



**Information Technology –
Purchasing Audit
Audit No. A2012-07**

Issued by the
Internal Audit Office
August 16, 2012

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of Information Technology – Purchasing. Based on the results of the audit, seven (7) findings have been identified. All seven of these findings are considered significant in nature.

Listed below is a summary of the seven (7) significant findings identified in this report.

1. There are three Information Technology Organizational Charts in effect that contradict each other.
2. The City of El Paso Information Technology bids do not require the disclosure of subcontractors.
3. The Information Technology Department is placing orders without proper authorization.
 - Four (4) out of 56 (7.14%) of invoices reviewed contained an “order date” dated prior to the corresponding Purchase Order (PO) date.
 - Two (2) out of 56 (3.57%) of invoices reviewed contained a quote from the vendor that was dated after the date of the corresponding PO.
4. The Information Technology Department is not confirming personal services prior to payment.
 - 15 out of 29 (51.72%) of invoices reviewed for the performance of personal services did not show evidence that confirmation of services was completed.
5. Information Technology Inventory is not being adequately tracked.
6. The Information Technology Department (IT) is not properly documenting the transfer of Capital Assets.
7. An internal control weakness was identified in that the IT Accounting Payroll Clerk enters requisitions that contain fictitious data into PeopleSoft in anticipation of future use. An IT Administrative Assistant then edits and approves the requisitions when the need to the department arises.

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

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BACKGROUND

The City Information Technology (IT) high-dollar assets include more than 200 servers, approximately 5,000 desktop computers, microwave and telecommunications equipment, over 120 application systems, and more than 200 terabytes of data. An increased volume of purchases for additional IT goods and services has been made in the last twenty-four months. As a result, this audit was conducted in order to determine if the funding appropriated for IT purchases has been spent appropriately for the intended purposes and that the expenditures are meeting management's expectations. A judgmental sample of the following fourteen vendors was selected for review:

Vendor	Total Amount of Invoices in Population	IT Invoices in Population	Dollar Amount of Invoices Reviewed
Bridge Links	\$0.00	\$0.00	\$0.00
Decision Tree	\$903,246.91	\$62,632.00	\$62,632.00
Du Motion Audio Visual & Video, Inc.	\$62,182.00	\$0.00	\$0.00
ESEI	\$22,597.22	\$9,925.54	\$9,925.54
ESI	\$880,409.80	\$391,319.80	\$391,319.80
In Motion	\$6,544.50	\$0.00	\$0.00
INX Inc.	\$1,244,608.31	\$793,874.95	\$562,345.97
La Fe Prep	\$394,666.48	\$0.00	\$0.00
MEXUS	\$60,009.77	\$60,009.77	\$60,009.77
Nuube Comm	\$0.00	\$0.00	\$0.00
Sigma Solutions, Inc.	\$2,260,629.27	\$1,728,246.02	\$1,728,246.02
Sonisa	\$0.00	\$0.00	\$0.00
Varay Systems	\$16,771.28	\$0.00	\$0.00
Hewlett-Packard	\$11,814,843.08	\$11,629,739.29	\$6,548,803.96
Totals:	\$17,666,508.62	\$14,675,747.37	\$9,363,283.06

AUDIT OBJECTIVES

The audit objectives for the Information Technology - Purchasing Audit were to,

1. Confirm that the procurement of various IT goods and services are in compliance with local, state, and federal laws to include the:
 - City of El Paso Purchasing Policies and Procedures,
 - American Recovery and Reinvestment Act (ARRA) guidelines,
 - Broadband Technology and Opportunities Program (BTOP) Grant terms and requirements as they relate to purchases of equipment.

2. Determine if there are adequate controls and proper protocols for IT equipment purchases and expenditures by identifying if IT purchases and expenditures:
 - Are appropriate,
 - Are properly authorized,
 - Are within applicable budgetary limits,
 - Are adequately monitored,
 - Are properly tagged and inventoried,
 - Contain proper documentation.

3. Evaluate the use of sub-contractors in the issuance of contracts.

AUDIT SCOPE

The audit period covered the operations of the Information Technology Department during the period of March 2010 – March 2012.

AUDIT METHODOLOGY

To achieve our audit objectives we:

- Conducted interviews with Information Technology management and staff,
- Conducted an analysis based on the City of El Paso's Purchasing Manual, Capital Assets Manual, and Accounts Payable Manual,
- Conducted a review of Information Technology's applicable policies and procedures,
- Conducted a review for IT purchases and,
- Performed tests of selected transactions.

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

This audit was also conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

***SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT’S RESPONSES***

The definition of a “Significant Finding” is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as a “Regular Finding”.

Finding: 1

Organizational Structure

An Organizational Chart provides a visual representation of an Organization’s formal structure. Typically, a pyramid shape is used, with the organization’s leader at the top and subsequent members listed below their supervisor.

There are currently three Information Technology Organizational Charts in effect that contradict each other:

1. The Interlocal Agreement between El Paso County and the City of El Paso for Consolidation of Information Technology Departments commencing on January 1, 2010 describes the roles and responsibilities of key personnel within the City and County IT Departments.
2. On July 5, 2012 the Internal Audit Office was provided with an Organizational Chart titled “Shared Services Organization.”
3. On July 12, 2012 an Organizational Chart was presented during the FY 2013 Information Technology Budget Hearing.

Recommendation:

El Paso County and the City of El Paso’s Information Technology Departments should work together to develop an appropriate organizational structure for their respective departments.

Management’s Response:

City and County Management are working towards organizational structure to be accepted through a revised Inter-local agreement. Since the Inter-local agreement was adopted in December 2009, the City Information Technology department has evolved. The governing bodies of the City and County need to review the purpose and structure of the current Inter-local agreement and align it with the needs of the City and the current City IT Department structure, qualifications and pro-rata share of infrastructure investment, risks, responsibility and accountability.

Responsible Party:

Miguel Gamiño – IT Director

Implementation Date:

January 1, 2013

Finding: 2

Subcontractor Disclosure

Best practices in construction projects require that disclosure of subcontractors be made. This is documented in TEX PR. CODE ANN. § 53.256: Texas Statutes - Section 53.256: LIST OF SUBCONTRACTORS AND SUPPLIER.

Currently, the City of El Paso's Information Technology bids do not require the disclosure of subcontractors. Based on our analysis of the sample of invoices selected for review, it was identified that one (1) vendor subcontracted 35.4% of its City of El Paso's contracts to a subcontractor for supplies and installation work. These contracts occurred during the period of 4/19/2010 to 8/22/2011.

Number of Invoices Reviewed	Amount of Invoices Reviewed	Amount Identified as Subcontracted
21	\$562,345.97	\$199,047.69

Recommendation:

Considering the complexity of Information Technology (IT) projects, the City of El Paso should adopt this practice for IT bids and require the disclosure of subcontractors.

Management's Response:

In March 2012, prior to the Audit Entrance meeting, IT and Purchasing management teams agreed that future IT bids would require the disclosure of subcontractors who would be working on the awarded proposal. A description of the work and percentage of the bid to be done by subcontractors would be disclosed.

Responsible Party:

Patricia Dominguez – Administrative Manager and/or assigned Project/IT Manager for each related bid.

Implementation Date:

March 2012

Finding: 3

Purchasing Dates

As required by the City of El Paso Purchasing Manual Section 6.0, 8:

Upon award, a Purchase Order is issued by Purchasing and delivery of goods and/or services is initiated by the vendor upon receipt...NOTE: User Departments are never authorized to incur services or to purchase goods without the appropriate authorization (i.e. a Purchase Order issued by the Purchasing Division).

The Information Technology Department is placing orders without proper authorization:

- Four (4) out of 56 (7.14%) of invoices reviewed contained an “order date” dated prior to the corresponding Purchase Order (PO) date.
- Two (2) out of 56 (3.57%) of invoices reviewed contained a quote from the vendor that was dated after the date of the corresponding PO.

* Note: The dates of the six (6) invoices with exceptions range from 7/19/2010 to 1/28/2011.

Recommendation:

The Information Technology Department should ensure that:

- Quotes/bids are received prior to POs being issued.
- Orders are placed with vendors after the corresponding PO is issued.

Management’s Response:

Information Technology Administration department and City IT Managers have been working to ensure compliance with the City of El Paso Purchasing Manual Section 6.0, 8.

Resulting from this audit IT Management will enhance the controls and documentation. IT Management staff will comply with Procurement Policies and Procedures and utilize allowable qualifying exemptions after obtaining the authoritative approval prior to any purchasing commitment.

In the future the request for a PO will not be requested until the revised quote is received.

The implementation began in November 2011 and stricter enforcement has been applied beginning September 2012 after discussion with Internal Audit.

In case, of an urgent qualifying exemption emergencies, an email request for approval to the IT Purchasing Director, CFO, and Comptroller will be sent requesting approval and the IT Director will be copied. The IT Manager must notify to IT Administration by the next business day and submit the appropriate documentation with the signature of the appropriate and authoritative party allowing the exemption.

On October 1, 2012, each IT Manager will be provided the Purchasing Manual with the exemptions highlighted and asked to attend the weekly IT/Purchasing meeting on October 8 to

discuss any questions they may have.

Responsible Party:

Patricia Dominguez/IT Managers

Implementation Date:

November 2011, revised September 2012

Finding: 4

Confirmation of Services

As required by the City of El Paso Accounts Payable Manual Section:

24.2 All invoices should be reviewed for compliance with the Personal Services Contracts that was approved.

24.2.1 The supervisor, or authorizing official, should sign off on the document to ensure that there is compliance with the contract or quoted prices.

The Information Technology Department is not confirming personal services prior to payment.

- 15 out of 29 (51.72%) invoices that required the performance of services, such as equipment installation, do not show evidence that confirmation of services was performed prior to the payment of the invoice. The dates of the 15 invoices range from 3/31/2010 to 5/5/2011.

Recommendation:

Information Technology Management should ensure that confirmation of personal services is performed prior to payment being issued.

Management's Response:

In September 2011, at the beginning of processing a requisition for maintenance and support agreements with regular monthly billings, IT Administration would discuss with operating manager the nature of the service to be performed to confirm that it was a maintenance/support agreement to be invoiced as a regular monthly billing.

Resulting from discussions with Internal Audit, IT has agreed to enhance the approval controls and require the approval of acceptance of service/goods by the IT Operating Manager and the date of acceptance for each invoice including all maintenance and support agreements.

Responsible Party:

Patricia Dominguez – Administrative Manager

Implementation Date:

June 2012

Finding: 5

Tracking of Capital Assets

As required by the City of El Paso City of El Paso Capital Assets Manual

- Section 5.1, Fixes Assets: *Assets under \$1,000 that are purchased will not be tagged or tracked and the responsibility for the monitoring and maintenance of these items will be at the departmental level.*
- Section 9.0 Recording of Capital Assets: *The Asset Management System (AMS) is the official recordkeeping system of the City for all Capital Assets. As noted in Sections 5.2 and 5.3 of this manual, only assets over \$1,000 in value will be recorded and tracked by the AMS.*

Information Technology Inventory is not being adequately tracked.

Equipment

27 of the 56 invoices reviewed were for the purchase of equipment and/or supplies.

- 14 out of 27 (51.85%) of invoices contained a total of 47 tangible assets in which the serial numbers could not be confirmed and tied into the equipment on hand.
- 16 out of 27 (59.26%) of invoices contained a total of 75 tangible assets that could not be traced to the PeopleSoft Asset Management System (AMS).
- 1 out of 27 (3.70%) of invoices reviewed was canceled but the asset was still listed in AMS under Project PCP10IT01.

Personal Services

- Five (5) out of 29 (17.24%) of invoices reviewed were for the purchase of licenses or professional services and were grouped into projects in AMS.

Recommendation:

Information Technology Management should ensure that IT assets over \$1,000.00 are adequately tagged, tracked, monitored, and maintained.

Management's Response:

Resulting from discussion with Internal Audit and Financial Services Property Control Manager IT recommends the following.

On September 10, 2012, Financial Services notified departments that the dollar threshold they would manage was increased to \$5,000 and it was at the Department's discretion to manage assets under the threshold.

IT Management recommends managing and tracking IT related equipment because of the aggregate value and the mobility of certain IT related equipment.

Additionally recommended, is the evaluation of the processes, in conjunction with the recently

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re-implemented PeopleSoft software and other technology to further automate the asset tracking processes, tracking and reporting of IT equipment deployed or placed into the infrastructure. The evaluation will address:

- The disconnection caused by the mobility of some IT related equipment and non-reporting of such movement which impacts asset tracking.
- Re-tagging process of some equipment, such as servers, with appropriate tag numbers.
- Confirm asset listing as accurate at the beginning of the process implementation.
- Determine whether a dollar limit threshold would be determined and what the threshold will be implemented to track IT related equipment.
- Within the current plans to evaluate the City's Technical Purchase Request procedure, IT will work with Financial Services in the use of P-Card purchases of IT equipment and work towards the elimination of a tracking disconnection that may be present.

Responsible Party:

IT Managers deploying equipment/Patricia Dominguez – Administrative Manager

Implementation Date:

Phase I- Process and Procedure Planning and Automation: January 30, 2013

Phase II- Implementing results of Phase I-Process and Procedure Planning within 3 months of interdepartmental co-ordination, finalization and acceptance of the results.

Finding: 6

Transfer of Capital Assets

As required by the City of El Paso Capital Assets Manual dated September 2006:

- Section 10.2: *Each department is responsible for notifying the Property Control Section (PCS) of all departmental transfers of property...Under no circumstances will any Department Head, Authorized Representative, or Employee be authorized to sell, trade, or take for personal use any City asset.*
- Section 10.2.1: *Requests for Departmental Transfer of Property will be sent to the Property Control Officer prior to the movement of the item(s)...*
- Section 10.2.2: *Proper notification will ensure up-to-date, accurate, and comprehensive inventory record data for all City Departments. This includes property that is returned as a result of Trade-Ins and Return-to-Vendor actions.*

The Information Technology Department (IT) is not properly documenting the transfer of Capital Assets.

- The Information Technology Department does not have a formal form or procedure when vendors take custody of City assets in order to make modifications, make repairs, or when vendors pick up City assets to install them.

Recommendation:

Information Technology Management should ensure that the transfer of City assets to vendors and between departments is conducted in accordance with the City of El Paso Capital Assets Manual.

Management's Response:

IT manager will be responsible for maintaining an asset journal and require having the vendor sign and date when the asset was removed from city premises, the reason and the approximate time for the return. A lapse of more than 30 days from the estimated return time is to be explained. This document will be submitted when approving an invoice for payment of repair services. A formal template will be created.

IT Managers will be reminded to comply with city policy and IT Director will request a copy of all transfer forms be submitted to IT Administration on a monthly basis to assist in compliance to city management.

Responsible Party:

Patricia Dominguez/IT Managers

Implementation Date:

October 31, 2012

Finding: 7

Internal Control Breakdown

As required by the City of El Paso Purchasing Manual Section 8.5 Standard Format and Required Information:

When entering a Requisition into PeopleSoft each User Department is responsible for including (at minimum) the following information in the Header Comments:

Contract # or quotes...

If the Requisition is for a new Contract and is entered into PeopleSoft before some of the above information is known, simply notify the Purchasing Analyst in charge of the Contract that the information is intentionally missing at that time.

The IT Accounting Payroll Clerk enters requisitions that contain fictitious data into PeopleSoft in anticipation of future use. An IT Administrative Assistant then edits and approves the requisitions when the need to the department arises.

Recommendation:

The Information Technology Department should ensure that Requisitions are created with factual information when there is a procurement need.

Management's Response:

In September 2011, the practice was stopped with the filling of the payroll clerk vacancy. Since the Audit closing meeting on September 13, 2012, IT Administration halted the practice under any circumstances and requisition processing will have to be deferred until staff is available or if there is an urgent need will request assistance from Financial Services to enter the requisition and possibly the PeopleSoft implementation manager.

Responsible Party:

Patricia Dominguez – Administrative Manager

Implementation Date:

September 13, 2012

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

We have concluded work on the audit objectives of the Information Technology Purchasing Audit. In accordance with *Generally Accepted Government Auditing Standards* we are required to conclude on whether Information Technology met the objectives of this audit. The following is our conclusion.

1. Procedures currently being utilized by the Information Technology Department are operating as intended by management in the following areas:
 - IT purchases and expenditures are appropriate and are within applicable budgetary limits.
 - IT Administration and the Project Management Office have thus far helped the Information Technology Department run more efficiently and effectively.
2. The IT Department's internal control environment has not met management's objectives in the following areas:
 - The County and City of El Paso IT Departments have not collaborated and agreed upon an organizational chart.
 - The use of subcontractors is not being disclosed in IT bids.
 - Requisitions are not being properly entered and approved.
 - Purchases are being made without proper authorization.
 - Weaknesses were identified in the monitoring system of IT purchases and expenditures.
 - IT purchases and expenditures do not contain proper documentation and are not properly tagged, inventoried, and transferred.

The City of El Paso's Information Technology Department should continue to improve its internal control environment by implementing the recommendations contained in this audit report. The IT Department has a responsibility to follow the City's established policies and procedures. Because of the complexity of the Interlocal Agreement with the County of El Paso, adherence to the City's Policies and Procedures becomes a challenge due to the multiple levels of management involvement of both government entities.

We wish to thank the management and staff of the Information Technology Department for their assistance and courtesies extended throughout this audit.

Signature on File
Edmundo S. Calderón, CIA, CGAP, CRMA, MBA
Chief Internal Auditor

Signature on File
Liz De La O, CFE, CIA, CGAP, MPA
Lead Auditor

Distribution:
Financial and Audit Oversight Committee
Joyce A. Wilson, City Manager
Carmen Arrieta-Candelaria, CFO
Miguel Gamiño, City IT Director
Bruce Collins, Purchasing Manager