



Performance Audit

Procurement Thresholds



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Cover: Microsoft 365 stock image.

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Summary

The new procurement thresholds shift some purchases to simpler processes, resulting in reduced costs for both the County and suppliers. The simpler processes also speed up the process of buying goods and services. We couldn't quantify the total reduction in costs due to difficulty identifying contract amounts systematically. Data were not sufficiently reliable to identify all contracts and contract amounts consistently.

County purchase orders were often created after receiving an invoice from a supplier while the designed process is to create purchase orders before receiving an invoice. The process is designed to control spending and encourage responsible use of funds; reduce risk and prevent potential fraud; and provide documentation for financial review and audits.

We make recommendations intended to improve compliance with the process for generating purchase orders and to improve the quality of data about contacts.

Management's written response is included on page 10.

Newly adopted procurement policies reduce costs, speed up process of buying goods and services

The new procurement thresholds shift some purchases to simpler processes, resulting in reduced administrative burdens for both the County and suppliers. We couldn't quantify the total reduction in costs due to difficulty identifying contract amounts systematically.

The new procedures increased the thresholds at which different processes apply. For example, the simplest procurement method was increased from a threshold of \$10,000 to \$15,000 beginning in 2024. Note that the process for buying goods and services becomes stricter as the estimated cost increases (see table).

Table 1 Thresholds in County Policy

Estimated cost	Process for buying goods or services
Under \$15,000	Purchase on the "open market"; no competitive process required. Approval by supervisor or manager.
Under \$75,000	Requires written quotes from multiple firms or bids; does not require public notice; and the Purchasing Division validates quotes and issues informal bids. Approval by supervisor or manager.
Under \$150,000	Requires formal bids or requests for proposals; both require public notice and at least 10 workdays for responses. Approval by County Manager or Department Head.
\$150,000 and above	Formal bids or requests for proposal with required public notice and at least 10 workdays for responses; and approval by the Board of County Commissions.
Source: Johnson County Policies and Procedures	

The County also allows for purchases without competition when buying from another government, using a cooperative purchasing agreement, or as an authorized exception to competition. The Board of County Commissioners must approve these if the amount is \$150,000 or more.

Increasing thresholds and shifting some contracts to simpler procurement methods have several benefits

Shifting contracts to simpler procurement methods have benefits including saving time for the County. Table 2 summarizes the impacts.

Table 2 Impact of Change in Procurement Thresholds

Impact	Description
Reduced workload and time savings	<ul style="list-style-type: none"> • Less work for the Purchasing Division due to more purchases through simpler processes; • Faster turnaround times for contracts, especially for smaller purchase; • Departments save time and resources by streamlining the procurement process; and • Board of County Commissions can focus on larger, more critical contracts.
Increased efficiency	<ul style="list-style-type: none"> • Purchases through simpler processes are quicker and easier to manage; • Reduced administrative burden leads to faster results; and • Faster processing benefits both suppliers (quicker payments) and residents (faster service provision).
Benefits for suppliers	<ul style="list-style-type: none"> • Can be easier for smaller and local suppliers to compete; • Less formal processes are less costly to respond to; and • Increased competition for smaller contracts with the increased thresholds.

Sources: Audit Services interviews and review of literature.

Discussions with staff and review of procurement literature identify a range of impacts of increasing thresholds. To identify impacts, we:

- Reviewed procurement literature,
- Interviewed County staff in seven departments, and
- Contacted two other local governments with recent threshold changes.

County costs are much lower for simpler procurement processes

Costs of County staff time to buy goods or services range from under \$100 for the most simple purchases to nearly \$14,000 for formal requests for proposals with Board approval. These costs represent staff time devoted to the process and are based on typical purchases. Simpler procurement methods require fewer staff and less time. Paying through purchase cards reduce costs and generate rebates.

Figure 1 County cost for different procurement methods



Source: Audit Services calculations and FMA analysis in 2019.

Suppliers spend less to respond to simpler procurement processes

Suppliers spend time and money to respond to requests for proposals, invitations to bid, and requests for quotes. A supplier must:

- Identify the opportunity,
- Understand the requirements,
- Understand the evaluation criteria,
- Prepare and submit a response.

Suppliers may need to attend site visits and participate in interviews. Reducing costs for responding should allow more suppliers to participate and reduce the total costs a supplier needs to recover through a contract. Some literature indicates that suppliers spend 3-6 percent of the cost of a contract to respond to requests for proposals. Simpler processes, like invitations to bid and less formal quotes, cost suppliers less.

County should strengthen controls to reduce purchasing risks

County purchase orders were sometimes created after receiving an invoice from a supplier while the designed process is to create purchase orders before receiving an invoice. For the period of January 2023 to March 2024 about 80 percent of purchase orders were created after the County received an invoice for payment. We noted the issue while assessing the reliability of data on contracts. The February 2020 *Contract Administration Audit* noted a similar issue.

County Policy and Procedures address purchase orders. Per Policy 110.200 and Procedure 110.200, the purchase order serves as an official legal document between the County and a contractor for goods and/or services. The purchase order may be used separately or in conjunction with other documents and delineates the responsibilities of both parties in the provision of goods and/or services required by the County. The County requires purchase orders for all procurements except those exempted by policy.

Table 3 Purchasing Process

Order	Title	Description
Step 1: approval to make a purchase	Requisition	The County generates a requisition as a request to make a purchase. Supervisors and or department heads and Purchasing review and approve requisitions. Approval generates the authority to make a purchase
Step 2: official contract notice to supplier	Purchase order	The County issues a purchase order as the official contract with the supplier and guaranteeing obligation for payment.
Step 3: confirm receipt and authorize payment	Invoice received	The County receives an invoice after the work is delivered. Recording the invoice against the purchase order authorizes payment.
Sources: Policy and Procedure 110.200; Financial Management and Administration training for users; Oracle documentation and interviews.		

The process is designed to help control spending and encourage responsible use of funds; reduce risk and prevent waste, abuse and fraud; and provide documentation for financial review and audits.

Users may circumvent the process because they find it more convenient and efficient. They save time by waiting to receive an invoice before creating the associated documentation in Oracle. This reduces the need to make any corrections to documents that should have been created earlier. It reduces the workload for making changes and expedites the process of making payments to suppliers. It also reduces the effectiveness of the controls as designed.

County should strengthen controls to connect contract information with the financial system in order to reduce purchasing risks

Current data doesn't allow for a consistent identification of contract values. Per review of the contracts in the contract repository (IonWave) and of payment transactions in the financial system (Oracle), we noted:

- IonWave doesn't include all contracts, especially smaller value contracts. Some information in IonWave is not correct or complete.
- Payment transactions in Oracle cannot consistently be linked to contracts.

IonWave became the mandatory contract repository to implement a recommendation from the 2020 *Contract Administration Audit*.¹ The County also uses IonWave to issue formal and informal solicitations for bids and requests for proposals. Suppliers use IonWave to submit bids and proposals.

The County's purchasing and contract administration is decentralized resulting in contracts not being consistently entered in IonWave. Using two software systems (IonWave for contracts and Oracle for payments) makes consistent tracking more complicated. While the systems aren't linked, the Purchasing Division trains users on how to look up contract information in IonWave and enter it into payments in the Oracle financial system.

Incomplete data may require manual processes for accurate reports or analysis.

¹ The 2020 audit recommended to implement an automated contract monitoring system that captures all County Contracts. System functionality should include but not be limited to: fully searchable repository, deliverable tracking, change management, and renewal notifications.

Oversight of procurement varies among different government entities

We noted different approaches to providing oversight of procurement activities in different local governments. The different approaches provide options that could strengthen or simplify oversight of procurement, improve transparency, increase engagement, and enable innovation.

Table 4 Ways to Provide Oversight of Procurement

Approach	Description
Reporting on contracts and spending for contracts.	Reports may include information on payments, the nature of the services, and the supplier. Some local governments make the information available as open data.
Reporting a range of performance measures for the procurement function.	Performance indicators can be part of a data-driven approach to strengthening procurement. Basic measures can focus on reducing cycle times and improving responses to solicitations.
Linking thresholds to federal guidelines for grants to local governments	The thresholds for “micro purchases” can range from \$10,000 to \$50,000. The thresholds for small purchase procedures are up to \$250,000.
Adjusting threshold levels on a regular basis based on inflation	Once thresholds are set, the level will adjust on a regular basis based on inflation.
Limiting approval to contracts where funding was not already included in the approved budget	When funding has already been approved in the budget, then management may approve the contracts administratively. Some exceptions require approval by the governing body.
Sources: Audit Services review of literature and interviews	

Recommendations

To strengthen controls over purchasing and reduce risks Financial Management and Administration should:

1. Ensure purchase orders are created before suppliers provide goods and services. FMA should develop procedures to define the circumstances when this is not required.
2. Improve the quality of data on contracts in both IonWave and Oracle.

Management Comments

Recently the BOCC approved increased procurement thresholds and at that time it was requested an audit be conducted to analyze the results of this change. I am pleased to see the audit found that the increase in thresholds (1) created efficiencies, (2) reduced the cost of staff time to procure goods and services, and (3) made it easier for small and local suppliers to compete for the County's business.

An additional finding of the audit included that there is "incomplete data" to conduct a procurement analysis as the IonWave contract system does not interface with Oracle, our payment system. You might recall the County had been pursuing an Oracle Cloud Enterprise system in 2021; however additional gap analysis was needed that halted the project, and a new solution has not yet been identified. We will research the cost to have a procurement tracking system that is robust enough to address the current shortfall and works hand-in-hand with Oracle financials.

Lastly, the audit suggested that we needed to "strengthen controls" as there are a high number of confirming purchase orders in the period covered by the audit. In management's review of first 8 months of 2024, 83.4% of all purchases with a confirming purchase order are less than \$15k and could have been purchased with a P-Card without a purchase order in the first place. The use of "blanket" purchase orders (long-term contracts) and the timing of purchases within the fiscal year, further make analysis of the role of confirming purchase orders complex. Thus, while it is factual that there are a high number of confirming purchase orders, we do not agree that controls need to be strengthened. Rather we suggest that an updated policy/practice review along with better data tracking will help us better understand the usage surrounding confirming purchase orders.

County Auditor Response

We believe the County should use requisitions and purchase orders as established in policy, procedure, training and the design of the Oracle system. Those processes are designed to help control spending and encourage responsible use of funds; reduce risk and prevent waste, abuse and fraud; and provide documentation for financial review and audits.

Objective, scope and method

This performance audit addressed:

- What is the impact of the changes in thresholds on the estimated total costs for procurement for each competition type (Open Market, Informal Quotes, Formal Competition for General Services, and Formal Competition)?

We considered procurement transactions from January 2023 to March 2024. We also reviewed requisition data for 2019-2023. For that period transactions averaged \$334 million per year.

To address the audit question, we:

- Interviewed management in Financial Management and Administration.
- Reviewed County policies and procedures.
- Reviewed Resolution No. 108-23. The resolution included “amendment one time Internal Audit.”
- Interviewed participants in evaluation committees for different procurement methods from multiple departments, including Airports, Corrections, Facilities, Treasury Taxation and Vehicles, and Elections.
- Identified controls as designed for the procurement process.
- Reviewed training materials prepared by Financial Management and Administration.
- Reviewed presentation materials from the County’s Purchasing System Review Committee.
- Reviewed Oracle documentation for the e-business suite.
- Compiled contracts approved by the Board of County Commissioners in 2023, by reviewing meeting agendas and notes and matched the approved contracts with the data in IonWave and the contract spend report.
- Reviewed estimates for staff time required for different procurement methods that were prepared as part of the Purchasing System Review Committee. We compared those estimates with the experiences of evaluation committee members for several procurements. We found that the estimates were reliable for our purposes.
- Estimated the current cost of different procurement methods by considering staff time and staff wages and benefits.
- Interviewed staff in several other local governments that had recently increased payment thresholds.
- Reviewed procurement literature with information about thresholds.
- Reviewed Audit Services’ 2020 *Contract Administration Audit*.

We assessed the reliability of data on contracts, contract amounts, and payments to suppliers by:

- Interviewing people knowledgeable about the data;
- Comparing data in the IonWave and Oracle systems with each other and with contract documentation;
- Reviewing SQL code used to generate a report on requisitions; and
- Reviewing the data itself. Reviewing the data included calculating descriptive statistics and analyzing the data for conformity with Benford's Law.

We determined that the data were not sufficiently reliable to identify all contracts and contract amounts consistently. This meant we couldn't fully answer our audit question. We discussed the data limitations with Financial Management and Administration. We made recommendations intended to improve the accuracy of data about contracts.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit findings and conclusions based on our audit objectives.