

CR-Social Development Commission

Final Audit Report

Procurement Audit

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**Executive provided 'Management Revised Responses' to various recommendations in December 2010*

AUDIT SCOPE & OBJECTIVE

The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*, and the *Government Auditing Standards*. The **scope** of the audit encompassed a review of the management practices, the system of internal controls, policies and procedures pertaining to the administration's contracting and procurement practices and their compliance with established policies and procedures. The overall **objective** of this audit is to provide management and the Board, those charged with Governance, with the assurance that contracting and procurement activities and processes are being administered with due diligence and are in compliance with pertinent agency-wide policies and procedures.

This audit focused on procurement activities and transactions for Fiscal Year 2009, including requisitions, POs, invoices and payments. The audit was conducted in accordance with The International Standards for the Professional Practice of Internal Auditing (IPPF) and with generally accepted government auditing standards (Yellow Book). The following methodology was used in completing the audit:

- Review compliance with established procedures for the purchasing function;
- The requisition process;
- Consistent pricing;
- Identifying and obtaining key vendors;
- Proper authorization;
- Adequacy of supporting documentation;
- Timeliness of receiving process;
- Existence of segregation of duties in the purchasing process;

The audit was carried out during the period from April to July 2010. The audit consisted of a review of related policies, procedures, guidelines and processes, along with conducting interviews with department staff and the examination of procurement and contracting files.

ORGANIZATION & FISCAL IMPACT

The Purchasing Department procures all goods and services for The CR-Social Development Commission. In 2009, the Purchasing Department issued purchase orders totaling \$6,399,360.63. The Purchasing Department had a fiscal year 2009 budget of \$115,836.00. The Purchasing Manager reports directly to the Accounting Manager; the Accounting Manager reports to the Finance Director. Beginning in May 2010, an Assistant Purchasing Manager was hired, who reports directly to the Purchasing Manager. The Purchasing Department is located at the 4041 N. Richards Street location.

COMMENDATION

Until May of 2010, the Purchasing Manager operated as a one-person function since 2007. The Purchasing Manager has certifications in the following: Certified Public Purchasing Buyer (CPPB) and a Certified Public Purchasing Officer (CPPO) and continues to receive 'Continuing Professional Education' to maintain certification. There are only five CPPOs in the State of Wisconsin and the SDC Purchasing Manager is the only CPPO in the City of Milwaukee.

The Certified Public Purchasing Officer (CPPO) and Certified Professional Public Buyer (CPPB) are globally recognized credentials offered exclusively by the Universal Public Purchasing Certification Council (UPPCC). The certification programs systematically raise the level of professionalism within the public procurement profession by offering recognition to those individuals who meet an established standard of competency for public procurement demonstrated through a rigorous application process and superior examination performance. It would greatly benefit the agency to utilize the knowledge and experience of the Purchasing Manager to implement many of the recommendations that have been brought forth in this audit.

AUDIT CONCLUSION

During the audit period under review, fiscal year 2009, the procurement staff consisted of only a Purchasing Manager. Under the current organization structure, while responsibility for the function rests with the Purchasing Department, the day-to-day procurement of some activities have yet to be centralized to the Purchasing Department. This responsibility would include ongoing monitoring of the procurement/contracting activities, enforcing the procurement policies and procedures agency-wide, and providing management with the assurance that the function is performing as intended and in compliance with the Government Contracting Regulations to prevent the loss or abuse of public funds.

Procurement and contracting services are provided to the entire agency by the Purchasing Manager and Assistant Purchasing Manager. Because of the decentralization of the procurement activities, as a best practice, organizations are increasing automation of their purchasing processes to reduce costs, gain efficiencies, and support compliance with regulatory requirements and business policies. Therefore, the implementation of an automated requisition and purchase order (PO) process would be greatly beneficial due to the size of procurements SDC engages in on an annual basis. This was recommended in the internal audit report issued in 2000. This will also enable the Purchasing Department to effectively monitor the activities of the entire agency in a more centralized manner. In addition, it would ensure that all procurements of the agency receive approval and sign-off by the Purchasing Department staff.

In addition, the Purchasing Policy manual should be re-written in a way that shows cohesiveness. The manual should address all areas of procurement thereby adding a level of accountability to all individuals involved in the procurement process. This will ultimately aid in the overall efficiency of the procurement process and make tracking of expenditures and contracts easier and more efficient.

The proper maintenance of all procurement and contract files needs improvement to ensure relevant documentation is available for review purposes. Having a sound procurement process with robust controls will go a long way to reducing the circumvention (whether intentionally or unintentionally) of corporate purchasing policies and procedures. *SDC's procurement practices should be conducted in a manner that will stand the test of public scrutiny in matters of prudence and integrity.* These practices will facilitate access that will encourage competition and reflect fairness in the spending of public funds. Overall, the audit found that the Procurement activity of SDC needs attention, as documented. The audit did not uncover any instances of fraud, however there is a need to enforce the policies and procedures that are in place and implement new policies and procedures as necessary. There is a mix of repeat findings including new reportable findings.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Purchasing Policy & Procedural Manual

Finding:

The current Purchasing Policy & Procedural Manual dated November 2008 is not all-inclusive. Chapter 4 and Chapter 5 of the Purchasing Policy manual was last approved by the Budget & Finance Committee, June 1999. However, these chapters have since been updated in November 2008, but were not presented to the Budget & Finance Committee to approve the updates. In addition, Chapter 7 of the Purchasing Policy & Procedural Manual was removed and was last updated in August 2002. It appears the lack of cohesiveness and completeness of the Purchasing Policy & Procedural manual may have contributed to a lack of understanding of the policies and procedures by staff agency-wide.

Recommendation:

Update the Purchasing Policy & Procedural manual to include all sections (Chapter 4, Chapter 5 and Chapter 7), and make available on eServices. In addition, offer training agency-wide that will enforce the 'Standards of Conduct for Employees Involved in Purchasing Activities', as outlined in Chapter 4, Section 4.1. Seek Board approval as required.

Management Response:

The January 8, 2009 Audit Committee Meeting minutes reflect authorization of the entire Fiscal Policy & Procedures manual (including Chapters: 4, 5, & 7). The manual has been placed on Paychex E-Services. Additionally, Purchasing staff along with Quality Assurance is in the process of developing a comprehensive agency-wide training Purchasing module.

2. There is a lack of policies and procedures that address goods returned to vendors

Finding:

The current Purchasing policies and procedures do not address the process of returning goods to vendor.

Recommendation:

That a policy and procedure is developed to address the process of returning goods to vendors. This policy should also take into consideration discounts or credits that would be due to the agency.

Management Response:

Purchasing will develop a process for goods returned to vendors which will be incorporated into the Policy & Procedure manual.

3. Lack of Corporate Contract Standard Language

Finding:

There were a total of 80 vendors listed as 'Consultant' on the report provided by Accounting, totaling \$601,179.56. A sample of 17 consulting contracts (21%) of the total population was chosen for audit review. Documentation for the 17 consulting contract files reviewed, 100% lacked corporate contract standard language in any of the contract files. In addition, there was no evidence of vendor performance evaluations included in the files. ***Partial Repeat finding from the 1996 State/County Audit.***

Recommendation:

SDC is unique in that the consulting contracts entered into vary by department and/or program depending on the need. At a minimum there should be corporate contract standard language in every contract the agency decides to enter into. In addition, contractor performance needs to be evaluated at the completion of each contract. Contract files need to be documented in such a way that all options, decisions, approvals and justifications are clearly documented to ensure that the contract met the terms of reference and addressed the identified requirement. Contract disputes were dealt with appropriately.

Management Response:

Director of Finance along with legal counsel and appropriate department staff will develop an agency-wide standard contract form as well as procedures to be incorporated in the revised Policy & Procedures Manual. Staff will also develop a vendor performance evaluation process.

4. Use of Retail Credit Cards and Line of Credit

Finding:

There are no existing procedures in place for the use of retail credit cards and/or retail store lines of credit. For example, the Facilities Department does not have a corporate credit card; however, they utilize a retail credit card and a line of credit from Home Depot and Menards.

Recommendation:

It is recommended that the corporate purchasing policies & procedures be revised to address the use of retail credit cards and/or lines of credit.

Management Response:

Purchasing staff will incorporate procedures for program use of retail credit cards which will be included in the Policy under Section 5.6.2. Training will also be provided to appropriate managers regarding use of the credit-card.

5. Segregation of duties

Finding:

Although it is Purchasing's responsibility to add and edit vendors; with the recent growth of the agency and its programs, such as W-2, other staff have the ability to add vendors as well. For example, other accounting staff are adding vendors for W-2 and Weatherization. This creates an overlap of duties.

Recommendation:

Policy and procedures be reviewed and appropriate segregation of duties be made accordingly. There needs to be an adequate division of responsibilities among those who perform purchasing procedures, and in this case specifically, making edits to the vendor database. In general, the flow of transaction processing and related activities should be designed so that the work of one individual is either independent of, or serves to check on, the work of another. Such arrangements reduce the risk of undetected errors and limit opportunities to misappropriate assets or conceal intentional misstatements in the financial statements.

Management Revised Response:

Purchasing staff are primary responsible for adding/deleting all program vendors including Weatherization with the exception of W-2. The W-2 EAA Program became apart of SDC in April

2010 in which this should have not been included in this 2009 audit. The Accounting Specialist has taken on the responsible for adding W-2 vendors as pf April 2010. Additionally, the Accounting Specialist is the support staff and serves as the back-up to performing various purchasing duties as necessary in their absence. This is not an overlap of duties; however, this will be incorporated in the policies under Staff Responsibilities.

6. Check Request form used in lieu of Purchase Requisition

Finding:

Seven (7) out of twenty (20) purchases (35%) were found to be made from check request forms. In these instances there were no [after the fact] purchase requisitions in the files, nor were Purchase Orders issued. The purchasing process appears to have been circumvented with the use of Check Request forms.

Recommendation:

It is recommended that the policy for utilizing purchasing requisitions is enforced by the Purchasing Department. In addition, it is recommended that the purchasing policy Chapter 4.2.3 and Chapter 5.2.1 for utilizing purchase orders are enforced prior to payment.

Management Response:

According to Section 4.3 of the purchasing policy, the five identified purchases below were used on the appropriate payment form. They are as follows:

- RFB vendor for the Weatherization Program
- Membership renewal
- System maintenance
- (2) Consultants hired as a one-time use

Accounting staff will provide greater clarity to enforce proper use of forms for payment in the agency-wide training module. Additionally, the Policy and Procedures are in the process of being revised to provide clarity regarding specific purchases utilizing a check request form.

7. Purchase Requisitions missing appropriate signatures

Finding:

Several purchase requisitions were missing appropriate signatures, either from the Program/Department Manager or from the CEO if the amount was over \$10,000. The review found the following:

- Seven (7) out of twenty (20) purchase requisitions (35%) were missing CEO, Program Manager or both signatures
- Two (2) out of ten (10) vendor records (20%) included Purchase Requisitions that were missing the CEO or Program Manager signatures

Recommendation:

It is recommended that the Purchasing Department enforce Section 4.3 of Chapter 4 in the Purchasing Policy & Procedural Manual, before purchase requisitions are processed.

Management Response:

Purchasing staff will thoroughly review documents for appropriate signatures prior to processing.

8. Purchase Requisitions were missing a date and time stamp from the Purchasing Department.

Finding:

Purchase Requisitions were missing a date and time stamp from the Purchasing Department. The policy specifies Purchasing will date and time stamp Purchase Requisitions.

Purchasing Transactions:

The review found that 12 out of the 20 Purchase Requisitions (60%) reviewed did not have time/date stamp. The remaining transactions were Check Request forms, which would have bypassed the Purchasing Department.

Purchasing Requisitions Review:

The review found that 100% of requisitions for the 20 vendor payments reviewed did not have a time/date stamp.

Recommendation:

It is recommended that the Purchasing Department follows policies and procedures under Chapter 5.1.3. Purchasing Department should date/time stamp purchase requisitions upon receipt and again upon entering data into the system.

Management Response:

Purchasing staff will make sure all documents have the date and time stamped prior to processing.

9. Blanket Purchase Orders missing contract information

Finding:

Blanket Purchase Orders were missing the contract information as specified in the purchasing procedures: contract number, start and end date of contract period, full dollar amount of contract - which Purchase Requisition may not exceed, and estimated quantity of what is being ordered.

Purchasing Transactions Review:

There were four (4) out of the twenty (20) Blanket Purchase Orders (20%) which were not in compliance according to policy and procedure.

Purchasing Requisition Review:

There were 6 out of the 10 vendor files reviewed (60%) that included Blanket Purchase Orders, where contract information was missing. In some of the cases, it was apparent that there is no contract with the vendor; however, the dollar amount indicates that there should be some type of contract/bid in place.

Recommendation:

It is recommended for Blanket Purchase Orders that the contract information be included/or attached to the purchase requisition/order file to minimize the risk of duplication payments being made to the vendor. As an alternative, if contracts are kept elsewhere, that the contract file number be referenced on the purchase requisition/order.

Management Response:

The Finance Director is in the process of implementing a centralized system regarding all contracts.

10. Missing sole source documentation

Finding:

Chapter 4 section 4.7 of the Purchasing Policy and Procedures addresses the agency's sole source requirements procedure: "The Purchasing Department requires that programs or departments requesting sole source procurement submit a written explanation about why no other vendor would be suitable to meet their needs." However based on the review of twenty (20) transactions, one (1) transaction (5%) did not have the required sole source documentation. *This issue is also noted during the consulting contract procedural review.*

Recommendation:

It is recommended that the Sole Source Procurement policies & procedures outlined in Chapter 4 section 4.7 are enforced agency-wide.

Management Revised Response:

Documentation was provided during the initial audit review regarding the procedures for sole source.

11. Requisitioner approves the invoice for payment.

Finding:

Purchase Transaction Review:

During the review three (3) out of the twenty (20) purchase requisitions reviewed (15%) revealed the 'requisitioner' and the person approving an invoice are the same person.

Receiving Function Review:

This issue was also identified during the audit review of the receiving function, where (1) of the (6) capital assets files reviewed (17%) revealed that the 'requisitioner' and the person approving an invoice are the same.

Purchasing Requisition Review:

(8) of the (20) vendor payments reviewed (40%) revealed that the 'requisitioner' and the person approving an invoice are the same.

Recommendation:

It is recommended that the policies and procedures outlined in Chapter 5 section 5.4.2 are enforced by the Purchasing Department.

Management Response:

This is not a purchasing function.

12. Documentation for some consulting work has been inadequate

Finding:

There were a total of 80 vendors listed as 'Consultant' on the report provided by Accounting, totaling \$601,179.56. A sample of 17 consulting contracts (21%) of the total population was chosen for audit review. Based on the review, 8 (47%) consulting contracts did not have the appropriate vendor consulting agreement information in the contract file. ***Partial repeat finding from 1996 State/County Audit***

Recommendation:

It is recommended the policies and procedures that are established for procuring consultants, Chapters 7.7 - Chapter 7.9, are enforced agency-wide. Internal communication, awareness, and

training for completing contracting activities within SDC should be consistent and sufficient to ensure all parties involved are fully aware of their roles and responsibilities and that they are completely exercised. Consultant contracts should receive final approval for processing by the Purchasing Department staff prior to consulting contracts being awarded to ensure all documentation and proper approvals have been provided.

Management Revised Response:

Letters of agreement as well as consultant agreements are considered for purchases less than \$5000.00. Additionally, Finance Director along with appropriate staff are in the process of implementing a centralize contract system.

Note: IAD reviewed Policies and Procedures for year 2007. Current policies (Approved November 2008) were revised and Chapters 7.7 – Chapter 7.9 were removed and placed under Chapter 13 of the current policies.

13. Use of previous employees as consultant

Finding:

Bayview Art & Design, a graphic design firm, consulting contracts lack management bias. Through each subsequent contract renewal, there was lack of either a sole-source request or re BID for services, which may have included requests for BIDs from previous vendors denied. In addition, the following was noted regarding this vendor:

- Owner of Bayview Art & Design was once an SDC employee. Employee resigned from organization appears in 2005 as graphics & design employee. Subsequently, SDC needed graphics & design services and submitted a BID for services (which the audit was unable to obtain after request) in which consequently this employee, owner of Bayview Art & Design won the BID in August of 2005.
- Contracts with Bayview Art & Design were renewed continuously for the following years: 2006, 2007-2009 and Dec. 2009 - March 2010. There isn't a contract on file for contract period March 2010 to present. In addition, there is lack of a competitive process that would prove there are no other firms in the Milwaukee County area that are able to perform this work. Nor, was a Sole-Source request submitted to Purchasing to continue these contract periods.
- Bayview Art & Design was paid a total of \$43,050.00 for services rendered to SDC for FYE 2009 (In 2008 that total was \$43,636.25 and 2007 was \$31,599.48).
- In May 2008, the Audit Director brought to the attention of SDC Executive Management the concern regarding the independence of Bay View Art & Design, since the owner was a previous SDC employee. There were several critical issues brought to the attention of management at that time which included, but not limited to: (a) owner of Bayview & Art & Design should be classified as an employee not a contractor; (b) Owner of Bayview Art & Design conducts a majority of the work she performs for SDC utilizing SDC physical assets and therefore spends a majority of her time at the SDC office in order to complete SDC projects contracted for, which suggests owner does not have the tools nor the capacity to perform her graphic & design work out of her business office. Part of the owner's fee to SDC includes overhead costs, which isn't clearly justified since she works out of the SDC office.
- Corporate standard contract language does not exist in any of the contracts signed with Bayview Art & Design. Contracts lack clear language as to work descriptions or specifications and clear outputs and performance requirements and subsequent evaluations.

There clearly is a lack of controls around use of preferred vendors. It appears through review of the vendor file, the vendor was given preferential treatment because she was a previous employee of SDC.

Recommendation:

Management should review the Bayview Art & Design contract agreements in detail, which should determine whether a new BID is opened or if previous declined vendors are offered the opportunity to re BID for graphic & design services. Or, if the agency decides to use Bayview Art & Design as a sole-source contractor, proper documentation (ie..sole-source request) is submitted and approved by Purchasing. In instances when the vendor is utilizing SDC resources in order to fulfill their contract obligations, overhead should not be invoiced to the agency.

The Purchasing Manager should consider adding criteria to the current Purchasing Policy Manual that would address the hiring of previous employees as consultants, contractors or sub-contractors. This policy should be implemented agency-wide to ensure all levels of management are aware and held accountable when seeking consultants for professional services.

Management Revised Response:

There was no intent to use of preferred vendor as well as no preferential treatment given. Graphic division was eliminated and several staff was laid off several years ago to reduce agency cost. A sound business decision was made to hire this employee based on her knowledge and expertise of SDC and it graphic needs in addition to the competitive cost for her services. The use of our facilities was a convenience to the agency when critical projects were needed. Staff was able to work with her out of her office as well. This was a good business decision. In November 2009, Board approved the hiring of a graphic designer position and this individual will start in September 2010.

14. Delay in issuing Purchase Order

Finding:

The SDC Purchasing Policy Chapter 5 section 5.1.2- Purchase orders are to be issued within 5 to 7 working days of receiving the Purchase Requisition.

Purchasing Transactions:

A total of (2) two out of (20) twenty Purchase Orders (10%) was not aligned with the policy and procedures. Additionally, no explanation of why the delay occurred was documented.

Purchasing Requisitions:

2 out of the 20 (10%) vendor payments reviewed included instances of delayed Purchase Orders where there was no documentation explaining the delay.

Recommendation:

It is recommended the Purchasing Department follow the policy outlined in Chapter 5 section 5.1.2 to ensure that purchase orders are handled within the specified timeframe.

Management Revised Response:

Section 5.1.2 states that “Most Purchase Requisitions are processed to Purchase Orders within five to seven working days of receipt within the Purchasing Department. Additional time is required if the vendor selected is new or if price comparisons are obtained by the Purchasing Department.”

Purchasing staff will continue to process purchases orders within the specified timeframe within several workdays as outlined in the policy. If for any reason there is a delay, correspondence will be documented.

15. Use Procurement Cards

Finding:

During the interview with the Purchasing Manager, the Purchasing Manager suggested using procurement cards (pro-cards) as a way to streamline her workload and also to increase efficiency. Currently the Purchasing Manager physically "runs" to the office of someone who needs to make a credit card purchase to enter in the data online or receives these requests randomly and often last minute.

Based on the review of the Corporate 'Credit Card Usage' spreadsheet, provided by the Purchasing Manager, the audit found the following departments for FYE 2009 utilizing the Corporate Credit Card most often:

<u>Department/Program</u>	<u>Number of Transactions</u>
Head Start	51 - 34%
Operations	6 - 4%
Executive	19 - 13%
Community Relations	15 - 10%
Human Resources	1 - <1%>
Internal Audit Department	23 - 16%
Program Services	22 - 15%
Finance Department	6 - 4%
Other	5 - 3%

Total number of Credit Card Transactions for FYE 2009 = 148*

Total expenditures charged to Corporate Credit Card for FYE 2009 = \$52,560.14 , per Accounting Manager

**The Audit could not confirm with 100% certainty that all credit card transactions were recorded on the 'Credit Card Usage' spreadsheet provided by the Purchasing Manager. Most transactions recorded were related to hotel, airfare, resource materials and conference registrations.*

Recommendation:

It is recommended where feasible that the appropriate departments/programs use the procurement cards in lieu of the corporate credit cards and retail credit cards/lines of credit to make purchases. Supplemental policies and procedures should be written that would dictate agency-wide credit card use and enforcement. In addition, training should be made available to those departments/programs.

It is recommended that the following departments are considered for Purchasing Cards (aka Pro-Cards), based on the usage identified in 2009:

- Head Start

- Executive
- Community Relations
- Internal Audit Department
- Program Services

Management Revised Response:

The CEO, Finance Manager and Purchasing Manager have agreed to implement the procurement card and automate purchasing which has been initiated in 2010.

16. Check Request forms used in lieu of Purchase Requisitions

Finding:

Check Request forms were used in lieu of Purchase Requisition forms such as in the (5) Check Requests for the West Wing Expansion, totaling \$15,753.69.

Recommendation:

It is recommended that Purchase Requisitions be used on a consistent basis and that procedures be developed around when it is appropriate to use a Check Request form in lieu of a requisition form.

Management Revised Response:

After subsequent review of this finding, Purchasing was unable to identify which check request or purchase requisition totaled \$15,753.69. Additional information is needed from IAD.

17. After the Fact Purchase Requisitions

Finding:

Capital Purchases & Receiving Function:

There were two instances out of six files reviewed (33%) where supplemental Purchase Requisitions/Orders were prepared after purchases had been made and appeared to not have required emergency purchasing procedures. ***Partial repeat finding from 1996 State/County Audit***

Purchase Requisition Review:

Four out of the twenty (20%) vendor files reviewed had occurrences of After the Fact purchase requisitions.

Recommendation:

It is recommended that 'After the Fact' purchase requisitions be used only in emergency situations whenever possible. With the proper use of purchasing procedures, this situation should not occur.

Management Revised Response:

We respectfully disagree with this finding, per the Purchasing Manager, supplemental Purchase Orders are not considered "After the Fact" they are used as a method to offset additional costs such as shipping, change orders, and etc.) Policies and Procedures are being revised to reflect an "After the Fact" process.

18. Purchases over \$50,000 need Board approval

Finding:

Purchases exceeding \$50,000 require approval from the Resource Development & Budget/Finance Committee of the Board of Commissioners. It appears that there is a lack of documentation of Board approval in the Fixed Assets files for the East Wing and West Wing furniture purchases and the West Wing expansion, totaling \$306,330.79 (capitalized amount only).

Recommendation:

It is recommended that purchases that exceed \$50,000 be approved by the Board of Commissioners and that documentation, i.e. Board meeting minutes, be kept in the Fixed Asset files as stated in the Purchasing Policies Chapter 4.3.1.

Management Revised Response:

This issue was discussed with the Board at various Board meetings. However, as necessary, management will obtain board authorization regarding future purchases.

19. Purchase Requisitions not date/time stamped upon receipt

Finding:

Purchase Requisition forms are missing date/time stamp of when the purchase requisition was received in accordance with Purchasing Procedure 5.1.3 (2A). 6 out of 6 (100%) of the purchase requisitions for capital purchases reviewed did not have a date/time of receipt stamp. Purchase Requisitions are being date stamped once they are processed.

Recommendation:

It is recommended that the Purchasing Department date/time stamp Purchase Requisition forms when the requisitions are received. This will help to create a better tracking system and timeline of when requisitions are received, processed, and P.O.'s issued, thus, improving accountability – whether it be in the purchasing function itself or in another part of the requisition system.

Management Response:

Purchasing staff will make sure all documents are date and time stamped prior to processing.

20. [After the Fact] Purchase Orders Issued Untimely

Finding:

2 out of the 6 (33%) Capital Purchases reviewed showed a delay in processing a Purchase Order. For the West Wing Furniture and Workstations project, a supplemental [After the Fact] purchase order was requested by Accounts Payable on 11/3/09. It was then not approved by the Department Head until 11/11/09. A Purchase Order was not issued until 11/20/09; however, there is no documentation in the file to explain the reason for the delay in processing.

Recommendation:

It is recommended that purchase requisitions be processed within five to seven working days of receipt as per Purchase Procedures 5.1.2 states. Further if Purchasing or Accounts Payable requests [After the Fact] Purchase Requisitions, and if they don't receive the information promptly [within 2-3 days] that they follow-up with the appropriate department and document the reason for the delay. This will help to avoid delay in making payments to vendors, excess charges for late payments, and detriments to the vendor relationships.

Management Response:

Supplemental Purchase Orders are not considered “After the Fact” they are used as a method to offset additional costs such as shipping, change orders, and etc.) There are exceptions regarding delay in processing Purchase Requisitions which will be reflected in the revised Policy & Procedure Manual.

21. Bidding practices have not been followed consistently.

Finding:

Bidding practices have not been followed consistently. ***Partial repeat finding from 1996 State/County Audit***

Capital Purchase Review:

- Fewer than the required number of bids on file for the telephone West Wing purchase, where there was only 1 bid/quote in the file
- Inadequate documentation for the vendor selection for the furniture and workstation purchases in the East and West Wings. In each of these cases, the contract was not awarded to the lowest bidder; however, the reason why was not clearly documented.
- SDC staff have inappropriately split single large purchases into several smaller orders, which circumvents the intent of the procurement policies. For example, for the Energy Phone Upgrade (Asset #168/1175), there were a total of 3 Purchase Requisitions: \$16,050.00 on 1/28/09, \$16,822.00 on 1/28/09, and \$832.50 on 3/9/09 [After the Fact], totaling \$33,704.50. A single purchase for this amount requires either sealed bids or competitive proposals.

Purchasing Requisition Review:

- 2 out of 10 vendors reviewed (20%) show a Blanket Purchase Order amount within the \$5,000-\$25,000 threshold which requires informal bid by the vendor.
- 6 out of the 10 vendors reviewed (60%) show a Blanket Purchase Order(s) amount that exceeded the \$25,000 threshold which requires either a sealed bid or a competitive proposal.

Recommendation:

It is recommended that the agency take steps to monitor procurement staff's compliance with applicable competitive bidding policies. **Repeat recommendation from the 1996 State/County Audit.**

Management Revised Response:

We respectfully disagree with this finding, per the Purchasing Manger; the bid process was conducted in 1999. It was feasible to use one vendor to ensure continuity of service, repairs, reduce issues of liability, maintenance and uniformity agency-wide.

Purchasing policies were adhered to regarding RFB process. RFB's was mailed to five vendors and advertised appropriately.

- RFB #0708-09 Received quotes from eight vendors regarding the West Wing.
- RFB# 0717-09 Received two quotes from vendors regarding the East Wing

22. Missing Sole Source Documentation

Finding:

Chapter 4 section 4.7 of the Purchasing Policy and Procedures addresses the agency's sole source requirements procedure: "The Purchasing Department requires that programs or departments requesting sole source procurement submit a written explanation about why no other vendor would be suitable to meet their needs."

Capital Purchases Review:

1 of 6 capital purchases reviewed (17%) had a Purchase Requisition marked as being from a proprietary vendor; however procedures state, 'Proprietary does not justify sole source if there is more than one potential supplier for the required items.' There is no sole source documentation.

Purchasing Requisition Review:

1 of 10 vendor files reviewed (10%) had a Purchase Requisition marked as being from a proprietary vendor; however procedures state, 'Proprietary does not justify sole source if there is more than one potential supplier for the required items.' There is no sole source documentation.

This issue is also noted during the consulting contract procedural review.

Recommendation:

It is recommended that a review of the Sole Source Procurement procedures be completed to ensure that sole sourcing is being conducted in an adequate manner and to evaluate if a more specific process is necessary. In addition, should purchases be deemed as sole source, it is recommended that adequate documentation or reference to the documentation be kept in the Fixed Asset file.

Management Response:

Purchasing process for maintaining sole source documentation is maintained alphabetically in one central location. Process for 2010 is that all sole source letters will be stored on the records management system for "Read Only" access.

Note: All sole source letters are not fixed assets.

23. Files missing proper documentation of Receipt of Goods

Finding:

Capitalized Assets Review

- One of the six capitalized assets reviewed (17%) was missing the appropriate documentation of Receipt of Goods, i.e. an approved invoice or an approval email. The Energy Phone Upgrade purchase had an invoice for \$310, where there was no approval to pay the invoice.

Purchasing Transaction Review

- One of the twenty (5%) transactions reviewed was missing the appropriate documentation of Receipt of Goods. The Sankofa Story game production was processed with a Check Request and the only documentation in the file was a proposal with a handwritten amount; no actual invoice (\$38,215.00)

Purchase Requisition Review

- There were 2 files out of the 20 files reviewed (10%) that showed no documentation of receipt of goods, i.e. an approved invoice or an email stating 'ok to pay'.

Recommendation:

It is recommended that 'Receipt of Goods' be appropriately documented in the purchase files as stated in Purchasing Procedures 5.4.1 and 5.4.2 and further that the appropriate documentation and/or approvals are received by Accounts Payable before payments are issued to vendors. This will help to minimize errors in payments, i.e. double payments, non-payments or delays. This will also enforce a control that is in place to verify the receipt of goods or services rendered.

Management Revised Response:

Appropriate staff will ensure that all required documentation will be in the files.