

6. REPORTS TO BE RECEIVED FOR FILING:

- a. Pinellas County Comprehensive Annual Financial Report for the Fiscal Year ended September 30, 2012.
- b. Division of Inspector General, Audit Services, Clerk of the Circuit Court and Comptroller, Report No. 2013-18 dated May 20, 2013 – Audit of DEI GMD Contract with Ferguson Waterworks.
- c. Quarterly Investment Report for the Period ended December 31, 2012.
- d. Annual Investment Report for the Fiscal Year ended September 30, 2012.
- e. Continuing Bond Disclosure Report dated April 30, 2012 pursuant to Rule 15c2-12 of the Securities and Exchange Commission for:

\$86,580,000 Sewer Revenue Bonds, Series 2003

\$25,205,000 Sewer Revenue Refunding Bonds, Series 2006

\$59,510,000 Sewer Revenue Refunding Bonds, Series 2012



Ken Burke, CPA


CLERK OF THE CIRCUIT COURT AND COMPTROLLER
PINELLAS COUNTY, FLORIDA

Clerk of the County Court
Recorder of Deeds
Clerk and Accountant of the Board of County Commissioners
Custodian of County Funds
County Auditor

Division of Inspector General

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TO: The Honorable Chairman and Members
of the Board of County Commissioners

FROM: Ken Burke, CPA 
Clerk of the Circuit Court and Comptroller
Ex Officio County Auditor

SUBJECT: Audit of DEI GMD Contract With Ferguson Waterworks

DATE: May 20, 2013

For your review and filing in the Official Records, I am enclosing a copy of the report dated May 20, 2013 on the above-referenced audit.

I hope you find this report helpful in ensuring Pinellas County government provides the best possible service to our citizens.

cc: Robert S. LaSala, County Administrator
Robert M. Powell, Director, Water and Sewer Division
Alan Bollenbacher, Maintenance Manager
David Scott, Executive Director, DEI
Jim Bennett, County Attorney
Claretha N. Harris, Chief Deputy Director, Finance Division
Ernst & Young



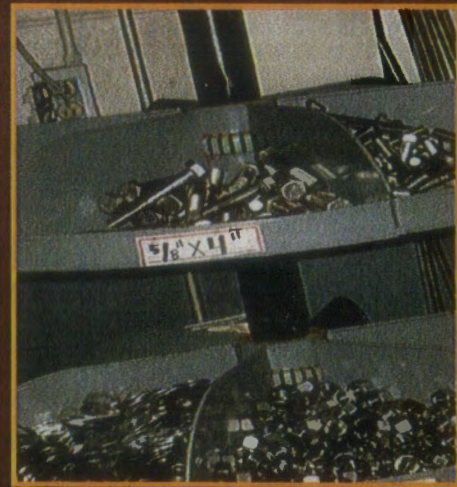


DIVISION OF INSPECTOR GENERAL

KEN BURKE, CPA

**CLERK OF THE CIRCUIT COURT AND COMPTROLLER
PINELLAS COUNTY, FLORIDA**

AUDIT OF DEI GMD CONTRACT WITH FERGUSON WATERWORKS



**Hector Collazo, Jr., Director
Inspector General/Chief Audit Executive**

Audit Team

**Ronald Peters – CIA, CISA, CIGA, CBA, CCL, CRMA – Inspector General Manager
Scott Stees – CIA, CISA, CFE, CGFO, CIGA, CIGI –Senior Inspector General Auditor**

**MAY 20, 2013
REPORT NO. 2013-18**



Ken Burke, CPA

CLERK OF THE CIRCUIT COURT AND COMPTROLLER
PINELLAS COUNTY, FLORIDA

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May 20, 2013

The Honorable Chairman and Members of the Board of County Commissioners

We have conducted an audit of the Department of Environment & Infrastructure (DEI) General Maintenance Division (GMD) Contract with Ferguson Waterworks.

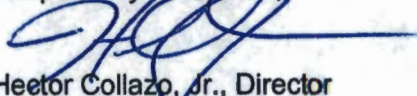
Our audit objectives were to:

- Determine if contractor invoice payments, returns, and credits were properly approved at the appropriate level of DEI management.
- Determine if contractor invoice prices billed reflected the appropriate discount.
- Determine if there is adequate monitoring of GMD warehouse operations.
- Determine if the contract provisions related to the strategic partnership to standardize warehouse operations and guarantee continuity of supply were completed.

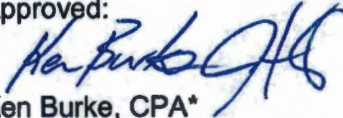
We conclude that contractor's returns and credits were not adequately documented, but were still approved. The contractor invoice prices billed did not reflect the appropriate discount, and price increases were not correct or reviewed by management. We determined that most contract provisions related to the strategic partnership to standardize GMD warehouse operations and guarantee continuity of supply were delayed, except for online ordering and delivery. The contractor's invoice payments were approved at the appropriate level of DEI management. We found that there was adequate monitoring of GMD warehouse operations. Opportunities for Improvement are presented in this report.

We appreciate the cooperation shown by the staff of the DEI GMD during the course of this review. We commend management for their responses to our recommendations.

Respectfully Submitted,


Hector Collazo, Jr., Director
Division of Inspector General

Approved:



Ken Burke, CPA*
Clerk of the Circuit Court and Comptroller
Ex Officio County Auditor
*Regulated by the State of Florida



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INTRODUCTION

Synopsis

Pinellas County (County) and the vendor both had lapses in performing their contractual responsibilities. Management needs to establish contract compliance procedures to monitor that both the County and the vendor adequately perform their duties and adhere to contract provisions.

Scope and Methodology

We conducted an audit of the Ferguson Waterworks Agreement 090-0325 (Ferguson) for providing water and sewer materials and supplies for the Department of Environment & Infrastructure (DEI) General Maintenance Division (GMD). In addition, the contract provides for guidelines and strategy for the implementation and support of a strategic partnership to standardize warehouse operations and guarantee continuity of supply for the next five years.

Our audit covered the responsibilities of both Ferguson and the County as contained in the agreement. We also reviewed DEI compliance with any applicable policies, plans, procedures, and laws regarding this process.

The objectives of the audit were to:

- Determine if contractor invoice payments, returns, and credits were properly approved at the appropriate level of DEI management.
- Determine if contractor invoice prices billed reflected the appropriate discount.
- Determine if there is adequate monitoring of GMD warehouse operations.
- Determine if the contract provisions related to the strategic partnership to standardize GMD warehouse operations and guarantee continuity of supply were completed.

In order to meet the objectives of the audit we:

- Interviewed DEI management and staff to understand the processes and procedures related to the strategic partnership.
- Evaluated the adequacy of these policies and procedures, as well as the internal controls.
- Tested, on a sample basis, the payments to Ferguson as related to the provisions of this agreement.

We performed such other audit procedures that we considered necessary in the circumstances.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the *Principles and Standards for Offices of Inspector General*, and accordingly, included such tests of records and other auditing procedures as we considered necessary in the circumstances. The audit period was May 25, 2011 through July 31, 2012. However, transactions and processes reviewed were not limited by the audit period.

Overall Conclusion

We determined that contractor's returns and credits were not adequately documented, but were still approved. The contractor's invoice prices billed did not reflect the appropriate discount, and price increases were not correct or reviewed by management. The contractor's invoice payments were approved at the appropriate level of DEI management.

We determined that most contract provisions related to the strategic partnership to standardize GMD warehouse operations and guarantee continuity of supply were delayed, except for online ordering and delivery. We found that there was adequate monitoring of GMD warehouse operations.

Our audit disclosed opportunities for improvement. Those opportunities are presented in this report.

Action Plan

FINDING NO.	FINDING (CAPTION) RECOMMENDATIONS	MANAGEMENT RESPONSES			IMPLEMENTATION STATUS	
		Concur	Partially Concur	Do Not Concur	In Progress	Planned
1	<i>Price Revisions Did Not Comply With Contract.</i>					
	A. Management needs to develop policies and procedures that verify that price schedules conform to the contract requirements and that the appropriate price is charged on the invoice.	✓			✓	
	B. The Unit Price increase should be recalculated and any necessary billing adjustments made.	✓			✓	
	C. Review the current contract for possible amendments to address the issues, improve clarity, and contract performance.	✓			✓	
2	<i>The Master Price Schedules Were Not Updated For Purchased Items.</i>					
	Establish a policy and procedure for any additions, changes, or deletions of stock items. The procedures should include verification that changes are reflected in the: <ul style="list-style-type: none"> • Ferguson Online Ordering System • Maximo Inventory System • Master Price Schedule 	✓			✓	
3	<i>Volume Discounts Were Not Applied To Purchases.</i>					
	A. Work with the vendor to implement the volume percent discount pricing according to the contract and calculate any necessary billing adjustments.	✓			✓	

FINDING NO.	FINDING (CAPTION) RECOMMENDATIONS	MANAGEMENT RESPONSES			IMPLEMENTATION STATUS	
		Concur	Partially Concur	Do Not Concur	In Progress	Planned
	B. Management should consider a contract change to a dollar volume discount. The current volume discount runs contrary to their goal of reducing inventory quantities and its associated carrying cost.	✓			✓	
4	<i>Invoice Adjustments Were Not Referenced To The Applicable Invoice Or Adequately Explained.</i>					
	Develop policies and procedures for invoice adjustments so that they are adequately explained. The procedures explanation should include why: <ul style="list-style-type: none"> • An adjustment is needed. • Reference the invoice or other source document. Identify any other necessary adjustments needed, such as an adjustment to the Maximo Inventory System.	✓			✓	
5	<i>Inventory Improvements Delayed.</i>					
	Revise the schedule to show a timeline for the postponed activities. The revision should also include activities that are County responsibilities, like Enterprise Asset Management Project that affects the warehouse operations.	✓			✓	
6	<i>Contract Price Adjustment Clause Needs Improvement.</i>					
	A. Work with Purchasing to clarify how the price adjustment should be calculated, approved, and implemented under this contract.	✓			✓	
	B. Work with Purchasing to create boilerplate price adjustment clauses that follow the Bureau of Labor Statistics guidelines.	✓			✓	

Background

The Board of County Commissioners (BCC) entered into a \$7,500,000 agreement with Ferguson Enterprises to form a strategic partnership to standardize GMD warehouse operations for the acquisition of water and sewer materials and accessories. These items include brass fittings, meter couplings, bushings, valves, meters, flanges, and pipe. The acquisition of materials is done through a Blanket Purchase Agreement(*) #234077 with estimated annual expenditures of \$1,500,000. The five-year Agreement #090-0325-P with Ferguson Enterprises, doing business as Ferguson Waterworks, has a May 25, 2011 effective date and a May 26, 2016 expiration date. The contract funding is derived from the DEI GMD operation's budget.

The contract agreement provides the guidelines and strategy for the implementation and support of a strategic partnership to standardize warehouse operations and guarantee continuity of supply(*) for the next five years. Project drivers(*) for this contract include, but are not limited to:

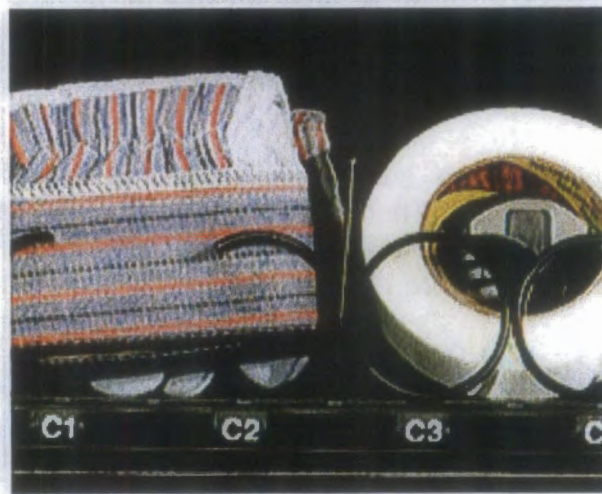
- Reduction of labor cost
- Balancing of inventory carrying cost(*)
- Reduction of stock outages(*)
- Ease of ordering
- Reporting capabilities
- Inventory controls
- Maintenance planning and cost control
- Improved inventory management

This contract contains provisions for the acquisition of items currently purchased off various other Pinellas County water and sewer material type contracts. It is anticipated that once this contract has been implemented, procedures will be implemented to standardize GMD warehouse operations with the majority of purchases pertaining to water and sewer materials procured from this contract.

The product prices on this contract are either at a discount off Manufacturer's Suggested Retail Price (MSRP) list for approximately 75% of the items or a Unit Price for the remaining twenty-five (25%) percent. The discount percentages are fixed for the life of the five (5) year contract. The unit prices are firm for the first year of the contract, but may be adjusted annually by any change in the Producer Price Index(*).

Included in the contract are provisions for DEI GMD to lease two product dispensing machines that can be used to dispense a variety of product applications, such as personal protective equipment (gloves, glasses, etc.), small hand tools, and supplies.

(*) – Glossary of Terms Page 21



The cost to lease the dispensing machines is \$230 per month per machine and includes software license and support. The cost of the product to fill the machines and the monthly lease rate are included in the estimated annual contract expenditure. The auditee stated that after doing full research, a decision has been made to lease with another vendor to obtain more value and flexibility.

OPPORTUNITIES FOR IMPROVEMENT

Our audit disclosed certain policies, procedures, and practices that could be improved. Our audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

1. Price Revisions Did Not Comply With The Contract.

A. The price schedule revisions did not comply with contract pricing provisions for either the Fixed Percent Discount(*) of MSRP(*) or the Unit Price(*). The contract pricing provision contains two types of pricing, a Fixed Percent Discount of MSRP and a Unit Price.

- The contract does not specifically address how price changes are handled for the Fixed Percent Discount MSRP (percent off on retail price for identified items).
- For the Unit Price to change, the contractor must request an annual price adjustment based upon the change in the Producer Price Index (price set by the contract).

We reviewed the revised price schedule changes to see if they were properly administered under the contract. There were five price schedule revisions during the audit period. Of the 920 items reviewed, approximately 753 were Fixed Percent Discount MSRP items and 167 were Unit Price items.

- The 753 Fixed Percent Discount MSRP items accounted for about 82% of the total. The Fixed Percentage Discount(*) is subject to any price change by the manufacturer.
- The price list showed 199 Unit Price items, but the Ferguson spreadsheet contained some errors that resulted in the count dropping to 167 items, which accounted for 18% of the total. The 167 are the Unit Price items subject to a price change based upon the Producer Price Index(*).

B. The Top 100(*) volume discount items can be either Fixed Percent Discount or Unit Price items. The Top 100 contract items receive an additional 1%-5% discount if ordered in minimum quantities as shown in the contract.

The Top 100 volume discount percentage and minimum quantity will not change during the contract (discounts will be held firm for the duration of the contract), but the price will change according to whether it is a Unit Price or Fixed Percent Discount item. Price changes then affect the volume discount earned for the items ordered.

(*) – Glossary of Terms Page 21

We reviewed the price schedule updates, which did not identify which prices of the approximately 753 Fixed Percent Discount MSRP prices were changed. The review determined 192 items had an average price increase of 22%.

- The price changes ranged from a 12% decrease to a 240% increase.
- Two items had increases over 200% in the same Group 31 Schedule 80 Plastic Fittings Group. Management should have investigated why the plastic fittings had a quadruple increase in price.
- 143 of the 192 items had increases greater than 50%.

In checking MSRP prices, we found that not all manufacturer's catalogs show prices or contain every small item GMD carries. Furthermore, we also discovered prices on three adjoining rows were switched on the price schedule. Since the price list is not checked by the County, this kind of error can easily occur.

- C. The DEI contract administrator said that Ferguson did not request any PPI price adjustments after the first year for the Unit Price items. However, our review of the Master Price Schedules for May 29, 2012 and July 9, 2012 showed prices were changed on both price list updates.

The Producer Price Index increased only 2.6% the first year. We found price increases far above the allowed adjustment for most of the 167 Unit Price items as shown below.

Number Of Items	Issue	Percent Increase
21	No price change	No Increase
44	Price items changed 5/29/12	1% Average
99	Price items changed 7/9/12	11% Average

This clearly shows that verification of the price schedule is necessary each time it is updated. The vendor failed to comply with the contract price provision that states, *"It is the vendor's responsibility to request any pricing adjustment under this provision."*

- D. In discussions with DEI management about verifying price schedule changes, there were no policies or procedures regarding how the price schedule updates for MSRP changes would be verified. Management relied on the Property and Stores Clerk(*) to check MSRP prices. The Property and Stores Clerk's view on verifying pricing was focused on checking invoice prices to the price schedule.
- E. Since the contract did not address when and how price schedule revisions for Fixed Percent Discount off MSRP would be handled, the contractor and the DEI contract administrator developed their own process.

(*) – Glossary of Terms Page 21

- The contractor submitted revised price schedules almost quarterly, but failed to communicate what prices changed, and provide any documentation of the MSRP to DEI GMD for review.
- The DEI contract administrator did not have adequate procedures in place to verify the changes.
- The contractor did not request an adjustment to the Unit Price as required by the contract, but subsequently did escalate prices up to 42%, which exceeded the allowed 2.6% PPI adjustment.

The price schedule revisions did not comply with contract pricing provisions for either the Fixed Percent Discount off MSRP or the Unit Price. Because of the audit report findings in Opportunities for Improvement Nos. 1, 2, and 3, DEI GMD met with Purchasing and Ferguson (parties), together with the IG auditors. The parties will review the current contract and develop an amendment for the contract.

We recommend management:

- A. Develop policies and procedures that verify that price schedules conform to the contract requirements and that the appropriate price is charged on the invoice.
- B. The Unit Price increase should be recalculated and any necessary billing adjustments made.
- C. Review the current contract for possible amendments to address the issues, and improve clarity and contract performance.

Management Response:

- A. An amendment has been created to add and clarify the price revisions. A procedure was created using our Utilities AP Onsite Support representative to ensure price schedules conform to the contract and the purchaser verifies all pricing is correct on their invoice and purchase orders.
- B. A review of all invoices was conducted to confirm pricing discrepancies. A credit memo was issued by Ferguson for the amount of \$15,011.15.
- C. An amendment has been created to clarify the contract pricing clause and to allow an annual review/revision of the Top 100 list.

2. The Master Price Schedules Were Not Updated For Purchased Items.

The Price Schedules were not updated for purchased items.

In the Ferguson contract, it describes how changes in inventory stock items(*) are done, but no reference is made to the Master Price Schedule(*). The procedure describes how the Ferguson Online Ordering System(*) will be updated for changes to correspond to the Maximo Inventory System(*). The process does not update the Master Price Schedule.

In our review of invoices, we initially found two inventory stock items(*) not listed on the Master Price Schedule. These inventory items were listed in the contract's Top 100 items (stock item eligible for a discount based on quantity ordered). Additional work was initiated to determine if any other inventory stock items purchased were omitted from the Master Price Schedule. We discovered another 59 stock items that had at least one purchase that were not contained in the Master Price Schedule.

The two stock items listed on the Top 100 items, but not on the Master Price Schedule, are omission errors by the vendor when the Master Price Schedule was created. On the other 59 stock items that we purchased, the vendor failed to update the Master Price Schedule. It is the vendor's responsibility to update the Master Price Schedule.

We recommend management:

Establish a policy and procedure for any additions, changes, or deletions of stock items. The procedures should include verification that changes are reflected in the Ferguson Online ordering system.

- Maximo Inventory System
- Master Price Schedule

Management Response:

A procedure to add, change, and delete stock items has been added to the warehouse SOP. Ferguson has been made aware of their responsibility to let us know if anything changes on their price sheet.

3. Volume Discounts Were Not Applied To Purchases.

The contract pricing included additional discounts of 1% to 5% for purchased quantity levels of 50 to 3,000 items designated as the Top 100. The Top 100, as the name implies, is a list of the 100 inventory stock items with the expected highest volume. The vendor did not give the County the contractual price discounts on eligible volume purchases made.

- A. We tested invoices against the Master Price Schedule in effect at the date of purchase and checked to see if the order quantity was sufficient for a discount.
- None of the invoices tested received the volume discount DEI GMD was entitled to.

- We compared the annual Top 100 report provided by Ferguson with the Maximo Receipts report. We found additional invoices where the quantity order qualified for a discount, but no discount was granted.
- B. We obtained a vendor report listing of invoice line item purchases from the contract inception through July 31, 2012. We reviewed the report to determine:
- If any volume discounts were granted.
 - If other volume discounts could have been granted.

We found that no discounts were applied, and calculated that the County should have earned \$6,577 in volume discounts on five items alone. DEI could have possibly received additional discounts on another 15 items if several orders were combined in a three-month period. The additional discount earned on the 15 items would have been approximately \$15,000. After our discussions with management, they started a detailed review of the invoices to identify discounts not received under the contract, and management will submit a refund request to Ferguson for payment.

- C. The vendor never incorporated the discount into our Master Price Schedule for the Ferguson Online Ordering System, and the inside counter sales associate failed to notice and apply any discounts.

There are no policies and procedures in place for DEI's Property and Stores Clerk(*) to pursue discounts. The Property and Stores Clerks were focused on being able to reduce the quantities of stock on hand, since orders were being delivered twice a week. DEI's review and approval of the invoices also failed to discover that no volume discounts were applied.

The volume discount percentage approach seems contrary to reducing carrying costs(*) by decreasing inventory levels. A dollar volume discount might be more appropriate and easier to implement.

We recommend management:

- A. Work with the vendor to implement the volume percent discount pricing according to the contract and calculate any necessary billing adjustments.
- B. Consider a contract change to a dollar volume discount. The current volume discount runs contrary to their goal of reducing inventory quantities and its associated carrying cost.

Management Response:

- A. A review of all invoices was conducted to confirm pricing discrepancies. A credit memo was issued by Ferguson for the amount of \$15,011.15. All orders will be reviewed by both parties to confirm correct pricing/volume discounts.

(*) – Glossary of Terms Page 21

B. At this time, Ferguson does not offer a dollar volume discount.

4. Invoice Adjustments Were Not Referenced To The Applicable Invoice Or Adequately Explained.

Purchasing Card transactions were selected for review to determine how invoice adjustments were handled. Invoice adjustments included items such as:

- Returned merchandise
- Incorrect charges
- Pricing errors
- Shipping/receiving discrepancies

The four credit transactions examined were the result of incorrect charges made by the vendor.

- One credit for a charge to the wrong credit card was described as a *Counter Return*.
- Two credits for duplicate charges were described as *Apply Deposit*.
- One credit for items ordered, but not shipped, was described as *Apply Deposit*.

The County's Purchasing Cardholders fulfilled their responsibility to obtain a credit memo from the merchant for the disputed charges; however:

- None of the credit memos provided by the merchant contained an explanation for the credit or referenced the invoice.
- The Purchasing Cardholder or approver did not record any explanation or reference the applicable invoice.

It is important to explain what the invoice discrepancy is because it may affect more than the Purchasing Card reconciliation. Any pricing errors, for example, would also affect the inventory item cost in the Maximo Inventory System.

The contract has a procedure for the County and Ferguson to resolve invoice discrepancies; however, it did not have procedures on what to submit for the County to process and approve inventory adjustments.

We recommend management:

Develop policies and procedures for invoice adjustments so that they are adequately explained. The explanation procedures should include why:

- An adjustment is needed.

- Reference the invoice or other source document.
- Identify any other necessary adjustments needed, such as an adjustment to the Maximo Inventory System.

Management Response:

Ferguson was made aware of the transaction details required on all of our credit memos and has complied with this change. A procedure was added to the warehouse SOP.

5. Inventory Improvements Delayed.

- A. The contract's schedule for evaluating inventory improvements was delayed by management. The contract set out a proposed timetable for some initial review and research to better understand the County's inventory needs and implement solutions to meet those needs.

Management wanted to accumulate a year's worth of data before evaluating inventory balances. They would also need the Warehouse Supervisor position filled to implement the solutions. The position has gone unfilled, and other management staff has been reduced through budget cuts, so efforts were postponed. The Warehouse Supervisor position started in November 2012.

One of the contract's project drivers(*) was better maintenance planning and control to be accomplished in part by *increased inventory management*. The implementation schedule set out activities on a 0-90 days, 91-121 days, and over 121 days on a time line. The activities were intended to guide management toward several different solutions based on the activity's results.

0-90 Days:

- Work with County to identify and rank items (example A, B, C, etc.). Higher ranked items are industry standards and very little need to stock large or any quantity as they are located at our facility
- Identify emergency and repair items
- Create minimums for products needed/desired to be kept at the County warehouse
- Create minimums for products needed/desired to be kept at Ferguson's warehouse
- Review and create buyback schedule for items needed to be returned to achieve new County stocking minimums
- Help to review PCU(*) computer inventory/purchasing system to identify any product demand calculations
- If no demand system exists, develop a demand system that either Ferguson or the County may maintain (at the County's discretion)

(*) – Glossary of Terms Page 21

to develop better buying history with monthly indicators. In addition, incorporate quantities of known upcoming projects with new monthly demands to create better and timelier purchase quantities

During this period, we can provide part numbers and quantities for items purchased from Ferguson over the past months to demonstrate some differences in preconceived demands vs. actual purchases. This is one of the many reports we will be able to help provide the County to analyze purchases.

91-120 Days:

- Start to review demand data with County staff
- Review and remedy items stocked, new needs and items that may need to be phased out or moved due to lack of demand or change in specification

Over 121 Days:

- Review demands and ensure warehouse minimums are maintained monthly

The County did implement the online ordering and delivery system, which seems to have addressed the *ease of ordering and reducing stock outages*.

- B. The anticipated Maximo system upgrade has not been evaluated to determine if it can support the proposed solutions, such as emergency and repair items.

The County's Maximo Inventory System has limitations that affect the proposed solutions. The system is currently undergoing an upgrade to a more current version (Enterprise Asset Management Project).

We reviewed the Maximo Asset Management Project to see what additional functionality can be expected. In summary:

- The Materials Management application's new or enhanced applications included only one area, Inventory Usage, which could help with stock inventory. The Inventory Usage application replaces the Issues and Transfers application. According to the presentation, you can create inventory usage records to track the issue; transfer and return of inventory items within and across organizations; and you can monitor the balances of inventory items. The additional usage tracking and reporting will help with improving inventory management.

- The Maximo system does have a field to designate each inventory item record to note ABC rating. It also has a minimum quantity field. There does not appear to be a way in the system to designate emergency and repair items. DEI's most important reason for emergency and repair items would be to restore water and sewer service. Repair parts carried as emergency and repair inventory need to be identified and explained. If we carry one 48" clamp in stock that would be needed to temporarily repair a leak, which may not occur for years, we need to know why we are carrying it and take responsibility for evaluating the condition regularly so that it is usable when needed. We cannot have emergency repair parts that are stored for long periods become rusted, brittle, dried out, or damaged while in warehouse storage. In addition, any repair parts dependent upon a specific machine or assembly should identify the dependency, so when that machine is retired the part can then be designated obsolete.

The County has not been able to provide sufficient resources to the strategic partnership for many of the proposed solutions. Therefore, improvements on how the County stocks inventory have not yet been realized.

We recommend management:

Revise the schedule to show a timeline for the postponed activities. The revision should also include activities that are County responsibilities like the Enterprise Asset Management Project(*) that affects the warehouse operations.

Management Response:

A timeline schedule was created for all Project Drivers.

6. Contract Price Adjustment Clause Needs Improvement.

The contract price adjustment clause did not meet four of the nine guidelines suggested for price adjustment clauses by the Bureau of Labor Statistics(*).

- A. The contract contains a price adjustment clause that allows prices to fluctuate based on the Producer Price Index. The prices for products purchased off this contract are based on a combination of firm, fixed discount percents off MSRP for approximately 75% of the items that were listed in the Request For Proposal(*) and a Unit Price for the remaining 25%. The negotiated fixed discount percents will remain firm for the life of the five-year contract.

The Unit Prices proposed do not change for the first year of the contract. The Unit Prices may be adjusted yearly based upon the change in the Producer Price Index (PPI), Metals and Metal Products, Plumbing Fixtures and Fittings.

The following summary describes the differences between what the guidelines suggest and what the contract contains:

Guideline Standard	Ferguson Contract
(3) Clearly identify the selected index and cite an appropriate source. The escalation clause of a contract should identify the index selected by its complete title and any identifying code.	The contract identifies the complete index title, but not the identifying commodity code number.
(6) Provide for missing or discontinued data.	No contract provision for missing or discontinued data.
(7) Specify that calculations of price adjustments shall always use the latest version of the PPI data published as of the date specified for such calculations; this requires that contracting parties explicitly agree on the date the price adjustment calculations are to be made.	The contract does not specify using the latest version of the PPI data and does not identify when the price adjustment calculations take effect.
(9) Define the mechanics of price adjustment.	The contract does not adequately describe the method or provide an illustrative calculation of all the steps to figure the price adjustment. The BLS guide provides some examples of how to figure the price adjustment. Without an adequate description or example to follow, the method to calculate the price adjustment can cause serious disagreements since price is very important to both parties of the contract.

Adherence to the Bureau of Labor Statistics (BLS) guidelines should prevent many potential problems. To follow guideline (7) effectively, it is essential to specify the date on which the price adjustment is to be made. Currently, PPI data are usually first published between the 9th and the 18th day of the month following the reference month in question. Thus, the earliest day for price adjustment that a contract ought to specify needs to be after the 18th day of the month following the designated data month. All first-published indexes for a given month, as well as final indexes for the fourth previous month, are considered officially published and are available on the day of release of the data. The contracting parties' selection of the date on which the price adjustment is to be made should be made only after they have agreed on, first, the reference month and, second, on whether their calculations are to be based upon the first-published version or the final version of that month's index. The date for calculating the price adjustment can then be selected so that the desired data will be available.

- B. In the Request For Proposal (RFP) Addendum #1, the County provided the wording for the price adjustment clause. Ferguson's RFP on pricing repeated the adjustment clause wording the County wanted. Purchasing works with the department to clarify any ambiguous areas for the vendor during the Request For Proposal processes. Since departments have limited experience with contracts, or specialized contract provisions, such as price adjustment clauses, Purchasing should take the lead in standardizing (boilerplate) language for any price adjustments based on price indexes, such as the Consumer Price Index or Producer Price Index, based on the guidelines provided by the Bureau of Labor Statistics.

- C. The initial calculation adjustment is a significant risk since the wording of the contract price adjustment clause does not clearly explain how to calculate the price adjustment or include an attachment detailing the calculation steps as suggested in the Bureau of Labor Statistics guides. According to Purchasing, the April PPI index would be the most recently issued index that could be used to escalate prices by the May 25th effective date. The April 2012 index issued May 11, 2012 shows that the annual PPI percentage increase was 2.6%.

The Bureau of Labor Statistics in, "Escalation Guide for Contracting Parties," provides guidance on the development of price adjustment clauses in contracts that are tied to the PPI data. Such clauses should be written with great care to avoid serious problems when contract adjustments are implemented. The information in this guide is based upon the Bureau of Labor Statistics' staff experience in handling issues that have been brought to their attention in connection with actual escalation clauses. The Escalation Guide provides nine guidelines for developing escalation clauses.

We recommend management:

- A. Work with Purchasing to clarify how the price adjustment should be calculated, approved, and implemented under this contract.
- B. Work with Purchasing to create boilerplate price adjustment clauses that follow the Bureau of Labor Statistics guidelines.

Management Response:

- A. An amendment has been created to add and clarify the price revisions. A procedure was created using our Utilities AP Onsite Support representative to ensure price schedules conform to the contract and the purchaser verifies all pricing is correct on their invoice and purchase orders. An amendment has been created to clarify the contract pricing clause and to allow an annual review/revision of the Top 100 list.
- B. An amendment has been created to add and clarify the price revisions. A procedure was created using our Utilities AP Onsite Support representative to ensure price schedules conform to the contract and the purchaser verifies all pricing is correct on their invoice and purchase orders. An amendment has been created to clarify the contract pricing clause and to allow an annual review/revision of the Top 100 list.

GLOSSARY OF TERMS

(*) Definitions

Blanket Purchase Agreements are initiated by the Purchasing Department to secure commonly needed goods and/or services, usually on an annual basis. More than one County department commonly utilizes the goods and/or services.

balancing of inventory carrying cost - the goal in inventory-based businesses is to balance your carrying costs against the cost of *not* having that inventory available when you need it.

Bureau of Labor Statistics (BLS) - United States Department of Labor, Bureau of Labor Statistics, is the principal fact-finding agency for the Federal Government in the broad field of labor economics and statistics. The BLS is an independent national statistical agency that collects, processes, analyzes, and disseminates essential statistical data to the American public, the U.S. Congress, other Federal agencies, State and local governments, business, and labor.

carrying cost - inventory carrying cost refers to the total cost of holding inventory. This includes warehousing costs such as rent, utilities and salaries, and inventory costs related to damage, obsolescence, shrinkage, and insurance.

continuity of supply - in the Business Management's supply chain management, the continuity of supply refers to the consistent flow of products from a source to a customer.

Enterprise Asset Management Project – A Pinellas County Business Technology System project to upgrade existing Maximo Systems for Department of Environment and Infrastructure, Parks and Conservation Resources, and Real Estate Management.

Ferguson Online Ordering System – Vendor website at <https://www.fergusononline.com/> that provides for registered customers to log in to shop and order parts and supplies from their online catalog.

Fixed Percent Discount - contract term for the percentage discount off Manufacturer's Suggest Retail Price (MSRP) list for certain product groups.

inventory stock items – water and sewer parts kept in the General Maintenance Division warehouses and trucks that are controlled by the Maximo system.

Manufacturer's Suggested Retail Price (MSRP) - is the price, which the manufacturer recommends that the retailer sell the product.

Master Price Schedule – Ferguson Pricing Master Discounts and No Discount Excel spreadsheet listing inventory item descriptions, number, name, catalog number, unit, and price.

Maximo/Maximo Inventory System – The Maximo Asset Management application system by IBM is an asset management life cycle and workflow process management system.

PCU - acronym for Pinellas County Utilities.

Producer Price Index (PPI) - is defined by the Bureau of Labor Statistics as a program that measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

project drivers - there are three primary drivers in any project: time, cost, and performance. These are called the triple constraints in project theory. Every project will have one of these constraints being monitored repeatedly. Normally, this constraint is also the same one being monitored by the customer on a regular basis. This constraint is called the project driver. Project drivers for this contract include, but are not limited to reduction of labor cost; balancing of inventory carrying cost; reduction of stock outages; ease of ordering; reporting capabilities; inventory controls; maintenance planning and cost control; and improved inventory management.

Property and Stores Clerk - Unified Personnel System job classification covering the personnel who work in the General Maintenance Division's warehouses.

reduction of stock outages - a stock outage or out-of-stock event is an event that causes inventory to be exhausted.

Request For Proposal (RFP) - Competitive Sealed Request For Proposal is a procurement method utilized, when due to the uniqueness of the need, a bid is not appropriate. Request For Proposal, Request For Qualifications, and Request For Negotiations are established around general guidelines and a conception of the need, rather than a firm specification. [Purchasing Manual Section 3.5]

Top 100 - contract term for General Maintenance Division's list of the top 100 inventory stock items with the highest volume.

Unit Price – contract term referring to Ferguson's bid price for each inventory stock item.



DIVISION OF INSPECTOR GENERAL

KEN BURKE, CPA

CLERK OF THE CIRCUIT COURT AND COMPTROLLER
PINELLAS COUNTY, FLORIDA

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