

**Performance Audit of  
The City's Purchasing Processes**

**October 7, 2008**

**City Internal Auditor's Office  
City of College Station**

File #02.07





## CITY OF COLLEGE STATION

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October 7, 2008

Honorable Mayor and Members of the City Council:

The Purchasing Processes Audit was conducted in accordance with the fiscal year 2008 audit plan. This audit report contains seven sections. The audit findings from these sections are summarized below:

Administrative review: The City of College Station's purchasing functions are effectively administered by competent, well trained purchasing professionals. Organizationally, purchasing administration is appropriately structured to promote procurement best practices, ethical behavior, and legal compliance.

Procedural review: Purchasing policies and procedures are well documented, comply with State and municipal purchasing laws, and assist in the efficient and economical procurement of goods and services.

Standards and specifications review: Items ordered are appropriately standardized to control the proliferation of products ordered and to promote purchasing economy. Specifications are designed to establish minimum standards for acceptability and equitable vendor selection.

Competitive bidding and proposals review: The City of College Station's competitive bidding policies, procedures, and processes adequately encourages competition, prevents favoritism, and secures the best work and materials at the lowest practicable price. These policies, procedures, and processes were also found to be in compliance with State and municipal purchasing laws.

Cooperative purchasing review: The City of College Station actively pursues cooperative purchasing opportunities in order to realize cost savings through increased purchasing power.

Internal control review: Purchasing controls could be strengthened in order to prevent fraud, abuse, or potential errors. First, the city should require supervisory approval of requisitions within their purchasing information system. Second, certain purchasing duties should be segregated.

Legal review: City of College Station purchasing policies, procedures, processes, and contractual agreements comply with State and municipal law requirements.

The Audit Committee has reviewed this report and is releasing it for your acceptance. I appreciate the courtesy and cooperation of city staff throughout the audit.

Sincerely,

A handwritten signature in black ink that reads "Ty Elliott". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Ty Elliott  
City Internal Auditor

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# Purchasing Processes Audit

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# Introduction

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The City Internal Auditor conducted this performance audit of the city's purchasing processes pursuant to Article III Section 30 of the College Station City Charter, which outlines the City Internal Auditor's primary duties.

A performance audit is an objective, systematic examination of evidence to assess independently the performance of an organization, program, activity, or function. The purpose of a performance audit is to provide information to improve public accountability and facilitate decision-making. Performance audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.

A performance audit of the city's purchasing processes was included in the fiscal year 2008 audit plan based on the results of a citywide risk assessment conducted in October 2007. On October 25, 2007, the City Council approved the City Internal Auditor's audit plan.

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## Background

This audit was conducted in accordance with government auditing standards, which are promulgated by the Comptroller General of the United States. Audit fieldwork was conducted from March 2008 through September 2008.

The purchasing processes audit criteria and objectives were primarily obtained from the latest edition of the Model Purchasing Manual developed by the State of Texas Comptroller's Office. The Model Purchasing Manual is a guide designed to assist cities and counties, as well as other local government entities, in the complex and technical area of purchasing. The purchasing processes audit plan was derived from Chapter 8 of this manual, which contains a comprehensive audit program.

Due to the size and comprehensiveness of the audit, the auditor created a check list for the audit objectives outlined in this report. Green check marks ✓ indicate areas where the auditor found adequate evidence to make a positive conclusion. The red ✗ marks indicate areas that needed further review to determine if any corrective action is needed. Audit recommendations are summarized at the end

of the report. The auditor did not recommend corrective action for every objective marked with an **X**. In some cases, the auditor found adequate evidence indicating that no corrective action is needed.



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# Findings and Analysis

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## Administrative Review

The administrative review scope and methods included:

- Examining written policies and procedures documented in the city’s purchasing manual and budget documents.
- Conducting interviews to determine whether written or unwritten procedures are in use.
- Observing purchasing processes performed by purchasing office personnel and examining documented flow charts of purchasing processes.
- Verifying professional designations recorded by the Institute of Supply Management.
- Reviewing purchasing office travel and training expenditures.
- Comparing job duties and qualifications found in the city’s purchasing job postings with the Purchasing Office’s duties and responsibilities found in the purchasing manual.

**Y N**

### Administrative Review Objectives:

- ✓ 1. Is the authority to purchase centralized in one office or with one person?
- ✓ 2. Are all purchases and contracts coordinated through this office or person (except minor items urgently needed to prevent interruptions of service)?
- ✓ 3. Are contracts exceeding bid limits authorized or approved by the governing body?
- ✓ 4. Are the purchasing officers and all assistants encouraged to expand their skill and knowledge by attending continuing education seminars when practical, and to belong to a professional purchasing association?
- ✓ 5. Does the government assume the cost of: (a) the continuing education, or (b) the professional purchasing association’s dues?
- ✓ 6. Is there a written procurement policy statement that describes the overall goals and objectives of purchasing?
- ✓ 7. Does the statement or another authoritative document specify the authority of the purchasing officer to act as the government’s purchasing agent? *The City Manager or his designee, in consultation with appropriate city departments, determine the procurement method for goods and services that provides the best value to the city—which is also appropriate.*
- ✓ 8. Does the statement or another authoritative document specify the authority of the purchasing officer to evaluate and rank bids and proposals and to make recommendations to the governing body as to which to accept?
- ✗ 9. Does the statement or another authoritative document specify the

- authority of the purchasing officer to perform quality assurance testing and to recommend products?
- ✓ 10. Does the statement or another authoritative document specify the authority of the purchasing officer to recommend which properties and assets should be declared surplus or salvage, and to dispose of such surplus and salvage property?
  - ✓ 11. Does the statement or another authoritative document specify the authority of the purchasing officer to inventory and maintain records of fixed assets? *Purchasing, selling, and accounting for capital assets in addition to internal controls and policies and procedures for safeguarding capital assets, property, equipment and inventory is handled through the Accounting Division—which is also appropriate.*
  - ✓ 12. Does the government prepare a schedule of capital asset acquisitions, taking into account expected cash flow, requirements of the using department, and the most advantageous time of the year to purchase that asset?
  - ✗ 13. Is the purchasing officer involved in scheduling capital asset acquisitions?
  - ✓ 14. Do the purchasing office's policies clearly state that service to the user departments is one of its highest priorities?
  - ✓ 15. Is there an adequate library of catalogs and price lists for frequent vendors?
  - ✓ 16. Is there a written code of ethics for the purchasing officer and all purchasing employees?
  - ✗ 17. Do all members of the purchasing office annually certify that they have read, understand and will abide by the code of ethics?
  - ✓ 18. Is the purchasing office independent of control by any department head? If not, is the purchasing office under a compatible department such as finance or support services?
  - ✓ 19. Is there a specific written authority that says purchasing may issue policies and directives to implement its procedures?
  - ✓ 20. Do fully qualified people fill staff positions?
  - ✓ 21. Are valid, comprehensive job standards established for purchasing positions and are purchasing personnel assigned or hired based on their qualifications in relation to the established job standards and requirements?
  - ✓ 22. Are training programs in purchasing practices established, or outside training programs made available to purchasing personnel?

### **Administrative Review Findings**

Overall, the city's purchasing functions are effectively administered by competent, well trained purchasing professionals. Organizationally, purchasing administration is appropriately structured to promote procurement best practices, ethical behavior, and legal compliance. Noteworthy administrative review findings are described as follows.

**Decentralized receiving risks are mitigated.** The Purchasing Office is responsible for assisting the individual departments in developing quality and quantity specifications for goods and services to be purchased along with required delivery schedules. However, the Purchasing Office does not perform quality assurance testing of products received because the city does not have a central receiving point. The Purchasing Office does mitigate the risks associated with decentralized receiving by requiring departments to report any shortages, late deliveries, damaged merchandise or other problems relating to the vendors' performance to the Purchasing Office and following up with a written explanation of the situation utilizing a vendor performance form.

**Scheduling of capital asset acquisitions is handled adequately.** All requests for the purchase of new and replacement vehicles and equipment is coordinated through the Fleet Services Division of Public Works. Based on pre-established vehicle replacement criteria, the Fleet Superintendent annually runs a report and analyzes the report to identify vehicles to be replaced and make recommendations to the Purchasing Division for the most cost effective purchasing method. Although Finance is involved through the budget process, the Purchasing Office is not directly involved in the scheduling of capital asset acquisition. On the other hand, the Purchasing Office assists departments to procure the best value products and services. This is accomplished through competitive bids, proposals, and quotes. The Budget and Fiscal Policy Office is involved in the annual preparation of the five-year Capital Improvements Program (CIP). Although the Director of Fleet Services develops the fleet replacement schedule, the Budget Office conducts work to provide oversight of the fleet replacement program.

**Annual certification of code of ethics should be practiced.** The City's written code of ethics for the purchasing officer and all purchasing employees is sufficiently documented and useful. Generally, it is a good practice to develop a formal procedure where the members of the Purchasing Office certify in the writing that they have read, understand and will abide by the code of ethics.

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## Procedural Review

The procedural review scope and methods included:

- Examining written policies and procedures documented in the city's purchasing manual, budget documents, and employee handbook.
- Conducting interviews to determine whether written or unwritten procedures are in use.
- Observing purchasing, accounting, and inventorying processes performed by purchasing, accounting, warehouse personnel.
- Examining the purchasing information system manual to gain an understanding of the system's control ability and options.

- Interviewing purchasing information system experts to identify proper system control setup options; and comparing actual system setup to appropriate setup options.
- Analyzing blanket purchase order data between April 1, 2003 and March 31, 2008 using auditing software, tools, and techniques.

**Y N**

**Procedural Review Objectives:**

- ✓ 1. Are requisitions required for all purchases processed by the purchasing office, except for occasional urgent, minor purchases of supplies that may be requested orally and followed by a proper authorization later? *NOTE: With proper safeguards, such as confidential codes, computer-generated requisitions are as good or better than written requisitions.*
- ✗ 2. Does the Purchasing Office require that requisitions be signed or otherwise properly authorized by persons designated by the responsible department head and are requisitions checked for the signature or confidential code of a properly authorized person prior to processing by the Purchasing Office?
- ✗ 3. Is there a written policy or order naming the people authorized to sign (or approve) the requisitions for goods or services?
- ✓ 4. If an oral requisition is processed, is it always confirmed by a written requisition (or computer-generated requisition with proper safeguards)? *The city does not process oral requisitions.*
- ✓ 5. Are requisitions checked to ensure that the purchase is covered by a budget line item authorization before the purchasing office issues a purchase order?
- ✓ 6. Are requisitions checked to ensure that the budget line item has a sufficient unencumbered balance to cover the purchase before the Purchasing Office issues a purchase order?
- ✓ 7. Does the Purchasing Office monitor requisitions and purchase orders to ensure that they are executed on a timely basis?
- ✓ 8. Has the cost of processing a purchase order been determined?
- ✓ 9. Does the Purchasing Office schedule purchases for centrally stocked supplies and materials so that out-of-stock conditions are rare?
- ✓ 10. Are centrally stocked supplies and materials normally inventoried on a continuing basis so that the Purchasing Office is aware of the amount invested at all times?
- ✓ 11. Do blanket purchase orders fall into one of the following categories: (1) vendors for blanket purchase orders are selected on a transparent and equitable basis, to maximize the scope of competition, (2) there are multiple items on blankets for low dollar amounts, which could enable users to make frequent low dollar purchases to the same vendor, (3) the City Council or City Manager approved the blanket agreement, (4) there were discounts on blanket items, or (5) the blankets were cooperative agreements?
- ✓ 12. Are receipts for blanket purchase order purchases retained and matched to the monthly invoice from the vendor?
- ✓ 13. When blanket purchase orders are negotiated, are discounts routinely received?

- ✓ 14. Does the purchasing office have a procedures manual?
- ✓ 15. Are procedures strictly enforced?
- ✓ 16. Are written procedures developed for all duties commonly performed in the purchasing office, including emergency procedures?
- ✓ 17. Are procedures reviewed at regular intervals to ensure that they are the most efficient, and maintain effective controls?

### **Procedural Review Findings**

Purchasing policies and procedures are well documented, comply with State and municipal purchasing laws, and assist in the efficient and economical procurement of goods and services. The city does not require supervisory approval of purchase requisitions. Controls regarding this issue are addressed in the internal control section of this report (see page 14).

## **Standards and Specifications**

The standards and specifications review scope and methods included:

- Examining written policies and procedures documented in the city's purchasing manual.
- Conducting interviews to determine whether written or unwritten procedures are in use.
- Observing inventorying processes performed by purchasing and warehouse personnel.
- Examining the purchasing information system manual to gain an understanding of the system's purchasing catalog setup.
- Reviewing all documented vendor performance forms.
- Examining 30 randomly selected fiscal year 2007 bid specification documents.
- Reviewing a standard form purchase order agreement.

### **Y N**

#### **Standards and Specification Objectives:**

- ✓ 1. Does the city have a policy for standardizing products when the same type of item is used in more than one department?
- ✓ 2. Is there a standardization committee to control the proliferation of products ordered?
- ✓ 3. Does the purchasing office standardize items commonly used by two or more departments?
- ✓ 4. Are generic products purchased if they can replace more expensive, brand-name items?
- ✓ 5. Is there a central stockroom from which all departments draw commonly used supplies and materials?
- ✓ 6. Is there a catalog or list of items available from the stockroom?
- ✓ 7. Are departments required to justify in writing the purchase of a non-

- standard item if a similar standard item is centrally stocked?
- ✓ 8. Is there a product evaluation committee?
  - ✓ 9. If so, is the purchasing officer or another member of the purchasing office a member?
  - ✓ 10. Is a value analysis made of products to be sure which best meet the intended needs of the city?
  - ✓ 11. If so, does the value analysis consider: (a) new sources of supply, (b) standardization of items, (c) identification of alternative products, including price and quality, (d) availability, ease of maintenance and delivery when needed, or (e) amortization and trade-in schedule?
  - ✓ 12. Are brand names avoided or used only as descriptions?
  - ✓ 13. Are vendor performance files maintained?
  - ✓ 14. Are performance or design specifications rather than descriptive specifications, such as name brands, used whenever possible?
  - ✓ 15. Does the purchasing office use commercial standards or specifications developed by federal, state, other local governments, professional associations or other entities whenever possible, instead of developing new specifications?
  - ✓ 16. Do the specifications establish minimum standards for acceptability?
  - ✓ 17. Do the specifications allow adequate competition among vendors, without specifications slanted toward one vendor's product or service?
  - ✓ 18. Do the specifications contain provisions for test methods to determine whether the items comply with the specifications?
  - ✓ 19. For items where quality is critical, or the cost of inspection and testing is too expensive, are qualified products lists developed?
  - ✓ 20. Are listed products tested prior to inclusion on the list?
  - ✓ 21. Are vendors invited to submit their product for testing?
  - ✓ 22. When specifications are developed, do the authors consider whether the product will be stocked when it is delivered, delivered in installments to be stocked in smaller quantities or delivered as needed?
  - ✓ 23. Does the purchase order include delivery information?

### **Standards and Specification Review Findings**

Items ordered are appropriately standardized to control the proliferation of products ordered and to promote purchasing economy. Specifications are designed to establish minimum standards for acceptability and equitable vendor selection.

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## **Competitive Bidding and Proposals**

The competitive bidding and proposals review scope and methods included:

- Examining written policies and procedures documented in the city's purchasing manual.

- Conducting interviews to determine whether written or unwritten procedures are in use.
- Comparing the city's competitive bidding policies and procedures to applicable state regulations and city ordinances.
- Reviewing the city's online vendor registration process.
- Observing the invitation to bid process performed by purchasing personnel, and reviewing the city's invitation to bid standard terms and conditions.
- Reviewing all documented vendor performance forms.
- Examining 30 randomly selected fiscal year 2007 bid specification documents.
- Reviewing bid tabulation and purchase order documents for all active blanket purchase orders over \$25,000 (as of June 19, 2008).
- Examining all fiscal year 2007 purchase orders for evidence of compliance with competitive bidding requirements. In addition, I reviewed council agendas, council minutes, bid documents, and contracts.
- Using auditing software, tools, and techniques to analyze purchases from September 1, 2004 to August 31, 2007 to identify separate, sequential and/or component purchases to avoid competitive bidding requirements.
- Comparing 30 randomly selected fiscal year 2007 bid specifications to their corresponding bid responses and bid evaluation documents.

**Y N**

**Competitive Bidding and Proposals Objectives:**

- ✓ 1. Are requirements for supplies and materials consolidated annually to determine whether competitive bids are required?
- ✓ 2. Are all substantial purchases subject to competition even if law does not require it? *NOTE: Buyers may make some smaller purchases without seeking quotes based on their experience and professional judgment.*
- ✓ 3. Are competitive bids used for all fiscal year 2007 non-exempt items with an annual aggregate cost of \$25,000 or more (effective September 1, 2007, the competitive bidding requirement for expenditures changed increasing the amount required for competitive bidding to \$50,000 as provided in the Texas Local Government Code, Chapter 252-B, Sections 252.021 and 252.0215)?
- ✓ 4. Do standard purchasing procedures comply with the provisions of the statutes concerning competitive bidding and proposals?
- ✓ 5. Do purchasing procedures comply with other pertinent authorities, such as city ordinances concerning competitive bidding?
- ✗ 6. Are procedures in place to prevent purchase splitting, such as carpeting one room per purchase order, to avoid submitting them for competitive bidding?
- ✓ 7. Are separate, sequential and/or component purchases of items ordered or purchased each fiscal year treated as a single purchase?
- ✓ 8. Are notices of competitive bids for non-exempted purchases advertised or posted as required by state statutes?

- ✓ 9. Does the purchasing office have written procedures for securing competitive bids?
- ✓ 10. Does the purchasing office have written procedures governing the receipt, control and opening and reading of bids?
- ✓ 11. Does the purchasing office have written procedures governing the review and evaluation of bids?
- ✓ 12. Does the purchasing office examine all bids received for compliance with the terms and conditions of the bid invitation?
- ✓ 13. Does the purchasing office contract for professional services?
- ✓ 14. Does the purchasing office submit contracts for professional services to competition in a way that will attract qualified professionals at a fair price to the government?
- ✓ 15. Does the purchasing office maintain a list, classified by commodity or service, of prospective, qualified bidders?
- ✓ 16. If so, does the purchasing office periodically review the list to remove bidders that prove unresponsive, unqualified or have a history of poor performance?
- ✓ 17. Does the purchasing office maintain sufficient records of bids and contracts to help identify problem areas such as non-responsive or unqualified vendors, or vendors possibly engaging in collusive bidding practices?
- ✓ 18. Does the purchasing office consolidate requirements for similar items such as office supplies when extending invitations to bid?
- ✓ 19. Are bid invitations for contracts involving categories of items such as office supplies structured so that the city may award contracts on selected items to the low bidder on those items, rather than awarding the whole contract to the lowest overall bidder (i.e., cherry-picked items)?
- ✓ 20. Are bid invitations written to allow the city to choose: (a) one-time delivery of the entire order, or delivery on an "as needed" basis, (b) single or multiple payments, or (c) single, multiple or designated delivery points?
- ✓ 21. Does the purchasing office have a written policy requiring informal bids or quotes on all items except minor purchases when the statutes do not require sealed, competitive bids?
- ✓ 22. If the purchase price exceeds a set level, does the policy require those quotes to be in writing?
- ✓ 23. Does the policy state a period during which the price will be valid?
- ✓ 24. Are emergency purchases recorded and tracked to see that the process is not abused?
- ✓ 25. Does the purchasing office have a written guide for vendors to keep them informed of all relevant local policies and procedures?
- ✓ 26. Does the city have a program for notifying and encouraging new suppliers to compete for the city's business?
- ✓ 27. Does the city have a program that ensures adequate supplies of critical items by using multi-award bids, such as the first contract awarded supplies 70 percent of commodity, while the second contract awarded supplies 20 percent, etc.? *If this were the case, the bid invitation would need to specify two or more contracts.*
- ✓ 28. Does the purchasing office use two-step bids when the city is unsure of its



needs or system specifications? *Step one is a request for information with as many bidders as possible to formulate requirements; step two is normal bidding.*

- ✓ 29. Does the purchasing office make sole-source purchases only after the lack of alternate sources is determined?
- ✓ 30. Are all bids received made on time given full consideration, including those not issued bid invitations, unless the bids are restricted to a qualified bidders list?
- ✓ 31. Are all late bids disqualified?
- ✓ 32. Are bidders encouraged to attend bid openings so they will better understand the bidding process?
- ✓ 33. Are bid tabulations made available to the public?
- ✓ 34. Does the purchasing office have a written procedure for emergency purchases?
- ✓ 35. When the city purchases items without bids under the emergency purchasing exemptions, do the written procedures require a signed acknowledgement from the department head that the purchase falls within the exemptions of the statutes?  
*The department heads provide purchasing with a memo outlining the necessity for the emergency purchase. The Purchasing Office advises the department facing the emergency of the bids received and request their recommendation. This is also an adequate procedure.*
- ✓ 36. Do bid invitations contain adequate details to allow bidders to develop good bids?
- ✓ 37. Is the lowest-cost, most-responsible bidder awarded the contract? If not, are all bids rejected?
- ✓ 38. Do the requests for proposals specify the relative weight given the evaluation factors used to award the contract?
- ✓ 39. Are contracts awarded in this manner given to the most-responsible bidder whose proposal is the highest-rated proposal using the weighted evaluation factors?
- ✓ 40. If provided in the request for proposals, are proposals opened without disclosing their contents to other bidders and kept secret during the negotiation process?
- ✓ 41. After a contract is awarded, are all proposals opened for public inspection, except those that contain trade secrets and confidential information?
- ✓ 42. Are discussions held with all bidders who are reasonably qualified for selection?

### **Competitive Bidding and Proposals Findings**

The City of College Station's competitive bidding policies, procedures, and processes adequately encourages competition, prevents favoritism, and secures the best work and materials at the lowest practical price. These policies, procedures, and processes were also found to be in compliance with State and municipal purchasing laws. The following noteworthy competitive bidding findings are described below.

**No split purchases were identified, but additional procedures could be implemented to prevent purchase splitting.** Purchases from September 1, 2004 to August 31, 2007 were scrutinized using auditing software, tools, and techniques. No separate, sequential and/or component purchases to avoid competitive bidding requirements were made during this period. In March 2008, the Purchasing Office began to run reports for field purchase orders to identify if any split purchases are being made to avoid the \$3,000 limit for decentralized purchasing. However, there are no formal processes, procedures, or system controls currently implemented to identify split purchases to avoid the \$50,000 threshold for competitive bidding requirements.

**Fiscal year 2007 purchases satisfied competitive bidding requirements.** All fiscal year 2007 purchase orders were examined. In addition, council agendas, council minutes, bid documents, and contracts were reviewed. There was adequate documentary evidence from these sources to determine that all fiscal year 2007 purchases satisfied competitive bidding requirements.

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## Cooperative Purchasing

The cooperative purchasing review scope and methods included:

- Examining city policies, procedures, and ordinances.
- Interviewing key purchasing personnel.
- Reviewing all fiscal year 2007 purchase orders.

**Y N**

### **Cooperative Purchasing Objectives:**

- ✓ 1. Does the city have an ordinance or order allowing the purchasing office to purchase goods or services in cooperation with other governments when it is to their mutual benefit?
- ✓ 2. Does the purchasing office enter into cooperative purchasing agreements with other local governments?
- ✓ 3. Does the purchasing office maintain contact with other local governments' purchasing offices through the regional council or association of governments to exchange information and engage in cooperative purchasing contracts?
- ✓ 4. If a government is in the area of a larger government, has the purchasing office investigated the possibility of buying from its contracts?
- ✓ 5. Is the city represented on a regional purchasing committee?
- ✓ 6. Does the purchasing office have an active program to search for ways to extend savings through cooperative purchasing?
- ✓ 7. Does the purchasing office have a program for evaluating the savings or costs of cooperative purchasing?
- ✓ 8. Has the city considered creating joint service contracts with nearby governments?

- ✓ 9. Does the purchasing office, when possible, enter into agreements to purchase from state contracts?

### **Cooperative Purchasing Findings**

The City of College Station actively pursues cooperative purchasing opportunities in order to realize cost savings through increased purchasing power.

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## **Internal Controls**

The review of principals of internal control scope and methods included:

- Examining written policies and procedures documented in the city's purchasing manual and interviewing purchasing personnel to determine whether written or unwritten procedures are in use.
- Observing purchasing, accounting, and inventorying processes performed by purchasing, accounting, warehouse personnel.
- Examining the purchasing information system manual to gain an understanding of the system's control ability and options.
- Observing purchasing processes and system control setups selections.
- Identifying purchasing internal control best practices from professional publications and organizations such as the Institute of Internal Auditors and the Certified Public Accountant Journal.
- Interviewing purchasing information system experts to identify proper system control setup options; and comparing actual system setup to appropriate setup options.
- Analyzing user functional access to the city's financial system using auditing software, tools, and techniques.
- Examining the results of the last two inventories conducted by warehouse personnel.
- Reviewing the external auditors' reports for the last three fiscal years, for which the external auditors opinion reflected well on the city in terms of accurate and fair financial reporting.

**Y N**

### **Internal Control Objectives:**

- ✓ 1. Does the city have clear, well-defined, written policies on purchasing?
- ✓ 2. Are reports on purchasing periodically forwarded to the governing body?
- ✓ 3. Are pre-printed, pre-numbered receipts, requisitions, purchase orders, inventory forms and other forms that have the city's name and address used for all transactions that may constitute part of the audit trail?
- ✓ 4. Does the city have well-defined policies for the authorization of capital acquisitions, such as advance approval by the governing body prior to major acquisitions and planned scheduling of major purchases during the

- year?
- ✗ 5. Is there a requirement for an authorization or verification when goods or services are requisitioned (authorized by department head or representative);
  - ✓ 6. Is there a requirement for an authorization or verification during the vendor selection stage of the purchasing cycle (purchasing officer or governing body for bidding process)?
  - ✓ 7. Is there a requirement for an authorization or verification when price and terms are selected (purchasing officer)?
  - ✓ 8. Is there a requirement for an authorization or verification at the purchase invoice stage of the purchasing cycle (user – verifies satisfactory performance)?
  - ✓ 9. Is there a requirement for authorization or verification when payment is made and the account/fund charged (accounting manager)?
  - ✓ 10. Are authorizations verified by the purchasing office?
  - ✗ 11. Does the government have a policy that, whenever possible, keeps the person with authority to approve a requisition from entering the transaction into the accounting records?
  - ✗ 12. Does the policy state that the person with authority to approve a requisition should not have custody of the asset?
  - ✗ 13. Does the policy state that when possible, a person who enters a transaction in the accounting records should not have custody of the asset?
  - ✓ 15. Does the office use pre-numbered forms for all sensitive documents, such as purchase requisitions, purchase orders and receipts?
  - ✓ 16. Are all pre-numbered forms strictly controlled and accounted for and are all copies of spoiled and voided pre-numbered forms retained for control?
  - ✗ 17. Are warehoused assets not released to users without a proper requisition and are assets in the custody of individuals recorded on issue cards and signed for properly?
  - ✓ 18. Are assets received from vendors counted and examined for compliance with the purchase order and is this information properly documented on receiving reports or copies of the purchase orders to be sent to accounting?
  - ✓ 19. Are all items classified as capital assets accurately recorded in detailed records?
  - ✓ 20. Are the city's assets periodically inventoried by comparing them with the fixed asset records to determine losses or oversupply?
  - ✓ 21. Are there procedures in place for returning all unneeded or obsolete materials to the purchasing office for disposal?

### **Internal Control Review Findings**

Purchasing controls could be strengthened in order to prevent fraud, abuse, or potential errors. First, the city should require supervisory approval of requisitions within their purchasing information system. Second, certain purchasing duties should be segregated.

**Requisition approval hierarchies should be implemented.** The city's financial system has the ability to create approval hierarchies for the following purchasing functions: blanket order receipts, field purchase orders (FPO), FPO department approval, FPO payment approval, invoice review, purchase orders, purchase requisitions, and stock requisitions. Approval levels were not setup for any of these purchasing functions. Therefore, the system control is not activated that would require the requestor to get approval from his/her supervisor. On May, 2008, the City Internal Auditor issued an interim audit report that identified several purchasing system controls weaknesses (see Appendix A). The lack of approval hierarchies was one of the system control weaknesses identified in this report.

**The person with authority to approve a requisition should be restricted from entering the transaction into the accounting records.**

The city does not have a policy restricting the person with authority to approve a requisition from entering the transaction into the accounting records. Because no approval hierarchies have been established in the city's purchasing system, a consistent and verifiable authorization function for all city purchases could not be identified.

**The person with authority to approve a requisition should not have custody of the asset.** The city does not have a policy that states that the person with authority to approve a requisition should not have custody of the asset. In addition, all purchasing information system users (except those with inquiry only access), have the ability to requisition and receive ordered goods or services—without supervisory requisition approval. Therefore, the same employee could requisition items (without supervisory approval), receive custody of those items, and record the receipt of those items into the accounting system. Ideally, the following duties should be performed by different employees (1) requisitioning goods, services, or inventory; (2) approving requisitions (performed by the requisitioner's supervisor); and (3) taking receipt of requisitioned items and recording the receipt into accounting records. On May, 2008, the City Internal Auditor issued an interim audit report that identified this system control weakness along with a recommendation of how duties should be separated in the purchasing system (see Appendix A).

**Invoice processing and the ability to create authorized city checks should be separated.** The city does not have a policy that states that a person who enters a transaction in the accounting records should not have custody of the asset. Invoice processing in the purchasing system is an essential element of the accounts payable cycle. Therefore, invoice processing should be limited to accounts payable employees who do not have the ability to create city checks or perform key procurement responsibilities such as purchase order processing. On May, 2008, the City Internal Auditor issued an interim audit report that identified that the Accounting Customer

Service Supervisor and the Payroll Assistant have access to invoice processing and the ability to create authorized city checks (see Appendix A).

**Utilizing stock requisitions would strengthen controls over inventoried assets.** The purchasing system has the ability to setup stock requisitions. A stock requisition is a formal request to remove stock from inventory. After a stock requisition is setup, an authorized person can approve, cancel, or return the stock requisition to the originator for more information. When approving the stock requisition, an authorized person can also verify expense account information and the availability of funds. Warehouse personnel can then issue the items from inventory or return the stock requisition to the sender. However, the purchasing system's stock requisition functionality is not used by city personnel wishing to order items from inventory. In order to issue inventory, warehouse personnel require a valid work order number or account number. There are two basic ways to acquired inventoried assets. (1) Email or call the warehouse requesting assets and provide a work order or account number. Warehouse staff will then issue a ticket and delivered the requested assets to the requester. Issue tickets are signed to signify receipt, but warehouse staff does not keep these tickets on record. Record of the item issued is contained in the purchasing system based on the data entered into the system by warehouse personnel when the ticket was issued. (2) City personnel can stop by the warehouse and request an item directly provided they have a valid account number or work order number. No supervisory approval is checked when issuing assets from inventory. As long as an employee has a valid account number or work order number, warehouse personnel will issue assets from inventory.

**System setup should be tightly controlled.** Purchasing system administrators have access to all purchasing system setup and maintenance functions. System setup functions allow the user to set up system controls, create approval hierarchies, assign users' functional access, clear physical inventory, and purge transaction history. Currently, all employees in the purchasing office have access to these functions. Although multiple purchasing personnel may need access to system maintenance functions, system setup should be tightly controlled and limited to as few employees as possible. On May, 2008, the City Internal Auditor issued an interim audit report that identified this system control weakness along with a recommendation of how duties should be separated in the purchasing system (see Appendix A).

**Vendor creation needs to be segregated from purchasing and receiving functions.** Vendor creation and maintenance of the vendor master file should be segregated from inventory control, purchasing, and receiving. Therefore, the vendor master file should be maintained by employees that have limited access to other purchasing functions. Purchasing personnel, however, have access to all purchasing system functions—including the ability to create vendors and maintain the vendor master file. Although

vendor file maintenance is performed by accounting employees, purchasing personnel should not have access to change the vendor master file. The accounting employees responsible for maintaining the vendor master file do not have access to inventory control or purchase order functions—but have the ability to requisition and receive goods without requisition supervisory approval. On May, 2008, the City Internal Auditor issued an interim audit report that identified this system control weakness along with a recommendation of how duties should be separated in the purchasing system (see Appendix A).

## Legal Review and Requirements

The scope and methods for the review of compliance with applicable legal requirements included:

- Conducting interviews to determine whether written or unwritten procedures are in use.
- Reviewing standard terms and conditions for request for proposals, invitation to bid, field purchase orders, and purchase orders.
- Examining the city’s standard form contract agreements.
- Examining state laws, city ordinance, and written policies and procedures to determine requirements and whether the city’s policies and procedures match the law requirements.

### Y N

#### Legal Review Objectives:

- ✓ 1. Have federal regulations been examined closely to determine their impact on the purchasing program, such as for more stringent purchasing or reporting requirements?
  - ✓ 2. Have state statutes (Local Government Code, Chapter 252 and 271, as well as other applicable statutes) been closely examined to determine their impact on the purchasing program?
  - ✓ 3. Have city ordinances been examined closely to determine their impact on the purchasing program?
  - ✓ 4. Have the terms and conditions on purchase order forms been thoroughly checked by an attorney to ensure that the government is fully protected under applicable common law and the Uniform Commercial Code (UCC)?
  - ✓ 5. Are all proposed contracts to purchase goods or services examined by the attorney to ensure that the government is fully protected under applicable common law and the UCC?
- VTCA Govt. Code, Ch. 2258 – (Prevailing Wage Rates)**
- ✓ 6. Does the city pay the prevailing wage to laborers, workmen and mechanics?
  - ✓ 7. Does the city monitor contractors and subcontractors to ensure that they pay the prevailing wage to laborers, workmen and mechanics?
  - ✓ 8. Does the city determine the general prevailing wage for work of a similar

- character in the locality in which the work is performed?
- ✓ 9. Does the city understand that if they do not determine the prevailing wage and specify that the contractor shall pay the prevailing wage, the contractor is relieved from liability under this act?
  - ✓ 10. Do contracts for such projects contain a provision that if the prevailing wage is not paid in accordance with this statute, the contractor or subcontractor must pay to the city a penalty of \$60 per worker per day?  
**VTCA Local Govt. Code, Ch. 171** – (Conflicts of Interest)
  - ✓ 11. Does a member of city’s governing body always file an affidavit stating the nature and extent of any interest in a business entity or real property on which the governing body is discussing or voting, including contracts for the purchase of goods or services?
  - ✓ 12. Does the member then abstain from discussion or voting on the issue, unless a majority of the members of the governing body have also filed affidavits of similar interests in the same official action?
  - ✓ 13. Does the city take a separate vote on any budget item in which any member has a substantial interest?
  - ✓ 14. Does a member with a substantial interest in the budget matter abstain from the vote on that matter?
  - ✓ 15. Does a member with a substantial interest in any budget matter participate in the final vote on the budget only after complying with this chapter and only after the matter in which the member is concerned has been resolved?  
**VTCA Govt. Code, Ch. 573** – (Degrees of Relationship; Nepotism Prohibitions)
  - ✓ 16. Does the city’s management require the disclosure of the relationships between related elected or appointed officials and vendors and contractors so that conflicts of interest under VTCA Local Government Code Chapter 171 can be detected and prevented?  
**VTCA Code of Criminal Procedures, Ch. 18, Article 18.17** – (Disposition of Abandoned or Unclaimed Property)
  - ✓ 17. Are all items of abandoned or unclaimed property covered by this act delivered for sale to the purchasing agent or the person designated by the city in which the property was seized and is held?
  - ✓ 18. Are all provisions of the act pertaining to notice and advertising of the sale properly carried out?  
**VTCA Code of Criminal Procedures, Ch. 59, Article 59.06** – (Disposition of Forfeited Property)
  - ✓ 19. Does the law enforcement agency understand that all statutes governing purchasing will apply to purchases made with funds from forfeitures?
  - ✓ 20. Does the city have special procedures to ensure that purchasing requirements do not compromise the confidentiality of investigations and ensure proper controls and authorizations?  
**VTCA Govt. Code, Ch. 791** – (The Interlocal Cooperation Act)  
*NOTE: This provides enabling legislation for local governments to improving their collective ability to deliver services to their citizens. Questions on this article which are marked with an asterisk are phrased so*



*that a NO answer indicates an area where improvement might result by considering the action, but does not necessarily indicate noncompliance with a statute.*

- ✓ 21. \*Does the city contract with other governments to perform government duties and services?
- ✓ 22. \*Are these agreements renewed annually?
- ✓ 23. Does an agreement under this act state the purpose, terms, rights, objectives, duties and responsibilities of each contracting party?
- ✓ 24. Do such agreements state that payments for contracted services will be paid from current revenues?
- ✓ 25. Does the contract between governments state which of the governments' rules and regulations will apply?
- ✓ 26. Does any contract allowed by this article provide that no tax revenues shall be pledged to make payments for the contract?  
**VTCA Govt. Code, Ch. 2251 – (Payment for Goods & Services)**
- ✓ 27. Does the city have written procedures to ensure that all undisputed payments owed to suppliers on contracts executed on or after September 1, 1987, are paid no later than the 30th day after the date the goods or services are received (45 days if the governing body meets only once a month), or the date the invoice is received, whichever is latest?
- ✓ 28. On payments disputed because of errors on the invoices, does the government have a procedure for notifying the vendor of the alleged error no later than the 21st day after the date on which the invoice is received? Also, in cases where an exception to the Prompt Payment Act is claimed, is it only because: (a) there is a dispute between the political subdivision and a vendor, contractor, subcontractor or a supplier concerning the supplies, materials or equipment delivered or the performance of services that causes the payment to be late; (b) there is a dispute between the vendor and a subcontractor or between a subcontractor and its supplier concerning the delivery of supplies or materials or the performance of services that causes the payment to be late; (c) the terms of a federal contract, grant regulation or statute prevent the government from making a timely payment; or (d) the invoice is not mailed to the addressee in strict accordance with instructions on the purchase order covering the payment?
- ✓ 29. Do purchase orders issued by the government clearly specify the office where invoices must be received prior to the 30-day or 45-day period begins?
- ✓ 30. On undisputed invoices or invoices where the dispute is resolved in favor of the vendor where the payment is not made within the required period of time, does the government pay interest on the overdue payment as specified by this Act (see section 2251.025)?  
**VTCA Govt. Code, Ch. 2252, Subchapter B – (Interest on Retained Public Works Contracts)**
- ✓ 31. On contracts exceeding \$400,000 for which the government retains more than 5 percent of the payment to ensure performance, does the government deposit the retainage into an interest-bearing account and pay the earnings to the contractor upon completion of the contract?

**VTCA Govt. Code, Ch. 2253** – (Public Works Performance & Payment Bond)

- ✓ 32. For public works contracts exceeding \$25,000 does the contract require a bond for payment of labor and materials by the contractor and subcontractors?
- ✓ 33. For public works contracts exceeding \$100,000 does the contract require a bond to guarantee faithful performance of the contract?

**VTCA Govt. Code, Ch. 2254, Subchapter A** – (Professional & Consulting Services)

- ✓ 34. Does the government have procedures other than sealed competitive bidding to contract for professional services based on the professionals' qualifications and demonstrated competence?
- ✓ 35. For professional architectural or engineering services, does the government negotiate a contract with the professional or firm at a fair price, and if unable to do so, does the government proceed to the next most-qualified professional, until a contract is negotiated?

**Worker's Compensation Agency Rule 110.110**

- ✓ 37. Does the bid/contract have the required language regarding the availability of workers compensation?

**VTCA Local Govt. Code Ch. 252** – (Purchasing & Contracting Authority of Municipalities)

- ✓ 38. For all expenditures of more than \$3,000 but less than \$50,000, does the city contact at least two disadvantaged businesses from the county on a rotating basis from a list provided by the Office of Small Business Assistance of the Building and Procurement Commission?  
*If no disadvantaged businesses are identified by the list, the city is exempt from this requirement.*
- ✓ 39. If the safety record of bidders is considered in determining their responsibility, has the city adopted a written definition and criteria for determining the safety record and does the specification contain notice that safety will be a consideration?
- ✓ 40. On contracts for public works, does the city require the bidder to furnish the city with a performance bond for the amount of the contract before work on the contract begins?
- ✓ 41. Do contracts state that the unit price basis quantities listed are approximate, and payment will be for the actual quantity received?
- ✓ 42. Does the governing body approve changes that increase the cost of the contract when provisions for payment are made, either by appropriating other available funds or by authorizing the issuance of time warrants?

**Legal Review Findings**

City of College Station purchasing policies, procedures, processes, and contractual agreements comply with State and municipal law requirements.

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## Recommendations

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The City of College Station's purchasing processes need a few slight improvements, encompassed in the following audit recommendations. Implementing these recommendations would strengthen internal controls to further prevent fraud, waste, or abuse of city assets.

1. The Department of Fiscal Services should create a policy requiring all city purchasing employees to annually certify in writing that they have read, understand, and will abide by the code ethics documented in the City of College Station's Purchasing Manual.
2. The Department of Fiscal Services should consider setting up approval hierarchies for the following purchasing system functions: blanket order receipts, field purchase orders (FPO), FPO department approval, FPO payment approval, invoice review, purchase orders, purchase requisitions, and stock requisitions. At the very least, requisition approval levels should be set up in the purchasing system. The requisition approval hierarchy should include two to three levels, with at least the following two levels: (1) departmental or supervisory approval and (2) budget or finance review to verify budget sufficiency and account accuracy.
3. The Department of Fiscal Services should limit access of purchasing personnel so that they are unable to create vendors or make changes to the vendor master file. In addition, the accounting personnel who create and maintain the vendor maintenance file should not have access to requisition and receive goods without requisition supervisory approval.
4. The Department of Fiscal Services should segregate the duties of requisitioning, requisition approval, and receiving by setting up requisition approval hierarchies and separating purchasing system user access to these functions.
5. The Department of Fiscal Services should reevaluate the needs of those who have administrator access to the purchasing system in order to more tightly control this access.
6. The Department of Fiscal Services should limit invoice processing to accounts payable employees who do not have the ability to create city checks or perform key procurement responsibilities such as purchase order processing.

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# Appendices

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## APPENDIX A: Interim Purchasing Audit Report



### CITY OF COLLEGE STATION

**TY ELLIOTT**  
City Internal Auditor  
telliott@csbx.gov

**CITY INTERNAL AUDITOR'S OFFICE**  
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**AUDIT COMMITTEE**  
Mayor Pro Tem Ron Gay, Chair  
Councilmember Lynn McIlhane  
Councilmember James Massey

**TO:** Jeff Kersten, Chief Financial Officer

**FROM:** Ty Elliott, City Internal Auditor *TE*

**DATE:** May 15, 2008

**SUBJECT:** **Interim Purchasing Audit Findings—PI System Controls**

On April 7, 2008, I was notified by Cheryl Turney of the following changes to the HTE Purchasing/Inventory (PI) system made on April 4, 2008:

Interface Information

- HTE accounting group user ID was changed from SWHITIS to JGUAJARDO
- Post AP transactions by period/FY was changed from No to Yes

Purchase Requisitions

- Display account balances when over budget changed from No to Yes

Purchase Order Processing

- Confirmation copy changed from Yes to No
- Maximum days to process an order changed from 1 to 30 days
- Pre-encumber funds at purchase order level changed from No to Yes

Receipts/Invoice Processing

- PO total change allowed changed from 400% to 10%

I have reviewed these system control changes and determined that they are in alignment with audit recommendations I was considering. I commend the Department of Fiscal Services for being proactive in implementing changes to the PI system to strengthen internal controls over the city's purchasing functions.

In addition to these changes, I have identified the following potential PI system control improvements:

## APPENDIX A (continue): Interim Purchasing Audit Report

**Purchasing Authorization:** According to the State of Texas Office of the Comptroller, municipalities should have a requirement for an authorization or verification at each of the following stages of the purchasing cycle: (1) requisition of goods or services (authorized by department head or representative); (2) selection of vendor (purchasing officer or governing body for bidding process); (3) price and terms (purchasing officer); (4) purchase invoice (user verifies satisfactory performance); and (5) payment and account/fund to charge (accounting manager). Stages two through five were found to have adequate authorization or verification procedures. However, controls could be strengthened when goods or services are requisitioned.

City policy requires all purchases of \$3,000 or more to have purchase requisitions initiated by the head of the department or division (or their designee) whose appropriation should be charged, and a purchase order approved by the Purchasing Manager or designee. However, the system control in the PI system is not activated that would require supervisory approval of requisitions—despite the system having this capability.

The PI system has the ability to set approval hierarchies for the following functions: blanket order receipts, field purchase orders (FPO), FPO department approval, FPO payment approval, invoice review, purchase orders, purchase requisitions, and stock requisitions. The Department of Fiscal Services should consider setting up approval hierarchies for each of these PI functions. At the very least, requisition approval levels should be set up in PI. Too many levels of approval can significantly slow down the procurement process. Therefore, a common requisition approval hierarchy would include two to three levels, with at least the following two levels: (1) departmental or supervisory approval and (2) budget or finance review to verify budget sufficiency and account accuracy.

**Segregation of Duties:** The same employee should not perform more than one of the following job functions: authorization, execution, custody, and recording. An employee who possesses two or more of these functions has inadequate segregation of duties. Such a situation can provide employees with the opportunity to commit fraud. The following list summarizes areas that may need improvement in order to ensure that PI users do not have multiple incompatible duties that could increase the risk of inaccurate or fraudulent transactions.

1. Because no approval hierarchies have been established in the PI system, a consistent and verifiable authorization function for all city purchases could not be identified.
2. Vendor creation and maintenance of the vendor master file should be segregated from inventory control, purchasing, and receiving. Therefore, the vendor master file should be maintained by employees that have limited access to other purchasing functions. Purchasing personnel, however, have access to all PI system functions—including the ability to create vendors and maintain the vendor master file. Although vendor file maintenance is performed by accounting employees, purchasing personnel should not have access to change the vendor master file. The accounting employees responsible for maintaining the vendor master file do not have access to inventory control or purchase order functions—but have the ability to requisition and receive goods without requisition supervisory approval.

## APPENDIX A (continue): Interim Purchasing Audit Report

3. The person with authority to approve a requisition and the person who enters a transaction in the accounting records should not have custody of the asset. All PI system users (except those with inquiry only access), have the ability to requisition and receive ordered goods or services—without supervisory requisition approval. Therefore, the same employee could requisition items (without supervisory approval), receive custody of those items, and record the receipt of those items into the accounting system. Ideally, the following duties should be performed by different employees (1) requisitioning goods, services, or inventory; (2) approving requisitions (performed by the requisitioner’s supervisor); and (3) taking receipt of requisitioned items and recording the receipt into accounting records.
4. PI administrators have access to all PI system setup and maintenance functions. System setup functions allow the user to set up system controls, create approval hierarchies, assign users’ functional access, clear physical inventory, and purge transaction history. Currently, all employees in the purchasing office have access to these functions. Although multiple purchasing personnel may need access to system maintenance functions, system setup should be tightly controlled and limited to as few employees as possible.
5. Accounts payable and disbursement responsibilities should be separated from the procurement function. In addition, employees who have functional access to accounts payable should not have the ability to create an authorized city check. Invoice processing in the PI system is an essential element of the accounts payable cycle (see Figure 1, below). Therefore, invoice processing should be limited to accounts payable employees who do not have the ability to create city checks or perform key procurement responsibilities such as purchase order processing. Currently, the Accounting Customer Service Supervisor and the Payroll Assistant have access to invoice processing and the ability to create authorized city checks.

**Figure 1:** Diagram of the Accounts Payable Cycle

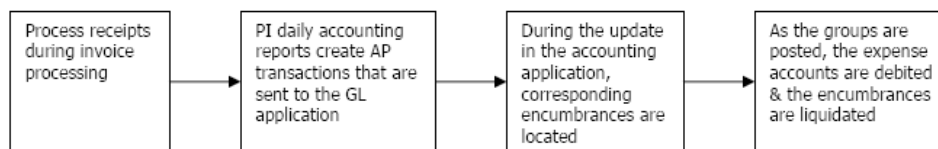


Table 1, on the next page, summarizes the purchasing functional access of each PI system user group. The descriptions of the PI user groups are as follows:

- PI1 Administrators – purchasing staff
- PI2 Inventory – mostly warehouse staff
- PI3 Accounting Financials – accounting staff
- PI4 Entry, Receiving, Invoicing, and Issues – accounting staff and department users
- PI5 Entry, Receiving, Allocation, and Issues – department users
- PI6 Entry, Receiving, and Allocation – department users
- PI7 Entry and Receiving – department users
- PI8 Inquiry – department users

**APPENDIX A (continue): Interim Purchasing Audit Report**

Data from user group security listing reports obtained on March 13, 2008, were used to create Table 1. According to these reports, there are over 300 PI system users who have access to requisition and receive goods, services, or inventory—without supervisory approval.

**TABLE 1: PI System User Group Purchasing Functional Access (as of 3/13/08)**

Purchasing Functional Access	PI System User Groups							
	PI1	PI2	PI3	PI4	PI5	PI6	PI7	PI8
Inquiry and reports	x	x	x	x	x	x	x	x
FPO creation	x	x	x	x	x	x	x	
Requisition goods, services, or inventory	x	x	x	x	x	x	x	
Requisition approval (no approval hierarchies)	x	x	x	x	x	x	x	
Receiving	x	x	x	x	x	x	x	
FPO approval (payment & department)	x		x					
Invoice processing	x		x	x				
Purchase order entry	x	x			x			
Purchase order processing	x							
Vendor maintenance	x		x					
Inventory control/orders	x	x	I	I	O,I,A	A		
System setup/maintenance	x							
# of Employees (based on # of user IDs)	5	11	6	13	147	31	97	59

**Key:** A=Item allocation functionality I=Item issues functionality O=Inventory reorder functionality

Table 2 below describes one possible way that purchasing and accounts payable duties could be separated to reduce the risk of inaccurate or fraudulent transactions. Table 2 could be used as a general guide in assigning user access to PI, but should not be interpreted as the final authority on how job functions should be separated in the City of College Station. The general rule that should be applied is to assign an employee access to those functions that are absolutely necessary to perform their essential job duties.

**TABLE 2: Suggested Segregation of Purchasing and Accounts Payable Duties**

Purchasing & AP Duties	Purchasing Manger	Purchasing Buyers	Dept/Div Receiver	Dept/Div Supervisors	Inventory Staff	AP Staff	Check Creation Staff	Dept/Div Order Staff
FPO creation		x			x	x		x
FPO department approval	x			x				
FPO payment approval						x		
Requisition creation		x			x	x		x
Requisition approval	x			x				
Receiving			x		x			
Invoice processing						x	x	
Purchase order processing	x	x						
Vendor maintenance						x		
Inventory control	x	x			x			
Inventory orders	x	x			x			x
System maintenance	x	x						
System setup	x							
Check creation							x	



## APPENDIX A (continue): Interim Purchasing Audit Report

**Check Security:** Security features on city checks are adequate to deter and prevent check fraud; however, the following improvements could be made:

1. Currently, the Accounting Customer Service Supervisor orders check paper by placing an order with the vendor by email. It is appropriate for this accounting employee to order check paper. It is also appropriate that the city employee performing reverse positive pay functions does not order check paper or have access to create city checks. However, control over distribution of check paper could be strengthened by forming an agreement with the vendor to require vendor receipt of an authorized purchase order document before the vendor will deliver the check paper to the city employee authorized to take receipt of the paper.
2. The city uses reverse positive pay as a preventive control to check fraud. Reverse positive pay is an adequate preventive control to check fraud, but positive pay would be a more effective control. According to the Department of Fiscal Services, they had been investigating implementing positive pay prior to audit initiation. I encourage Fiscal Services to continue in this direction.

cc: Glenn Brown, City Manager  
Cheryl K. Turney, Assistant Director of Fiscal Services  
Janet Dudding, Assistant Director of Fiscal Services  
Erin Provazek, Assistant Director of Information Technology

## APPENDIX B: Management Response to Audit Recommendations



To: Ty Elliott, City Internal Auditor  
Through: Glenn Brown, City Manager  
From: Jeff Kersten, Chief Financial Officer  
Date: October 3, 2008  
Subject: Purchasing Processes Report - Fiscal Services Response

Attached is the Fiscal Services Department response to the Purchasing Card Audit Report. Each of the six recommendations includes a response on how the recommendation will be addressed.

Please let me know if any additional information is needed.

cc: Cheryl Turney, Assistant Director Fiscal Services  
Janet Dudding, Assistant Director Fiscal Services

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## APPENDIX B (continue): Management Response to Audit Recommendations

### Procurement Processes Internal Audit

#### Internal Audit Recommendations and Fiscal Services Response:

- 1. Recommendation:** The Department of Fiscal Services should create a policy requiring all city purchasing employees to annually certify in writing that they have read, understand, and will abide by the code ethics documented in the City of College Station's Purchasing Manual.

*Response: Management concurs and will require all Purchasing employees to certify in writing during their annual performance evaluations that they have read, understand, and will abide by the City's code of ethics.*

- 2. Recommendation:** The Department of Fiscal Services should consider setting up approval hierarchies for the following purchasing system functions: blanket order receipts, field purchase orders (FPO), FPO department approval, FPO payment approval, invoice review, purchase orders, purchase requisitions, and stock requisitions. At the very least, requisition approval levels should be set up in the purchasing system. The requisition approval hierarchy should include two to three levels, with at least the following two levels: (1) departmental or supervisory approval and (2) budget or finance review to verify budget sufficiency and account accuracy.

*Response: Finance concurs and will work with management to set up approval hierarchies for field purchase orders and purchase requisitions. Furthermore, Finance will specifically work with Public Works and Public Utilities to establish approval hierarchies for stock (inventory) requisitions.*

- 3. Recommendation:** The Department of Fiscal Services should limit access of purchasing personnel so that they are unable to create vendors or make changes to the vendor master file. In addition, the accounting personnel who create and maintain the vendor maintenance file should not have access to requisition and receive goods without requisition supervisory approval.

*Response: Management concurs. At this time, no one in Purchasing is able to add, edit or delete vendors. Additionally, once we implement approval hierarchies as recommended in Item 1 (above), individuals with access to the vendor master file will not be able to requisition goods without supervisory approval.*

- 4. Recommendation:** The Department of Fiscal Services should segregate the duties of requisitioning, requisition approval, and receiving by setting up requisition approval hierarchies and separating purchasing system user access to these functions.

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**APPENDIX B (continue): Management Response to Audit Recommendations**

*Response: Management concurs. Finance will work with IT to redesign our existing PI System User Groups (table below) to segregate the duties for requisitioning, requisition approval and receiving.*

Purchasing Functional Access	PI System User Groups							
	PI1	PI2	PI3	PI4	PI5	PI6	PI7	PI8
Requisition goods, services, or inventory	X	X	X	X	X	X	X	
Requisition approval	X	X	X	X	X	X	X	
Purchase order entry/change	X	X			X			
Requisition processing/close POs	X							
Receiving	X	X	X	X	X	X	X	
Accounts payable	X		X	X				
Vendor maintenance	X		X					
Inventory control	X	X		I	O,I, A	A		
Inquiry/reports	X	X	X	X	X	X	X	X
System setup/maintenance	X							
Check signing/printing authority			1	1			2	
Number of employees:	5	11	6	13	147	31	97	59
System setup/maintenance functions include setting up system controls, creating approval hierarchies, assigning users functional access, clearing physical inventory, and purging transaction history.								
A=Item allocation functionality I=Item issues functionality O=Inventory reorder functionality								

**5. Recommendation:** The Department of Fiscal Services should reevaluate the needs of those who have administrator access to the purchasing system in order to more tightly control this access.

*Response: According to the table above, 5 individuals had administrator access to the purchasing system. At this time, there are 4 Purchasing employees who have administrator access. Finance will reevaluate if all 4 individuals need administrator access and work with IT department to redesign the PI System User Groups (if necessary).*

**6. Recommendation:** The Department of Fiscal Services should limit invoice processing to accounts payable employees who do not have the ability to create city checks or perform key procurement responsibilities such as purchase order processing.

*Response: Management concurs and has established additional controls in those instances where the Supervisor approves the payment. These items are primarily contractual capital projects in nature and have approval signatures from the engineer, the project manager and the CIP Director before coming for check processing. Finance will work with IT to redesign the PI User Groups to restrict individuals with accounts payable access from also being able to write checks or perform key procurement responsibilities such as purchase order processing.*

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