential need for new or additional contracts. This will be addressed by the Spend Analysis tool being implemented.
21.	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.	This has not yet been implemented however, with the spend analysis that is being implemented (see above), WVU will have the capability to do so in the future.
22.	Additional training efforts should be undertaken to inform departments of established contracts and the availability of cooperative purchasing schedules available for use.	This is handled through periodic user meetings an as needed training sessions.
23.	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.	This is done on an on-going basis.

#	Recommendation (from Prior Audit)	Status
24.	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.	This has been addressed through changes in staffing and assigned responsibilities of p-card staff.
25.	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.	This has been addressed through changes in staffing and assigned responsibilities of p-card staff.
26.	P-Card Administration should also develop performance reports to be provided to the Unit's supervisor, as well as Procurement Services management team.	This has been addressed through changes in staffing and assigned responsibilities of p-card staff.
27.	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.	This is done on an informal basis through educational efforts of end-users.
28.	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.	This has been addressed through changes in staffing and assigned responsibilities of p-card staff.
28.	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.	This has not yet been implemented. PCPS is in the process of developing SciQuest based e-forms for I/U transfers. The first form will be a catering request form and the second will be with facilities as these organizations had the highest amount of transfers. Once WVU-Buy is fully integrated with WVU's ERP system, the e-forms will be able to handle the accounting aspects and eliminate the use of p-cards for this activity
29.	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.	The website has been updated since the prior evaluation and provides a greater amount of information for vendors and university staff. The functionality and navigability of the site has improved.

#	Recommendation (from Prior Audit)	Status
30.	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.	This has been addressed through alternative approaches.
31.	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.	This has been addressed.

As shown, there are many items that have been implemented, or are in the process of being implemented. Others, while not implemented, remain either under review or under consideration for implementation based upon timing and resource issues. A couple recommendations may no longer be feasible or appropriate given changes in policy and/or available financial resources.

2. BEST MANAGEMENT PRACTICES

2. DIAGNOSTIC ASSESSMENT OF PROCUREMENT SERVICES

A significant evaluative component of the prior purchasing performance audits was the evaluation of existing practices against "best management practices". While the primary focus of this current audit was only on evaluating the compliance of the University as required under state statute, the project team did complete a cursory review and updating of the prior best practices assessment to acknowledge changes that had been implemented and provide some input regarding additional improvement opportunities that exist for implementation.

The best practices measures utilized have been derived from the project team's collective experience, standards or benchmarks utilized by professional purchasing associations, and measures representing progressive, well-developed and high-performing purchasing organizations. They represent ways to identify both departmental strengths as well as improvement opportunities:

- Statements of "effective practices" based on the study team's experience in evaluating operations in progressive procurement operations and / or "industry standards" from recognized procurement associations and research organizations.

- Identification of whether and how the procurement practices in place at West Virginia University meets the performance targets.

The purpose of the diagnostic assessment was to develop an overall assessment of the procurement policies and practices. The following points summarize the key findings of the project team relative to existing strengths and opportunities for improvement.

1.   THERE WERE NUMEROUS STRENGTHS NOTED IN THE PURCHASING FUNCTIONS AT WVU.

The project team identified numerous positive aspects of the current procurement functions in place at WVU. The key strengths noted in the prior audit are generally still applicable and remain strengths of the procurement operation at WVU. Those identified are summarized in the following points:

- A comprehensive purchasing manual has been adopted by the WVU Board of Governors to guide university purchasing practices. The manual has been updated within the last three years to enhance specific policies and contains clear delineation of authority levels and outlines ethical procurement practices. The manual outlines appropriate procurement methods for various types of purchases.

- Periodic procurement meetings are held with departments to make them aware of changes in procurement practices and to answer questions regarding compliance with procurement regulations.

- Periodic vendor training is provided to acquaint potential vendors on how to do business with the University. Procurement staff participates in regional small business meetings. The purchasing manual outlines procedures for vendors to utilize if they desire to file an appeal to a purchasing decision.

- All contracts entered into for purchasing goods and services are done on forms approved by legal counsel.

- A clear and defined policy is in place regarding p-card utilization and includes appropriate and inappropriate utilization practices. Purchasing cards activities are routinely audited by the State and by university staff.

- Vendor registration is available on-line through the WVU website.

- The University utilizes common and system-wide computer systems for conducting purchasing functions. User departments can inquire on the system to determine purchase requisition status.

- WVU has developed a "best of class" approach to conducting small construction purchases online. This system provides vendor pre-certification (master contracting), notification and dissemination of bidding opportunities electronically, the submission of bids electronically, and online notification of contract award.

- Appropriate internal controls are in place within the procurement and payment system to prevent payments from being made that would exceed authorized contract amounts.

- 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.

- Procurement maintains all construction and service contracts in excess of $25,000 and copies are provided to the State as required.

- Procurement files are maintained in a comprehensive and thorough manner.

- Procurement staff is involved in the development of university wide contracts to provide centralized access to commonly utilized services and goods. These efforts are undertaken to provide "best value" to the user departments.

- Procurement staff has implemented SciQuest, a system designed to enable through a central source, purchasing of commodities off established contracts. This system should reduce procurement times, increase the availability of business intelligence, and reduce workload for procurement and payment staff.

- The procurement staff utilize indefinite demand and indefinite quantity contracts on a qualification basis to increase purchasing speed and effectiveness for user departments.

These strengths provide a strong foundation for addressing the opportunity for improvements noted in the following section.

2. THE BEST MANAGEMENT PRACTICES REVIEW IDENTIFIED SEVERAL OPPORTUNITIES TO IMPROVE THE PROCUREMENT FUNCTIONS AT WVU.

The best management practices review, also identified several opportunities for improvement. Many of these are similar or identical to those identified in the prior audit. These are outlined in the following points:

- An on-going staff development program for all procurement staff should be maintained and implemented to provide on-going skills enhancement and improved customer service. PCPS is in the process of developing a detailed strategic sourcing skills matrix where employees will be assessed relative to sourcing skills (ie; negotiation skills, analytical skills, category strategy development, contract authoring, etc.). The assessment will identify potential gaps and create opportunities for staff to attend additional training that is more

targeted toward the specific skills needed to be successful procurement professionals.

• Greater education of departmental staff should be conducted to make them aware of available cooperative purchasing opportunities.

• A comprehensive "How To Do Business with WVU" guide should be developed and provided to potential vendors on the University's website.

• An on-going vendor survey system should be developed and put into place to provide on-going feedback from vendors regarding satisfaction with procurement services.

• A vendor evaluation system should be developed and put into place to track vendor performance. Procurement staff should provide training and guidance to departmental staff on how to effectively evaluate and deal with problematic vendors.

• A coordinating mechanism 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.

• WVU has developed a "best of class" project management system for on-line and electronic management of construction projects. The licensing of this system for other Universities in the system should be considered, as its use would provide benefits to other entities.

• On-line services available to vendors should continue to be enhanced.

• 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 limited to some extent due to high use of p-cards and the inability to retrieve purchase details from these transactions.

• A more focused compliance monitoring function should be established within the Procurement Division with clearly assigned responsibility to a specific individual within the vendor relations unit.

While several opportunities for improvement have been identified, the existing

policies and practices coupled with the previously identified strengths provide a strong

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.		

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 WVUs 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.

Performance Target	Strengths	Potential Improvements	Recommendation
Contracts entered into by WVU staff are either: • 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.	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.		
The use of procurement cards is based upon a defined policy and procedure adopted by the University.	The University has a defined policy and procedure regarding procurement card utilization.		
Procurement card use if periodically audited by the University to ensure compliance with policies and procedures.	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.		
Utilization of p-cards is well defined regarding the types and number of services that may be paid for through the p-cards.	The University's policy provides clear guidance on the services that may be paid through p-cards.		

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.		

Performance Target	Strengths	Potential Improvements	Recommendation
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.	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 polices and procedures.		
Procurement Services is responsible for maintaining a centralized listing of registered vendors.	Vendor registration is available online and the University maintains a centralized registry of registered vendors.		
The WVU utilizes a common procurement software system across all departments.	The university utilizes common software systems for all component units and departments – MAP/Oracle.		
Staff involved with procurement is able to view historical purchases online to evaluate current bids, proposals, and quotations against prior purchase experience.	Buyers have access to a full complement of historical information for use in evaluating current bids, proposals and quotations on current bids.		
Access to vendor maintenance files is limited to designated procurement staff.	Vendor management is assigned to specific individuals within the Department.	For the State FMIS system, vendor maintenance files are available to other user agencies in addition to WVU.	
Appropriate internal controls are in place within the procurement system to generate reports or flag actions where:			

Performance Target	Strengths	Potential Improvements	Recommendation
• Total purchase expenditures for common services and/or goods across multiple departments exceed established approval levels.		Currently reports are not generated to identify purchases that exceed pre-determined levels to identify potential opportunities for university wide contracts.	An annual spend analysis report should be conducted to determine future potential for expanding number and types of established contracts.
• 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.	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.		
• Multiple stand-alone purchase orders with the same vendor are entered into by departments.		Current reports do not identify potential stringing issues with purchase orders.	Implement standard report that will flag vendors who received multiple awards / purchase orders that exceed pre-determined threshold levels.
A sole source policy has been developed and/or reviewed within the last three years.	The University has, within its purchasing manual, a defined sole source policy.		
All departments are required to follow the University's approval for sole source contracts.	All university departments must follow the sole source requirements. The Chief Procurement Officer, or designee, must sign off on all forms prior to processing.		

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.		

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.		

Performance Target	Strengths	Potential Improvements	Recommendation
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.	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). 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.	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.	The University should continue efforts to "encourage" if not require use of established contracts to increase utilization levels and reduce total costs of acquisition.
A master contract approach is utilized for pre-qualifying firms able to provide construction, engineering and design services.	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.		
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.		Formal evaluation mechanisms are not in place to evaluate specific performance.	A vendor evaluation process should be established.

Performance Target	Strengths	Potential Improvements	Recommendation
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.).	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.		
Basic documentation on service contracts including RFPs/RFQs, vendor submissions, selection process, etc. is maintained by Procurement for all contracts.	Procurement services maintains files on each solicitation processed including bid responses and evaluations conducted. As part of monthly meeting of procurement management staff, sample files are audited for compliance with established procedures and to evaluate individual buyers.		
Project Managers are responsible for evaluating performance of vendors on construction contracts and documenting and approving the need for change orders.	Project managers perform these duties on an on-going basis.		
The procurement documentation file for all construction and service contracts contain the following information: • Purchase requisition, planning information, and other pre-solicitation documents. • Evidence of availability of funds.	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. Documentation maintained.		

Performance Target	Strengths	Potential Improvements	Recommendation
• Rationale for the method of procurement (negotiations, formal bidding, sole source, etc.)	Documentation maintained.		
• List of sources solicited.	Documentation maintained.		
• Independent cost estimate.	Documentation maintained.		
• Statement of work / scope of services.	Documentation maintained.		
• Copies of published notices.	Documentation maintained.		
• Copy of the solicitation, all addenda and all amendments.	Documentation maintained.		
• Summary of each offer, quote or proposal received.	Documentation maintained.		
• Selection documentation.	Documentation maintained.		
• Cost or pricing data.	Documentation maintained.		
• Notice of award and notice of non-selection to unsuccessful bidders/offerors and records of any debriefing sessions.	Documentation maintained.		
• Record of any protest.	Documentation maintained.		
• Required bid, performance or other bond documents including insurance forms, if any.	Documentation maintained.		
• Notice to proceed.	Documentation maintained.		
Procurement staff conduct periodic spend analysis to determine commodity areas where group purchasing would be more effective.	Areas for use of group purchasing efforts are evaluated and identified informally.	A routine spend analysis report is not generated.	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.

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

required state or university regulations. The project team, in Section 3 of this report, outlines our findings regarding statutory and policy compliance.

4. REVIEW OF THE WEST VIRGINIA UNIVERSITY'S PROCUREMENT CARD PROGRAM

This section presents a review of the West Virginia University's (WVU) procurement card program. The project team reviewed existing policies and procedures utilized by WVU with respect to procurement cards (p-cards), conducted an audit of the internal control procedures relating to ensuring compliance of use of p-cards, and reviewed a twelve month period of data to identify opportunities for improvement.

Given the high volume of funds processed through p-cards in a fairly decentralized approach, we have addressed this area separately from other compliance issues.

A. SUMMARY OF PROCUREMENT CARD POLICIES AND PROCEDURES.

This section provides a review of the West Virginia University's policies and procedures relating to the administration of the University's procurement card program. The WVU has three staff assigned to the Procurement Card Administration unit. P-card Administration staff are responsible for the following:

- At the request of University Departments, receive and process new applications, including verify cardholder eligibility, ensure completion of online training, issue card, etc.

- Provides support to University Departments and staff serving as DCCs-personnel at the department level who coordinate p-cards for their departments.

- Ensures department transactions have been verified and approved by departments in sufficient time to upload data.

- Cancels and destroys procurement cards as appropriate.

- Processes requests for changes in daily and card limits.

- Troubleshoots problems, as well as works with credit card companies and departments to resolve issues.

- Conducts transaction audits to ensure compliance with procurement policies (e.g., dollar limits on transactions, no payment of sales tax, no inappropriate purchases, etc.)

The points, which follow, present the project team's observations of key elements

of the WVU's p-card program developed from interviews with key personnel, as well as

a review of WVU's policies and procedures.

- There are dedicated staff assigned to administer the p-cards for both the State and Research Corporation's p-card programs as well as providing auditing of p-card transactions.

- WVU has developed a p-card internal controls document, which presents the segregation of duties, roles and responsibilities of key personnel in WVU who monitor p-cards and ensure compliance.

- WVU's Procurement Services' Procurement Rules manual presents a brief discussion of p-cards as they relate to the procurement of goods or services in an emergency situation.

- University departments determine, who is eligible for a procurement card, as well as the employee's daily purchase and credit card limit.

- University departments can request temporary limit increases in order to pay specific bills. This sometimes occurs on a periodic basis (e.g., routine or repetitive payments).

- There is a significant number of transactions occurring on p-cards resulting in a high dollar volume annually.

- P-cards are used to purchase small, one-time purchases, as well as to pay for essential services, purchase of goods and services for which there is an existing contract, on-going monthly payments, intra-University transactions, etc.

Overall, the West Virginia University extensively utilizes procurement cards for

numerous transactions, resulting in significant dollar volumes on an annual basis.

B.   KEY FINDINGS AND RECOMMENDATIONS REGARDING THE PROCUREMENT CARD PROGRAM.

This section summarizes the key findings and recommendations relative to West Virginia University's oversight and administration of the procurement card program. Overall, this program has greatly reduced the volume of purchase orders processed, and greatly enhanced the speed at which individual Departments are able procure commodities in a decentralized fashion.   Many changes have occurred since the last audit to improve oversight and administration of this program including conducting spend analysis, increased reporting, and more detailed follow-up and investigation on potential violations.

The following table summarizes the recommendations that were developed to enhance the procurement card program administration and oversight:

PROCUREMENT CARD PROGRAM RECOMMENDATIONS:
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.
The P-card administration staff should continue a formal audit program that outlines the process for auditing transactions and clearly delineates departmental responsibilities and responsibilities of WVU Procurement staff.
Procurement Services should continue 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.
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.

The implementation of these recommendations will provide an enhanced level of oversight on the procurement card program and provide a greater level of on-going compliance review.

3. SUMMARY OF COMPLIANCE REVIEW

3. SUMMARY OF COMPLIANCE REVIEW

This chapter summarizes the project teams findings relate to the major areas of compliance inquiry required under the State statutes and which was the primary focus of this purchasing performance audit. Specific discussion and recommendations are contained in the sections following the initial summary on those areas where specific comments are noted.

The project team utilized various data sampling and file review methodologies in the development of the conclusions reached regarding compliance. The primary focus was to determine the University's compliance with established procedures and internal controls required within the procurement and payment function and as established by either State statute, regulation and/or University policy.

1. **COMPLIANCE TESTING FOUND THE OFFICE IN CONFORMANCE WITH ALL REQUIREMENTS IMPOSED BY EITHER STATE LAW AND/OR WVU PURCHASING MANUAL.**

In recognition of the requirements placed upon the procurement department from state laws and regulations and WVU Board of Governor's policies, the project team reviewed various areas for internal compliance through several testing methodologies as further described in the following table. The specific process utilized was designed to fully test the University's conformance with the compliance issue noted. The final column of this table summarizes the project team's finding and provides explanatory notes as required. As part of the fieldwork over 125 procurement transactions were sampled as part of the evaluation with approximately one-third from each of the years under review. Additionally, we evaluated sole source procurements (thirty-eight

transactions) and procurements involving RFP (or similar) processes (twenty-five

transactions).

Compliance Issue	Process Utilized	Result / Finding
Determine compliance with state law, the rules, policies and procedures of the West Virginia Board of Governors as they apply to purchasing, supplies and equipment.	Evaluated existing practices of West Virginia University Purchasing operation against state law, and Board of Governors policy for purchasing, supplies and equipment.	**No finding noted.** Procedures tested were in compliance with state law, and adopted West Virginia Board of Governors Policy.
Determine whether professional procurement procedures are established and maintained within the University.	Evaluated the adopted purchasing manual against state law requirements, and industry best practices.	**No finding noted.** Determined West Virginia University is in general compliance with professional procurement procedures. No findings identified where practice deviated from adopted requirements.
CPO Designation and performance of assigned duties in accordance with the CPO's responsibilities as outlined in West Virginia University Board of Governor's adopted purchasing manual.	Reviewed WVU purchasing manual adopted by the Board of Governor's and implemented by the CPO. Reviewed procurement practices in place at WVU for conformance to adopted rules / regulations. Reviewed documentation outlining CPO designation and filing of designation with appropriate entities.	**No findings noted.** Designation and performance of assigned duties were in compliance with requirements.
Review of delegated authority to Buyers by CPO.	Reviewed duties performed by buyers for conformance with responsibilities and duties defined in applicable regulations and purchasing manuals.	**No findings noted.** Delegated authority to Buyers was found to be in compliance with the Board of Governors Policy and the adopted purchasing manual.
Review of buyer's minimum qualifications.	Reviewed educational background and experience of individuals assigned as buyers.	**No findings noted.** Buyers possessed requisite education and/or years of experience for duties.

Compliance Issue	Process Utilized	Result / Finding
Have institutional guidelines and procedures for purchases of $5,000 and less been established as required by purchasing manual.	Reviewed policies and procedures established by the Board of Governor's and the Procurement staff relative to small purchases.	**No findings noted.** A small purchases policy has been adopted and implemented. P-card use is given preference for use where possible.
Are requirements of the Governing Boards Purchasing Manual being followed	Reviewed selected purchasing orders, direct pays, and p-card transactions (as outlined earlier in this report) for compliance with purchasing manual requirements.	**No findings noted.**
Review selected transactions for compliance with prompt payment act.	Reviewed selected invoice payments for compliance with the State of West Virginia's prompt payment act procedures. Received data extraction of all invoices processed during period of evaluation to determine compliance with prompt payment requirements.	**No findings noted.** The project team noted improvements in compliance and more timely payments during the period under review compared with the findings of the prior audit conducted.
Review selected purchase order file for compliance with purchasing manual requirements and appropriate documentation.	Reviewed selected purchasing order files to evaluate documentation maintained.	**No findings noted.**
Review selected purchase orders for construction contracts for compliance with purchasing manual requirements and appropriate documentation.	Reviewed selected construction contract purchase order files. Fifteen (15) specific contracts files were evaluated covering all three years.	**No findings noted.** Appropriate documentation and procedures followed for samples reviewed.
Review selected special purchase orders (i.e. – sole source) for compliance with purchasing manual requirements and appropriate documentation.	Reviewed thirty-eight (38) selected sole source purchase order files.	**No findings noted.** However, some supporting documentation relative to the sole source decision was missing in a limited number of files. Information absent typically related to the lack of supporting documentation in the file though it was clear from notations that this was received and reviewed.

Compliance Issue	Process Utilized	Result / Finding
Review of bid documentation for compliance with date and time stamping of received proposals.	Reviewed selected bid documentation files (twenty-five) for necessary time stamps and compliance with other requirements.	**No findings noted.**
Are the provisions of State Law, Board of Governor's Policy and adopted purchasing manual being followed for purchases in the following categories:	Sampled and reviewed purchase orders, and p-card transactions to determine compliance. Over 125 procurement transactions were sampled as part of the evaluation with approximately one-third from each of the years under review.	**No findings noted.**
1. Under 5,000.	Sampled thirty-nine (39) procurement files for purchases under $5,000 for compliance with required procedures. Files included transactions from each fiscal year under review.	**No findings noted.** General compliance noted for sampled transactions.
2. Greater than $5,000 but under $25,000.	Sampled forty-three (43) procurement files for purchases greater than $5,000 buy under $25,000 for compliance with established procedures. Files included transactions from each fiscal year under review.	**No findings noted.** General compliance noted for sampled transactions.
3. Greater than $25,000.	Sampled forty-two (42) procurement files for purchases in excess of $25,000 for compliance with established procedures. Files included transactions from each fiscal year under review.	**No findings noted.** General compliance noted for sampled transactions.
4. Purchases made on P-Card.	Reviewed sampled data for procurement transactions to determine compliance with established procedures and / or potential violations such as stringing.	**No findings noted.** General compliance noted for sampled transactions. Since the prior audits, staff has significantly enhanced the review efforts placed on potentially "non-compliant" transactions and the follow-up conducted to determine compliance.

As noted in the table above, the WVU procurement practices and policies were found to be in substantial compliance with the requirements outlined in state law and/or the purchasing manual adopted by the WVU Board of Governors.