



Purchasing Division Follow-Up Audit

Issued by the
Internal Audit Office
February 17, 2009

**City of El Paso
Internal Audit Office
Purchasing Division Follow-Up Audit**

EXECUTIVE SUMMARY

The Internal Audit Office conducted a follow-up audit on the original Purchasing Division Audit Report dated December 19, 2006. Upon completion of the audit fieldwork, we have determined the status of the recommendation for each audit finding as outlined in the table below:

Finding No.	Description of Original Finding	Status
1	Checklists and standard forms have not been established to identify what documentation should be contained in each bid file and there is no management review process to help identify inconsistencies between bid files.	Implemented
2	Procedures have not been established for a minimum number of best value team members, supporting of low and high ratings, and the listing of best value team members in formal bid or contract files.	Implemented
3	There are segregation of duties issues related to Buyers' ability to enter requisitions, budget checking, modifying and approving in PeopleSoft. In addition, Buyers can modify all of the information in a purchase order after it has been approved, except for the vendor and purchase order numbers.	Implemented
4	Vendor performance and vendor protests are not centrally monitored.	Implemented
5	There is a lack of a formal training program for personnel.	Implemented
6	There is no rotation policy for procurement personnel.	Implemented
7	The Purchasing Policies and Procedures handbook does not: prohibit the discussion of award recommendations before the award is published on the City Council Agenda; limit to the number of purchase order changes; and establish procedures for purchases under \$25,000.00.	Implemented
8	A procurement card (P-Card) was issued without proper authorization and without an established spending limit on the <i>P-Card Maintenance Form</i> . June 2006 P-Card purchases were approved by a person without budget expenditure authority.	Implemented

For a detailed explanation of the findings and the current observations please refer to the appropriate finding contained in the body of this Audit Report.

BACKGROUND

The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing, Standard 2500.A1*, requires a post audit follow-up on all audit recommendations made to ascertain that appropriate action is taken on reported audit findings. The Internal Audit Office has conducted a follow-up audit of the Purchasing Division Audit Report dated December 19, 2006.

AUDIT OBJECTIVES

The audit objective was to determine the status of the recommendations detailed in the original audit report which contained eight (8) findings requiring follow-up.

SCOPE & METHODOLOGY

The follow-up audit was limited to a review of the findings and recommendations detailed in the original audit report dated December 19, 2006. The audit period covered the period of fiscal year 2009. Audit fieldwork included interviewing key personnel, reviewing documents, and testing management processes to determine the status of each recommendation.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

**City of El Paso
Internal Audit Office
Purchasing Division Follow-Up Audit**

***ORIGINAL FINDINGS, ORIGINAL RECOMMENDATIONS, MANAGEMENT'S
RESPONSE TO ORIGINAL FINDINGS, CURRENT OBSERVATION, AND STATUS***

Based on the results of follow-up test work, each original finding recommendation will be designated with one of the following four status categories:

<i>Implemented</i>	The finding has been addressed by implementing the original corrective action or an alternative corrective action.
<i>In Progress</i>	The corrective action has been initiated but is not complete.
<i>Not Applicable</i>	The recommendation is no longer applicable due to changes in procedures or changes in technology
<i>Not Implemented</i>	The recommendation was ignored, there were changes in staffing levels, or management has decided to assume the risk.

Finding 1

Bid Files

A review of ten formal bid files of \$25,000.00 and above awarded between the periods of 9/1/2005 through 6/30/2006 was conducted. The following are the results of our review:

Solicitation #	Accurately completed	Best-value team members documented **	Contained Certificate of non-collusion ***	Evidence of Purchasing Manager Review	Purchase orders in file	Turn around time within required time frames	Comments
2005-281	No	N/A	Yes	Yes	No	Yes	7 discrepancies in dollar amounts between tabulation sheet & vendor's bid.
2005-256 *	Yes	Yes	Yes	Yes	No	Yes	
2005-278 *	Yes	No	No	Yes	Yes	Yes	
2005-262 *	Yes	No	Yes	Yes	Yes	Yes	
2006-086	Yes	N/A	Yes	Yes	No	Yes	
2006-076 *	Yes	Yes	Yes	Yes	No	Yes	
2006-061 *	Yes	No	No	Yes	Yes	Yes	
2005-258	Yes	N/A	No	Yes	No	Yes	
2006-126	No	N/A	No	Yes	No	Yes	Item Group III on bid award was posted incorrectly on 7/5/06 Council meeting; Jobe was still awarded all items on 7/18/06; 8/1/06 Council approves item III.
2006-002	Yes	N/A	Yes	Yes	No	No	125 days from bid opening to council approval.
% of "No"	20%	60%	40%	0%	70%	10%	

Legend:

* Best value bid; ** Best value team members currently only being documented for construction bids.

*** Certificate of Non-Collusion currently only being required for Federally funded bids and Construction bids.

N/A- not applicable

A review of six informal bid files ranging from \$5,000.00 through \$24,999.99 awarded between the periods of 10/6/2005 through 6/30/2006 was conducted. The following are the results of our review:

Informal bid #	Accurately completed	Contained a certificate of non-collusion *	Proper management review **	Comments
2006105	Yes	No	No	
2006103	Yes	No	No	
2006084	No	No	No	Bid Tabulation sheet not signed off by buyer.
2006075	No	No	No	Bid Tabulation sheet not signed off by buyer.
2006053	No	No	No	Bid Tabulation sheet not signed off by buyer.
2006001	No	No	No	Bid Tabulation sheet not signed off by buyer; completed best-value bid tabulation was not included in file.
% of "No"	66.6%	100%	100%	

Legend:

* Certificate of non-collusion currently not required for informal bids;

** Currently the Buyer is last line of review for Informal bids.

**City of El Paso
Internal Audit Office
Purchasing Division Follow-Up Audit**

Finding 1 (cont.)

The following are additional bid file observations:

- There is no checklist used to track what should be in the bid files both formal and informal.
- Buyers are automatically routed subsequent POs from Procurement Analysts' contracts instead of the analyst who worked the contract.

Recommendation

Checklists and standard forms should be established to help identify what documentation should be contained in each file and a management review process should be implemented to help identify any inconsistencies between the files.

Management's Response

A checklist and/or forms will be developed to identify what documents will be contained in each bid file and a management review process will be implemented to ensure the files are consistently maintained.

Responsible Party

Terry Freiburg

Implementation Date

May 1, 2007

Current Observation

Checklists have been established to identify the documentation that should be contained in formal bid files. In addition, a three level review process has been implemented to help identify inconsistencies between formal bid files:

1. Procurement Analyst reviews file to ensure that all necessary documentation is included in the file.
2. Purchasing Clerk performs a secondary review before the file is filed away.
3. Purchasing Manager performs a final review before placing the bid on the City Council Agenda.

Status

Implemented.

**City of El Paso
Internal Audit Office
Purchasing Division Follow-Up Audit**

Finding 2

Best-Value Evaluations

The Purchasing Division has not established best-value team procedures in regards to the minimum number of team members required to reach an objective consensus, procedures for supporting low and high ratings, and procedures requiring the listing of best-value team members in formal bid or contract files.

Recommendation

The Purchasing Division should review and update best-value team procedures and processes in regards to the minimum number of team members, procedures for supporting low and high ratings, and the listing of members in formal bid or contract files.

Management's Response

Best Value procedures and processes will be updated to include a minimum number of committee members, a procedure for supporting low and high ratings, and a listing of members within each bid file.

Responsible Party

Terry Freiburg

Implementation Date

May 1, 2007

Current Observation

Procedures for Best Value Procurements have been established and are outlined in Section 7.5 of the City of El Paso Purchasing Manual, dated December 2007:

- An Evaluation Committee of 3-5 City Employees shall be formed.
- Evaluation rating definitions for scoring criteria that are to be documented in the individual Rater's Score Sheet and Committee Score Sheet for each bid.
- Committee membership must be documented in the bid file.

Status

Implemented.

City of El Paso
Internal Audit Office
Purchasing Division Follow-Up Audit

Finding 3

Internal Controls- Segregation of Duties

The Purchasing Division Buyers have the capability of entering requisitions, budget checking, modifying, and approving in PeopleSoft. Buyers can modify all of the information in a purchase order (PO) after it has been approved except for the vendor number and the purchase order number.

Recommendation

Proper internal controls should be implemented in the Procurement Division. Internal controls related to segregation of duties needs to be established between the functions of entering a requisition and approving a purchase order (PO).

Management's Response

The requisition entry capability allows staff to budget check and modify requisitions but does not allow approval of the requisition within PeopleSoft. Requisition approval can only be done by the Budget authority assigned to that account. However, buyers can turn an "approved requisition" into a purchase order, which is different then approving a requisition. Purchasing is currently requesting the IT Department to create a "role" that will only allow buyers to budget check and modify requisition and not "create a requisition." This would satisfy the segregation of duties designation enumerated above.

Responsible Party

Terry Freiburg

Implementation Date

April 1, 2007

Current Observation

Based on a review of PeopleSoft authorizations for Purchasing Division Buyers, we found that proper internal controls have been implemented for purchase requisitions and purchase orders over \$50,000.00. Buyers can add, update, cancel, delete and close but cannot approve purchase requisitions or purchase orders over \$50,000:

- Buyers' approval authority for purchase requisitions was removed on December 23, 2008.
- Purchase requisitions must be approved by the individual with budget authority at the requesting department.
- Purchase orders over \$50,000.00 must be approved by the Procurement Analyst.

Status

Implemented.

**City of El Paso
Internal Audit Office
Purchasing Division Follow-Up Audit**

Finding 4

Vendor Procedures

Vendor performance, which includes vendor protests, is not monitored centrally by the Purchasing Division. Currently individual user departments monitor vendor's performance and the information is not relayed to the Purchasing Division, and in turn to other department's that may contract the same vendor.

Recommendation

The Purchasing Division should implement a mechanism that will enable them to centrally monitor vendor performance to include vendor protests.

Management's Response

Currently, Purchasing administers bid contracts and, when necessary, contacts vendors when a noncompliance issue is identified. This information and vendor protests are made part of individual bid files. In response to this finding, Purchasing will create a centrally maintained database that will include Purchasing's information and also allow input from departments for use by departments when evaluating bid or contracting with vendors.

Responsible Party

Terry Freiburg

Implementation Date

June 1, 2007

Current Observation

A Vendor Performance Log has been established as the database to record exceptional or poor performance by vendors. The log can be viewed by all City employees through the City's public drive and is updated by the Purchasing Division on a bi-monthly basis to include the contract name, contract number, vendor name, and a description of the performance issue and resolution. Additions to the Vendor Performance Log can be made by submitting a Vendor Performance Form either electronically or in person to the Purchasing Department. As of October 16, 2008 there were nine entries in the Vendor Performance Log; however neither entry nor resolution dates were listed.

A database to track vendor protests has been established and includes the bid number, protesting vendor name, description of bid, award date and comments about the protest. The database can only be accessed by Purchasing Division employees. Vendor protest documentation is kept on file at the Purchasing Division. Three vendor protests were submitted during 2008 and none during 2009.

Status

Implemented.

***OTHER FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT'S RESPONSES***

Finding 5

Training

The Purchasing Division lacks a formal training program for educating and training its personnel.

Recommendation

The Purchasing Division needs to implement a formal training program for educating and training purchasing personnel, for example management should encourage staff to pursue the Certified Purchasing Manager (C.P.M.) professional designation, so they can stay up to date with new laws and regulations.

Management's Response

Currently, all buyers and procurement analysts are members of the National Institute of Governmental Purchasers (NIGP) and are provided monthly meetings, professional development and on-line purchasing courses that are part of their membership. Also, depending on the level of expertise, personnel are already encouraged to pursue a CPM certification. In addition, there are various procurement workshops, conferences, forums and trade shows that are made available to procurement personnel throughout the year. In response to this recommendation, Purchasing will create a budget for educating and training personnel that will include the above activities and designate a minimum number training hours required each year that coincides with their level of expertise.

Responsible Party

Terry Freiburg

Implementation Date

June 1, 2007

Current Observation

The Purchasing Division has established a \$480.00 training budget for fiscal year 2009 and supports staff attendance to local meetings and trainings, in particular those offered by the National Institute of Governmental Purchasing. During fiscal year 2008, staff has completed a total of 142 hours of training on purchasing topics.

Purchasing Division management encourages staff to pursue professional certifications. Currently, the Purchasing Manager holds the designation of Certified Professional Public Buyer (CPPB).

Status

Implemented.

**City of El Paso
Internal Audit Office
Purchasing Division Follow-Up Audit**

Finding 6

Rotation Policy

The Purchasing Division does not have a rotation policy in place for procurement personnel (Administrative Analyst, Procurement Analyst, and Buyers).

Recommendation

The Purchasing Division should implement a rotation policy for procurement personnel in order to establish a strong Internal Control environment.

Management's Response

A Rotation policy has many pros and cons associated with it. Some of the reasons that have been mentioned to justify this action are that purchasing personnel will become too familiar with a department's personnel or particular vendors associated with certain bids, etc. On the other hand, Personnel are either assigned specific departments and/or certain types of bids (i.e. proposals versus bids) to ensure good customer service; develop an area of expertise, and/or both. In many instances, bids span multiple years and personnel assigned to those bids are familiar with the contract, its terms, and user department's needs, etc. Given the volume of work and shortage of staff, it would be difficult and time consuming to take over unfamiliar multiple contracts and not experience delays in meeting departmental needs and/or ensuring good customer service. As a result, a modified version of this policy would be beneficial and will be developed to be used as circumstances dictate.

Responsible Party

Terry Freiburg

Implementation Date

June 1, 2007

Chief Internal Auditor's Response

The Purchasing Division is assuming additional risk by not implementing a rotation policy. Implementing a regular rotation policy would reduce the risks stated in Management's Response.

Current Observation

The Purchasing Division has made changes to the method of assigning procurement personnel that has established a strong Internal Control environment and reduced the need for a rotation policy. Instead of assigning procurement personnel to handle specific procurement types, they are now assigned to one of three teams that handle all procurement types for multiple departments. Each team includes one Administrative Analyst, two Procurement Analysts, and one Buyer.

In addition, rotation of personnel has not been necessary due to seven out of 12 procurement personnel (60%) starting in their positions during fiscal year 2008.

Status

Implemented.

Finding 7

Purchasing Division Policies and Procedures Manual

The Purchasing Policies and Procedures handbook does not:

- Prohibit ordering department personnel or Purchasing personnel from discussing the award recommendation with any party, including the potential contractor, except other City employees involved in the project, until after the actual award recommendation has been placed on the published City Council Agenda,
- Set a limit on the number of Purchase Order (PO) changes to include price increases and decreases a department can use for each PO,
- Contain procedures to follow for purchases under \$25,000.00, to include voucher purchases.

Recommendation

The Purchasing Policies and Procedures handbook should be updated to specifically:

- Prohibit ordering department personnel or Purchasing personnel from discussing the award recommendation with any party, including the potential contractor, except other City employees involved in the project, until after the actual award recommendation has been placed on the published City Council Agenda,
- Set a limit on the number of PO changes to include price increases and decreases a department can use for each PO,
- Establish procedures for purchases under \$25,000.00, to include voucher purchases

Management's Response

The Purchasing Manual will be updated to 1) prohibit ordering department personnel and Purchasing personnel from discussing bid and award information with anyone except other City employees involved in the project, 2) set a limit on the number of PO changes to include price increases and decreases. Procedures for purchases under \$25,000 have already been instituted.

Responsible Party

Terry Freiburg

Implementation Date

May 1, 2007

Current Observation

The Purchasing Manual has been updated to include the following:

- Communications regarding RFPs, RFQs or Bids between, potential vendors, service providers, bidder, lobbyists or consultants, and any member of the City's professional staff, among others, is prohibited by Section 14.2, *Cone of Silence Policy*.
- Changes to blanket purchase orders not referencing either bids or RFPs contracts are limited to three (3) changes to include price increases and decreases as stated in Section 14.4.2, *Blanket Purchase Orders Changes (Not Issued Under Contracts)*.

**City of El Paso
Internal Audit Office
Purchasing Division Follow-Up Audit**

Current Observation (cont.)

- The expenditure levels were revised from \$5,000.00-\$24,999.99 during the original audit to \$3,000.00-\$49,999.00 for the current audit. Procedures have been established for purchases under \$50,000.00 to include voucher purchases. However, during our review of the Purchasing Manual, we noted that some sections have not been updated to reflect the current purchasing spending thresholds outlined in the state statute Section 252 of the Local Government Code.

Status

Implemented.

Finding 8

Procurement Card (P-Card)

The following deficiencies were identified with the procurement card program within the Purchasing Division:

- One out of the three (33.33%) Purchasing Division P-Card users was issued a P-Card without proper authorization and without established spending limitations established on the “P-Card Maintenance Form, PCM-1,”
- For the month of June 2006 there were a total of eleven P-Card purchases made by the Purchasing Division.
 - Eleven out of eleven (100.00%) of the purchases were approved by a person without budget expenditure authority.

Recommendation

The Purchasing Division should:

- Ensure that all the department Procurement card users have a properly authorized “P-Card Account Maintenance Form, PCM-1,”
- Require that P- Card purchases be approved by a person with budget expenditure authority.

Management’s Response

Purchasing P – Card users have obtained an authorized Account Maintenance Form, PCM-1 and P – Card purchases are being approved by the budget expenditure authority.

Responsible Party

Terry Freiburg

Implementation Date

March 1, 2007

Current Observation

There is a properly authorized P-Card Account Maintenance Form (PCM-1) for each of the two Purchasing Division P-Card users. While one of the forms did not list the spending limits, we have determined that both users have spending limits that are appropriate and consistent with those held by other City P-Card users.

Purchasing Division P-Card purchases made during the period 10/21/08 – 11/20/08 were reviewed. No discrepancies were noted and all were approved by an individual with budget expenditure authority.

Status

Implemented.

**City of El Paso
Internal Audit Office
Purchasing Division Follow-Up Audit**

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

Based on the results of this follow-up audit, we found that all eight (8) of the original findings have been implemented. It is apparent that a significant effort was generated by Purchasing Division management to implement all of the audit recommendations. Therefore, no additional follow-up will be conducted by the Internal Audit Office.

We wish to thank the management and staff of the Purchasing Division for their assistance and numerous courtesies extended during the completion of this follow-up audit.

Signature on file

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