



The Executive Summary should be interpreted within the context of the complete engagement report.

## BACKGROUND

The Purchasing Services Division is responsible for acquiring goods and services through a competitive bid process. Internal Audit is reviewing the division's activities to ensure they possess sufficient capacity to handle City needs in a timely fashion.

## Purchasing Operations Review – Part 1

### SCOPE

Our audit work covers the period of January 1, 2017 through December 31, 2018.

### OBJECTIVES

During part 1 of this engagement, we perform a client evaluation, assess the controls' efficiency and effectiveness, and assess IT, governance, and fraud risks.

### CONCLUSIONS

The Purchasing division has a positive working culture. City staff are very satisfied with the services provided by the Purchasing division. There are sufficient controls in place for the significant purchasing processes. We did not identify any IT risks. We assessed the governance level as good as there are governance processes in practice with some, but not all, operating effectively. We did not identify any significant fraud risks.

## KEY RECOMMENDATIONS AND RESPONSE

### RECOMMENDATIONS

We recommend the Purchasing Division review and revise the Purchasing Procedure Letters (PPLs).

We recommend the Purchasing Division enhance current performance measures and increase City staff training on the purchasing process.

We recommend the Purchasing Division pursue a system that automates purchasing activities and contract management.

### RESPONSES

Management has agreed to implement the Internal Audit recommendations.

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**Milestone 2 Report**  
Purchasing Operations Review – Part 1

**BACKGROUND**

In Milestone 2, we seek a deeper understanding of the client's operating environment and client issues that may affect the engagement objectives and influence subsequent engagement procedures. We accomplish this by reviewing policies and procedures, performance measures, statistics, and administering and analyzing the results of culture and customer service surveys.

<b>PROCEDURES</b>	<b>CONCLUSIONS</b>
<ul style="list-style-type: none"> <li>• <i>Review policies and procedures</i></li> </ul>	<ul style="list-style-type: none"> <li>• The Purchasing Procedure Letters (PPLs) are in need of review and update.</li> </ul> <p style="text-align: center;">See <b>ISS.1</b> below</p>
<ul style="list-style-type: none"> <li>• <i>Review performance measures</i></li> </ul>	<ul style="list-style-type: none"> <li>• There is one efficiency performance measure in place. Internal Audit believes the division could benefit from using the PALT to guide operational decisions.</li> </ul> <p style="text-align: center;">See <b>ISS.2</b> below</p>
<ul style="list-style-type: none"> <li>• <i>Issue culture survey</i></li> </ul>	<ul style="list-style-type: none"> <li>• The survey results point to an overall positive culture within Purchasing.               <ul style="list-style-type: none"> <li>○ <u>Leadership</u>: There is a high level of trust among the division. Staff is comfortable approaching the manager about issues related to the job. Management is receptive to staff ideas.</li> <li>○ <u>Teamwork</u>: Purchasing staff perceives high degrees of cooperation across their division and with other departments.</li> <li>○ <u>Communication</u>: Overall staff communication perceptions were positive. There is accurate and open communication within the division. Management is knowledgeable of the problems staff face.</li> <li>○ <u>Decision-making</u>: Staff feels involved in the division's decision-making process, which contributes greatly to their motivation.</li> <li>○ <u>Goals</u>: Staff feels involved in establishing the division's goals and perceive little to no resistance to these goals by other staff.</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>○ <u>Control</u>: Staff perceives little to no resistance to the operating standards and that Management uses performance measures for guidance and problem solving. The Core 4 values are very important to Purchasing staff.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Issue customer service survey</i></li> </ul>	<p>Customers are very satisfied with the services provided by the Purchasing division. Areas of improvement include providing more pre and post training to City staff, promoting the reference guides, increasing communication throughout the purchasing process, and considering the use of technology to track the purchasing process.</p> <p>See <b>ISS.3</b> below</p>

Wayne C. Sommer, CPA, CGMA  
Internal Audit Manager

## Issue Details

### ***ISS.1 – Review and Update PPLs***

Based on discussion with Management, the Purchasing Procedure Letters (PPLs) are in need of review and update. There is no evidence that they have been reviewed since they were written and they contain out of date content. Eighty-five percent of the PPLs have an effective date of or before 2012. The PPLs are scanned PDFs and therefore not in an easily searchable format.

Purchasing staff, and City staff interacting with Purchasing, are operating and making decisions and purchasing plans based on outdated procedure letters and any other outdated policies, procedures, or guidelines.

The PPLs and other purchasing guidelines are not just for Purchasing staff. They provide guidance to City staff who needs to interact with the Purchasing division while preparing for significant purchases. Documented policies and procedures provide consistent guidance for necessary business processes and internal controls. They are reference guides for existing staff and training material for new staff to ensure that the division operates consistently, efficiently, and effectively. They help ensure accurate and complete records. They provide a basis for sound decision-making that complies with established requirements and standards.

### ***Recommendation***

We recommend Management review and update the PPLs and any other policies, procedures, or guidelines applicable to the purchasing process (updating for content and format). We also recommend Management publicize the updates to all City staff via the City's intranet and through future training activities conducted by the Purchasing division.

### ***Management Response***

Management agrees to implement the recommendation.

*Estimated Implementation Date:* December 31, 2019

*Issue Contributor:* Bryn Fillinger

*Issue Final Approver:* Janice Napper

### ***ISS.2 – Performance Measures***

The purchasing administrative lead time (PALT) tracks the turnaround of purchase orders dependent upon the procurement type and price. This is the Purchasing division's only performance measure. The division does not use the PALT figures to support or recommend operational changes or to assess staff performance. For 2018, the PALT was met for 93% of purchase orders.

Performance measures should be meaningful, relevant, aligned with overarching organizational goals and objectives, and focused on customer needs and demands. Measures can address individual, group, organizational, or supplier performance. Specific to purchasing, performance measurement can assess:

- Customer satisfaction (i.e. internal and external)
- Timeliness (i.e. time in process against agreed upon times<sup>2</sup>)
- Quality (i.e. number of errors, change orders)
- Effectiveness (i.e. savings)
- Efficiency (i.e. cost of operations)

### ***Recommendation***

We recommend Management consider the PALTs use in future operational changes, such as providing a rationale for revising the days associated to a dollar amount or procurement type. It can also be used to assess staff performance, providing additional training and assistance to those who consistently miss the PALT.

### ***Management Response***

Management agrees to implement the recommendation.

*Estimated Implementation Date:* December 31, 2019

*Issue Contributor:* Bryn Fillinger

*Issue Final Approver:* Janice Napper

### ***ISS.3 – City Staff Training***

The customer service survey results show that 53% of respondents are unaware of the PPLs and 66% are unaware of the purchasing planner resources guide. City staff may be lacking knowledge of purchasing operations and not properly prepared to interact with the purchasing processes. Resource guides, policies, and procedural documents guide operations and staff behavior.

### ***Recommendation***

We recommend Purchasing Services develops more focused training on and marketing of the PPLs and other purchasing resources.

### ***Management Response***

Management agrees to implement the recommendation.

*Estimated Implementation Date:* December 31, 2019

*Issue Contributor:* Bryn Fillinger

*Issue Final Approver:* Janice Napper

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<sup>2</sup> This is the current measure.



**Milestone 3 Report**  
Purchasing Operations Review-Part 1

**Internal Controls**

In Milestone 3, we determine whether appropriate controls exist for key processes and whether these processes are efficient. We flowchart and perform walkthroughs of key processes, identifying missing controls and process inefficiencies.

<b>PROCEDURES</b>	<b>CONCLUSIONS</b>
<ul style="list-style-type: none"><li><i>Flowchart key processes. Evaluate key processes for missing or weak internal controls, efficiency issues, and IT related issues.</i></li></ul>	Internal Audit did not identify any missing controls in the flowcharts or during the walkthroughs. There are sufficient controls in place for the significant purchasing processes. The division strives for efficient and effective processes by adhering to and consistently meeting the PALT, as discussed in Milestone 2. No efficiency issues identified during this review.
<ul style="list-style-type: none"><li><i>Determine any impact on fieldwork procedures.</i></li></ul>	No impact or change to fieldwork procedures at this time.



**Milestone 4 Report**  
Purchasing Operations Review – Part 1

**Risk**

In Milestone 4, we assess the impact of identified risks on the engagement objectives, scope, and planned test work procedures. We accomplish this by discussing risk in key areas with the client and comparing current practices to leading practices.

<b>PROCEDURES</b>	<b>CONCLUSIONS</b>
<ul style="list-style-type: none"><li>• <i>Assess IT Risk</i></li></ul>	No IT issues identified.
<ul style="list-style-type: none"><li>• <i>Assess Governance Risk</i></li></ul>	We assessed the governance level as good <sup>3</sup> ; strategic discussions do not occur within the division, however, all other governance processes assessed are in practice and operating effectively.
<ul style="list-style-type: none"><li>• <i>Assess Fraud Risk</i></li></ul>	Based on the fraud risk discussions, Internal Audit developed the recommendations in this report.

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<sup>3</sup> Good: There are governance processes in practice with some, but not all, operating effectively.



## Issue Details

Issues 1 – 3 are included in the Milestone 2 report.

### ***ISS.4 – Annual Conflict of Interest/Disclosure Statements***

Currently, Purchasing Services staff are not required to disclose any business ownership, income, or investment information. There is a conflict of interest statement required for City staff who participate on the vendor selection committee.

The risk is Purchasing Services staff could provide bid or proposal information to a family member, friend, or business in which they have a financial interest, resulting in an unfair advantage in the bid and proposal process. This could also lead to Purchasing Services staff fraudulently receiving bribes, kickbacks, or other incentives to affect the final selection process.

Annual disclosures and conflicts of interest statements ensure the City conducts business responsibly and ethically, by identifying and minimizing conflicts between staff obligations and their outside personal interests. There may be other disclosures Management considers necessary, as there are a range of behaviors that can fall within the conflict of interest definition<sup>4</sup>.

### ***Recommendation***

We recommend Management implement annual conflict of interest/disclosure statements for current and future Purchasing Services staff.

### ***Management Response***

Management agrees to implement the recommendation.

*Estimated Implementation Date:* January 2, 2020

*Issue Contributor:* Bryn Fillinger

*Issue Final Approver:* Janice Napper

### ***ISS.5 – Automation of Processes***

Purchasing Services does not utilize a purchasing or contract management system. Purchasing Services receives purchase requisitions and issues purchase orders via OneSolution. The division uses COGNOS to report the PALT (purchasing administrative lead time.)

Currently, almost all purchasing activities are performed manually and as such, the division is not operating as efficiently as possible. Purchasing Services is not able to easily identify cost savings, better pricing, manage vendors, automate reports, or effectively contribute to developing a strategic plan for purchasing across the City.

Best practices of and benefits when automating purchasing activities include:<sup>5</sup>

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<sup>4</sup> Example: <http://www.princeton.edu/hr/policies/conditions/5.2/conflictfrm.pdf>; Tax and Licensing recently enacted a conflict of interest statement for staff.

<sup>5</sup> <https://www.scnsoft.com/blog/purchasing-with-procurement-portal>; <https://www.mckinsey.com/business-functions/operations/our-insights/revolutionizing-indirect-procurement-for-the-2020s>

1) Savings/better pricing – a system can identify who is buying what across the City, allowing opportunities to combine purchases where possible. This creates opportunities to order in bulk, therefore opening the possibility of volume discounts.<sup>6</sup>

2) Category management – a system can group similar goods and services to categories based on department/division, cost, item/service type, quantity, expertise required, etc.<sup>7</sup> This level of management allows Purchasing Services to view and report on the entire spend across the City. Using this information, the City and Purchasing Services can target specific areas and be more strategic in purchasing decisions.

3) Increased transparency – a system can update Purchasing Services and departments on the purchasing status (open, approved, pending, declined, canceled, completed, etc.) Purchasing Services can report on general trends across the City such as how much has been spent, when, where, how often, budget exceeds, and other data points.

4) Vendor management – a system can identify the most suitable, already vetted, and approved vendors based on details contained in a purchase requisition. A system can identify how many times a vendor has been used, prior performance, and even store vendor terms and conditions.

5) Workflow automation – a system can automate approvals throughout the workflow, help purchasing agents manage multiple processes across departments/divisions with automated alerts for critical dates, contract expirations, payment, bidding schedules, etc. Some systems can even automate replenishment of certain supplies, which could also lead to price reductions from vendors.

6) Integration opportunities – a system might integrate with current City systems such as OneSolution for invoice payment (electronic approvals) or Rocky Mountain purchasing system when issuing requests for proposals or information.

By implementing an automated solution, Purchasing Services can become more than an administrative function and assume a greater strategic role in the City purchasing processes.

## ***Recommendation***

We recommend Purchasing Services pursue a system that would automate purchasing activities and contract management.

## ***Management Response***

Management agrees to implement the recommendation.

*Estimated Implementation Date:* June 30, 2020

*Issue Contributor:* Bryn Fillinger

*Issue Final Approver:* Janice Napper

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<sup>6</sup> Organizations have identified 15-20% of cost savings by adding or creating digital solutions to their purchasing functions.

<sup>7</sup> "For example, the compliance requirements and level of detailed technical knowledge needed to procure IT service providers handling sensitive state data is very different from the purchase of commodity goods from well-established vendors." <https://www.mckinsey.com/industries/public-sector/our-insights/a-path-to-successful-state-procurement-transformation>

## ***ISS.6 – Vendor-Provided Drives***

There is no requirement for Purchasing staff to request an IT Security scan of any vendor provided thumb/removable drives. Per discussion with the Purchasing Manager, on occasion, vendors will provide their proposals on a USB thumb drive. They do not always have IT scan the device to ensure it is safe for use.

Using unscanned USB or removable drives puts the City at risk for viruses and malware. Viruses and malware can cause significant harm, preventing City devices from operating properly and potentially providing unwanted access to City systems.<sup>8</sup>

### ***Recommendation***

We recommend that Purchasing Services work with IT Security to scan vendor-provided drives prior to their use.

### ***Management Response***

Management agrees to implement the recommendation.

*Estimated Implementation Date:* January 2, 2020

*Issue Contributor:* Bryn Fillinger

*Issue Final Approver:* Janice Napper

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<sup>8</sup> <https://www.csoonline.com/article/3295877/what-is-malware-viruses-worms-trojans-and-beyond.html>