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City Auditor

May 9, 2005

Mr. Michael Killebrew
Director of Financial Management

Mr. Michael Slavin
Director of Finance, Harbor Department

Mr. Paul Fujita
Director of Finance, Water Department

We have conducted a review of the Citywide purchasing function. Hundreds of employees throughout the City participate in the process of purchasing goods and services on behalf of the City. The Financial Management Department encompasses the City's centralized Purchasing Division (the Division) that is headed by the City's Purchasing Agent and is staffed with five buyers and two support staff. Purchases of goods in amounts \$10,000 and under and contracts for certain services are handled directly by the individual departments. Purchases of goods in amounts exceeding \$10,000, Citywide purchases under blanket purchase order contracts, and certain other service contracts are handled by the centralized Purchasing Division. The Public Works Department handles execution of most major construction contracts and the Water Department and Harbor Department handle their own purchases and service contracts through their respective Commissions.

The purpose of the review was to determine the adequacy of the purchasing system in terms of obtaining goods and services in an economical and expeditious manner, while maintaining controls to prevent misappropriation of City assets and impediments to fair and equitable selection of vendors. Our review procedures are presented in Appendix A.

Based on the reviews performed, the Purchasing Division provides the City with an effective and efficient process for obtaining goods and services at competitive prices and in a timely manner. That said, many purchases made on behalf of the City do not involve the Division, as indicated above. While the Division does an adequate job of providing resources and assistance to departments when included in a purchasing decision, many times they are not aware of a process until its completion, often upon approval by the City Council.

Our review of the purchasing process noted that, while adequate procedures may be used in the selection of a vendor and awarding of a purchase order, once a vendor is


chosen and purchases begin, procedures for receipt of goods and services and for review of related invoices are not always adequate to ensure only valid charges are paid. Under current procedures, some invoices are authorized for payment without being matched to packing lists and/or work orders that evidence receipt of the goods or services. In many cases, an individual who is not the one that receives the goods and/or services rendered signs a "certification" of receipt to authorize payment of the invoice. This is, in part, due to procedures that place an emphasis on obtaining an authorized signature for receipt rather than requiring review and approval by an authorized individual. This has led to occasions in which the City mistakenly paid for goods/services not received and/or has inadvertently authorized duplicate payments. In addition, invoices are not always reviewed to ensure compliance with terms and pricing stated in the related contracts or purchase orders. This lack of review has led to occasions when the City has overpaid for goods/services. Procedures for the receipt of goods, materials and services, and review of invoices require revision to provide for an adequately controlled purchasing environment. Additional training should also be provided to departments to ensure responsible parties understand their role in the process.

Our review also identified opportunities for savings on certain purchases that are not being subjected to a competitive bidding process. Specifically, we identified over 100 vendors for which one or more departments in the City spent over \$10,000 annually for three consecutive years and the purchases were not subjected to a bidding or price negotiating process. The total spent on these vendors over the 3 year period totaled several million dollars and, based on our analysis of the cost savings realized from bidding processes conducted by the Purchasing Division, we believe savings of at least \$390,000 could be realized if these purchases were subjected to the process and blanket purchase orders issued.

Several other control weaknesses and recommendations for improvement were identified during our review and are detailed in the body of this report.

We would like to take this opportunity to express our appreciation to management and staff of the Division for their kind cooperation and valuable assistance to us during the course of this engagement. They have demonstrated their commitment to corrective action and we look forward to assisting in any way possible.

Sincerely,



GARY L. BURROUGHS, City Auditor

By: Janet Sutter, CIA
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BACKGROUND

There are several methods available to employees to procure goods and services on behalf of the City, as follows:

- Purchase Requisition – Departments can enter purchase requisitions into the Advanced Purchasing and Inventory Control System (ADPIC's) system for purchases exceeding \$10,000 per vendor, per year and these requests are processed by the Purchasing Division. The Purchasing Division obtains required bids, approvals, vendor qualification information, insurance, etc. The Division sets up a Standard Purchase Order for a total fixed price procurement or a Blanket Purchase Order (BPO) for term contracts.

The Division maintains blanket purchase orders with about 100 vendors for goods and services purchased in volume by one or more City departments. As departments identify a need for an item covered by a blanket purchase order, they can enter a blanket "release" in the system for the value of items required.

- Direct Purchase Orders – Direct Purchase Orders (DPO's) are issued by individual departments and are intended for the purchase of goods or services that are not available under an existing BPO and that will not exceed \$10,000 in one year. Policies and procedures encourage departments to obtain 3 verbal quotes for these types of purchases.
- Direct Payments – Departments may also request payments directly through the accounting system and not against a specific purchase order. These are referred to as Direct Payments. These payments are typically for reimbursement of petty cash expenses or employee travel reimbursements.
- Purchasing Cards – Some departments have been issued Purchasing Cards for use by employees in making low-dollar value purchases of items. Purchasing cards are useful to departments with employees responsible for programs and events at various locations throughout the City, such as Parks, Recreation and Marine and Library. Other departments that utilize these cards include Technology Services Department, who make online purchases, and Energy Department employees that have a need to purchase tools and equipment for repairs.

Purchasing Activity & Volume

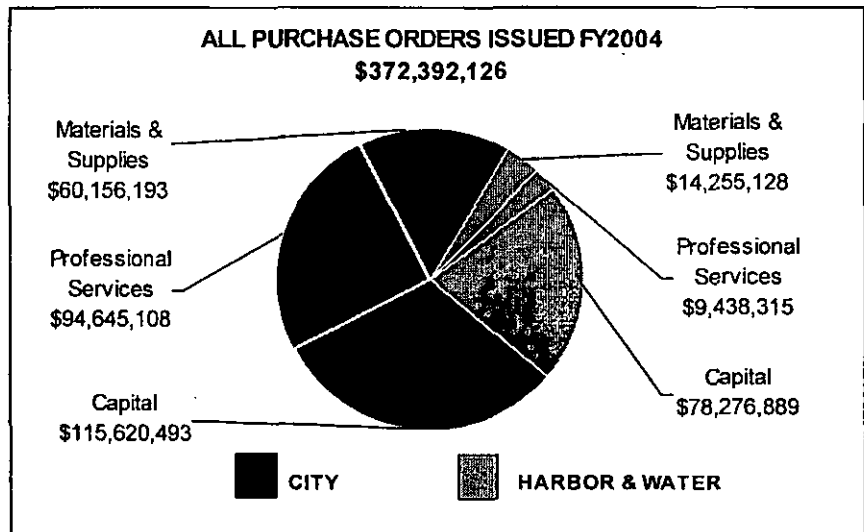
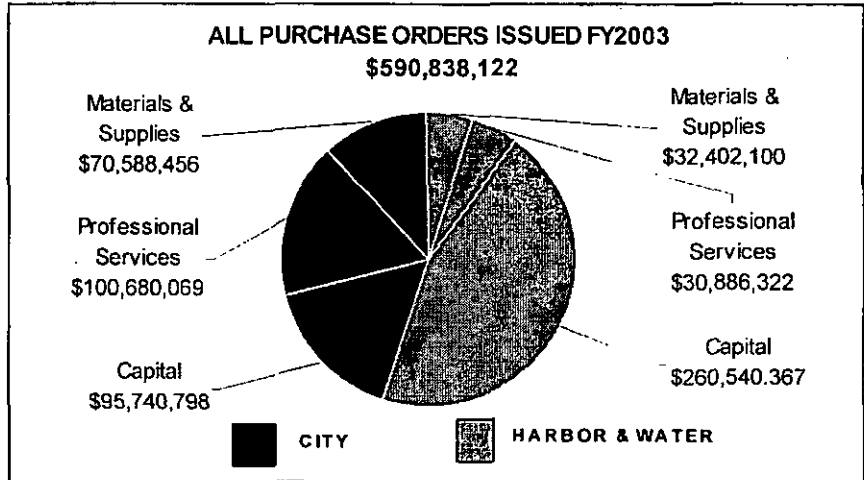
The City, including the Harbor and Water Departments, issued a total of 33,259 purchase orders totaling \$372 million during fiscal year 2004. During fiscal year 2003, a total of 37,552 purchase orders totaling \$590 million were issued. The difference between these two years (\$218 million) is mostly related to the Harbor Department's capital projects. The Harbor issued \$249 million in purchase orders towards capital projects in FY03 and issued only \$62 million in purchase orders related to capital projects during FY04 (a difference of \$187 million).

Purchase orders issued can be broken up into three categories: Capital Projects, Materials and Supplies, and Professional Services. Based on the figures for FY03 and

FY04, capital projects account for 50 to 60% of total purchase orders issued each year. Materials and Supplies account for 17 to 19% of total purchase orders and Professional Services account for 22 to 28% of the total.

The City uses the Advanced Purchasing and Inventory Control System (ADPICS) for recording purchase order activity. The Technical Systems Officer of the Financial Management Department administers the ADPICS system. The ADPICS system utilizes approval paths that route purchase orders to specific "queues" for review and approval.

Individual departments instruct the Technical Systems Officer as to who in their department can approve and how many approval levels should be built (for example, purchase orders less than \$1,000 may require only the initiator and one approval level; but purchase orders over \$1,000 may require the initiator and two more approval levels and so on). This system interfaces directly with the Financial Accounting and Management Information System (FAMIS) for accounting purposes.



FINDINGS & RECOMMENDATIONS

1. **Inadequate Procedures for Receipt of Goods and Review of Invoices Have Led to Losses From Undetected Overcharges, Duplicate Charges, and/or Payment for Services not Rendered by Vendors**

Our review of the purchasing process noted that, while adequate procedures may be used in the selection of a vendor and awarding of a purchase order, once a vendor is chosen and purchases begin, departments do not always verify their compliance with the terms, pricing and deliverables indicated in the contract or bid. In addition, procedures for the receipt of goods/services and agreement to invoices received are not adequate.

Procedures do not require packing lists and/or work orders to be attached to invoices when requesting payment. Procedures only require that an "authorized" individual receive goods and/or services on behalf of the City; however, in many cases the "authorized" individuals who initial for receipt of the goods/services on the invoice do not personally witness the receipt of goods/services. Packing lists and/or work orders that are signed by the "receivers" are not always retained and matched to invoices. This disconnect has led to occasions in which the City has inadvertently paid for goods or services not received or has authorized duplicative payments.

The City Charter requires that the City Auditor regularly review procedures for disbursement and authorize all payments. As part of this Charter responsibility, an analyst of the Auditor's Office reviews selected payments for validity and accuracy. During the course of these daily reviews instances have been noted in which the City was subjected to overcharges by vendors (or, charges for services not rendered) and the situations went unnoticed by department authorized individuals who signed and certified "receipt" on these invoices. In addition, instances have been noted in which the City was overcharged by vendors and the department authorized signers did not identify the overcharges.

Recommendation:

We recommend that management revise procedures and provide training to applicable personnel to ensure all employees involved in the process understand their roles and responsibilities. Management should consider whether developing written guidelines and descriptions of responsibility for employees to sign and acknowledge understanding would enhance the control environment and provide for better accountability.

Procedures should include, but not be limited to:

- o Employees should not have to be designated signers in order to receive and verify goods. Employees who receive goods/services should be advised and trained on verifying goods/services and signing/dating the accompanying documents (i.e. work orders or shipping receipts).

- Departments should designate and train certain employees to be “authorized signers” who are responsible for review and approval of invoices. These employees should be responsible for the following: (1) ensuring that the work orders/shipping receipts evidence receipt and verification of goods and/or services; (2) matching of the work order and/or shipping receipt to the related invoice to ensure that the City is charged only for goods/services actually received; and (3) reviewing the invoice charges for compliance with purchase order contracts and/or verbal quotes received and on file. These documents should then be signed/dated by the authorized employee and forwarded to Accounts Payable for processing.
- Accounts Payable should require supporting documents be attached to related invoices and an authorized signature be documented on the invoice before processing payments.
- Alternate procedures should be developed to address situations where an invoice may not have an accompanying receipt and/or work order or to address situations where these documents have been misplaced; however, these should be allowed only on an exception basis. Management should consider requiring a higher level of authorization for these items/situations.

Management Response:

We agree that the Administrative Regulation should be strengthened to address issues raised by the Auditor and will work with the Auditor on revising the Administrative Regulation.

We also agree to provide training related to the revised Administrative Regulation by developing a mandatory Contract Management class for designated employees. We further suggest that this class be co-presented by a representative from the Auditor's office. Both Purchasing and the City Auditor's office provide a unique perspective on the subject. We anticipate that the development of this training will take 6-9 months based on current staff workload.

2. Subjecting Combined Purchases Over \$10,000 to the Bidding Process, as Required, Could Result in Estimated Savings of \$290,000 Annually

Our review identified opportunities for savings on certain purchases that are not being subjected to a competitive bidding process. Specifically, we identified over 100 vendors for which one or more departments in the City spent over \$10,000 annually for three consecutive years and the purchases were not subjected to a bidding or price negotiating process. The total spent on these vendors over the 3 year period totaled several million dollars and, based on our analysis of the cost savings realized from bidding processes conducted by the Purchasing Division, we believe savings of at least \$880,000 could be realized if these purchases were subjected to the process and blanket purchase orders were issued.

We obtained the information analyzed from reports that are made available for review online at the Purchasing Division website; however, the reports were not being reviewed Citywide in order to identify instances in which purchases by different departments exceeded the \$10,000 no-bid threshold set by policy.

Recommendation:

We recommend that the Purchasing Division review data compiled during our review and begin the process for applicable vendors and implement a procedure for periodic review of this information to identify any other vendors that might be used in excess of \$10,000 in the future.

Management Response:

We concur with the finding and the potential for additional savings through the bidding process. The division is reviewing the data compiled during the audit review of department purchase orders and actively working with departments to correct these infractions. In order to strengthen the process and discourage purchases that exceed the \$10,000 no-bid threshold set by policy, the division will assume responsibility for such purchases once identified and will distribute an "excess spending report" to the appropriate department head, Financial Management, and the City Managers office.

3) Procedures for Administering User Access to the ADPICS System Require Improvement

Review of user access reports and discussion with the ADPICS System Administrator regarding the procedures for administering user security on the ADPICS system noted the following weaknesses:

- User access assignments, changes and deletions are not documented. Requests are accepted by email, phone, etc. and are not required or retained in writing.
- Policies and procedures require department heads to assign only executive level (EOO) employees to make purchases up to \$10,000. However, there are no procedures in place to prevent non-executives from being given this authority in the system. While policies and procedures indicate that assignments are to be documented using a "Designated Manager Form", this form is not being used. Review of user access assignments for selected departments confirmed that several non-executive level employees are assigned this capability.
- Review of user access assignments for five selected departments noted instances in which terminated employees still had access to the system. One employee was terminated in January 2003. This could be due to the lack of procedures and forms for notifying the System Administrator when an employee terminates.
- Review and certification by management of users and their access levels is not performed on a regular basis. Reports have been run and distributed; however,

not on a regular basis, and reports are not tracked for return by the department heads to ensure the review was performed.

- The System Administrator is responsible for granting user access assignments for non-City Manager departments. This creates an inappropriate control situation because the System Administrator (and the Financial Management Department) has no authority to dictate or to enforce controls for adequate segregation of duties. Review of user access reports for Water and Harbor Departments noted several users with the capability to both initiate and approve purchase orders, which represents an inadequate segregation of duties; however, access was granted because the System Administrator has no authority to deny these requests.

Recommendation:

We recommend that management implement procedures as follows:

- User access assignments and changes should be documented, approved, and on file with the System Administrator. Procedures and forms should be developed and distributed to departments to instruct them to promptly notify the System Administrator upon termination of employees. Also, procedures for assigning user access should include a review to ensure only executive-level employees are given the authority to issue purchase orders (as is required by policy).
- Procedures for a periodic review by department heads of user access assignments and certification thereof should be implemented. Documentation of these periodic reviews should be maintained by the System Administrator.
- Management should address segregation issues with the Water and Harbor Departments and come to an agreement as to the appropriate structure for administering system access for these departments. If system administration is to be performed by Financial Management, they should have the authority to deny arrangements that do not provide for adequate segregation of duties. Any disagreements with regard to access administration should be reported to the City Auditor's Office.

Management Response:

User access assignments and changes are only performed upon request from each department's respective liaison. A confirming e-mail delineating user security updates is then sent by the system administrator to the department liaison. Prior attempts to utilize user security forms have not proven successful, and retention of e-mail confirmations has now replaced retention of hard copy forms.

Financial Management system administrators recently reviewed approval paths to ensure only executive-level employees are given authority to final approve purchase orders, and this check is now a part of the procedures for assigning final purchase order approval.

Currently, system administrators forward documentation to department liaisons showing department staff's initiation and approval access, and department-level approval paths. This documentation has been sent to liaisons in conjunction with system upgrades, but in the future this can be performed on a semi-annual basis and retained on file.

Department liaisons have been requested to promptly notify system administrators upon termination of employees, but this has not always been the case. However, Technology Services receives a report of terminations directly from the HRMS system that they use to remove mainframe-level (RACF) access. Since mainframe access is required to access the ADPIDS software, terminated employees are thereby effectively precluded from accessing the system. System administrators have recently worked with Technology Services staff to receive a list of employees with mainframe access and have used this list to inactivate terminated employees in the ADPICS and FAMIS systems. This matching process can be performed semi-annually along with the user security update that will be sent to department liaisons.

Financial Management staff will initiate discussions with Harbor and Water Departments to address the segregation of duties issues.

- 4) **Currently, the Vendor Database Includes Over 45,000 Active "Vendors". The Database Should be Periodically Reviewed and Inactive Vendors Purged or Deactivated. In Addition, Vendors Should Not Have the Ability to Add Themselves to the Database**

The Vendor database includes over 45,000 "active" vendors. Currently, there are no procedures for periodic review and deletion (or de-activation) of vendors in the system. In addition, the Purchasing Division accepts requests from outside vendors to add themselves to the database. Since vendors can sign up via the internet for notification of Requests for Proposals, there is no need for them to be included in the internal database.

Recommendation:

We recommend that management develop and implement procedures for periodic review of the vendor file and deactivation of inactive vendors. Also, procedures for the addition of vendors to the database should be strengthened to ensure only necessary additions are made.

Management Response:

The financial system's vendor database represents a merge of prospective or "bid" vendors from the ADPICS purchasing system with actual or "payment" vendors from the FAMIS accounting system. Since the implementation of the bid management system it is no longer necessary for vendors to initiate a request to be added to the financial system vendor database and staff has been advised not to accept such requests. Currently, vendor-generated requests are added only to the bid management system. Requests to update the financial vendor database must be submitted by a City

employee using forms that include the initiator's name and a W-9 form from the vendor to ensure compliance.

A plan for updating the vendor file was developed in July, 2004 as part of an initiative to recast vendor numbers, ensure W-9's are on file for all active vendors, and deactivate inactive vendors. While some progress has been made on this initiative, since it is not resulting in inaccurate payments or tax reporting, limited staff resources have prevented completion of this task at the present time.

5) Review of 15 Selected Direct Purchase Orders Exceeding \$10,000 Indicates That Policies and Procedures are Not Always Enforced by Purchasing Staff

We judgmentally selected 15 Direct Purchase Orders (DPO's) exceeding \$10,000 for review to determine whether the Purchasing Division enforces policies and procedures requiring written bids for these purchases. Of the 15 reviewed, the following was noted:

- Three (20%) lacked written bids. Two had no evidence of bids and one had only verbal bids obtained.
- Four of the 15 DPO's were related to "interim" purchases of goods and/or services while a bid process was underway. Review of the four noted the following:
 - The City's contract with Travelers Express to provide remote payment services for utility bills, ended in May 2002. Since that time, no contract has been issued and the City has paid Travelers Express to maintain this service on a monthly basis. The monthly fees range from \$10,000 to \$12,000 per month, easily exceeding the \$100,000 limit that requires not only a competitive bid process but City Council approval. No such approvals have been obtained.
 - One contract for sweeper brooms expired in November 2003 and a new contract was not in effect for nine months during which time over \$40,000 in "interim" purchases were made.

It should be noted that these purchases required online approval of the Purchasing Division.

Recommendation:

We recommend that management develop and implement procedures to ensure policies and procedures are enforced and/or appropriate waivers of process are obtained.

Management Response:

The prior procurement process allowed for the Purchasing Agent and staff to judgmentally approve department purchase orders in excess of the \$10,000 per order threshold if it was determined that no value would be added in processing the work through the division. We agree that the division shall maintain complete and accurate documentation on all purchases exceeding the \$10,000 threshold and we have already

implemented procedures to reject any exception requests. If appropriate, the purchasing documentation shall include waivers and notes to the file regarding special conditions or circumstances. The division staff is currently being trained on additional documentation requirements.

6) Theftable Asset Listings are Not Maintained by All Departments as Required. Failure to Inventory and Maintain Listings of These Assets Could Result in Increased Losses from Theft.

Policies and procedures (FPP7-1) require departments to maintain a listing of all assets over \$500 and less than \$5,000 that are considered desirable and are easily removed from City premises. Procedures indicate that these listings should "...include but not be limited to, computers, projection equipment, power tools and cameras." We contacted departments to determine whether the listings are maintained and found over 50% of the City departments do not have any such listing. Of the departments that did have a listing, it was not always clear whether the listings are actually maintained and up-to-date. Additionally, procedures have not been developed to ensure that items purchased with a City purchasing card (that do not get paid through department accounting sections) are captured and added to the listings.

Recommendation:

We recommend that management review policies and procedures with City departments and update them as necessary to ensure that all applicable assets are added to the listings. The following should be addressed:

- Procedures should be revised to address inconsistencies with regard to items that need to be included on the listings. Procedures state that listings should include items over \$500; however, they also indicate that listings should include power tools and cameras that often cost less than \$500.
- Procedures do not address items purchased with Purchasing Cards. Since these items do not get invoiced through department accounting offices where most theftable items are identified and added to the listings, procedures should emphasize the need for additional monitoring so that all applicable items are captured.
- Management should consider including on the listings the employee assigned the asset. For example, one department purchased several digital cameras and accessories for assignment to individual employees. If the listings reflect employee assignments they will be easier to track during inventories.
- Management should reconsider whether annual inventories can be performed by larger departments or whether departments with extensive listings could maintain reasonable control by inventorying only a portion of the assets on a rotational basis (for example, they might inventory 50% of the items this year and 50% next year, easing the burden on them but still ensuring a complete inventory is performed every 2 years).

Management Response:

Financial Management will work with the Auditor to revise the theftable asset policy to include specific items instead of having Departments define a "theftable asset". Departments will receive revised procedures and will be expected to comply with the new requirements.

7) Procedures for Review of Vendor's Insurance Should be Strengthened

Buyers currently utilize different criteria for determining whether insurance is sufficient (from determining minimum acceptable ratings of insurance companies to assessing whether the amount of insurance is adequate). In addition, procedures should be developed to ensure that insurance requirements are met throughout contract duration. Currently, there is no mechanism for ensuring that insurance, which may expire during a contract term, is renewed.

Recommendation:

We recommend that management review insurance criteria with buyers to ensure consistent application of the standards. In addition, procedures should be developed to ensure that an annual review of insurance is performed for multi-year contracts.

Management Response:

The criteria for determining whether insurance is sufficient is published on the purchasing intranet site for access by division buyers, staff and those individuals authorized by department heads to commit City funds. The division's clerical staff checks insurance certificates against the A. M. Best publication and reports any deviations to the buyer. Risk Management is the sole authority in waiving any of the insurance criteria.

In an effort to reduce risk, the City Attorney's office is preparing language that shall be added to the boilerplate contract terms and shall require contractors to provide current up-to-date insurance certificates for the entire contract term, including any renewals. Buyers shall continue to check for compliance prior to renewal, however, by changing the boilerplate terms, a contractor can be found in breach for non-compliance at the time the prior insurance expired. Efforts to monitor insurance renewals on a continual basis would require additional staff.

8) Not All Available Restrictions Have Been Placed on Purchasing Cards Issued to City Employees for Purchases on Behalf of the City.

The Purchasing Card vendor allows the City to identify and disallow purchases from certain types of vendors, such as hair salons, bars, financial institutions, amusement

parks, etc. in order to decrease the possibility of misuse. The City has not performed a thorough review of the vendor groups identified in order to place restrictions wherever possible.

Recommendation:

We recommend that management review vendor group listings and place restrictions on purchase cards issued.

Management Response:

Procurement cards provide detailed information on each transaction to the user, approver, and accounting department. Regularly scheduled reports are also available online for the Auditor's office and management to review. Management agrees to review the current restriction categories. Since the categories cover a broad scope of vendor types, management prefers to limit restrictions so as not to prohibit responsible card users from processing necessary transactions in the most efficient manner possible. Current category restrictions include: travel, lodging, cash advances, wire transfers, financial institutions, security brokers and insurance.

Recommendations for additional restrictions by department will be completed and reviewed with the Auditor.

9) Buyers Do Not Verify Department Head Authorization on Purchase Requisitions.

Buyers do not maintain an authorized signature listing for use in verifying department head approval on purchase requisition documents.

Recommendation:

We recommend that management either utilize only the online requisition system, that requires online approvals, or develop procedures for verification of signatures on purchase requisitions to an authorized signature listing.

Management Response:

Currently the division requires online standard purchase requisitions, but accepts hard copy blanket purchase requests and professional service requests. While the latter items require additional paperwork, the division agrees with the recommendation to implement a policy requiring that all purchase agreement requests be processed online to ensure proper approvals are obtained. As with all processing changes, this implementation will require some retraining and may cause some delays during the initial implementation; however, the division strongly endorses this recommendation and hopes to begin implementing this process in April, 2005.

FINDING & RECOMMENDATION - HARBOR AND WATER DEPARTMENTS

10) The Water and Harbor Department Commissions Should Formally Adopt a Set of Purchasing Policies and Procedures.

We contacted management at both the Harbor and Water Departments to obtain their purchasing policies and procedures for reference in performing this review. Both departments indicate that they "voluntarily comply" with City Manager-developed purchasing policies and procedures; however, further review and discussion indicates that this is not always the case.

Recommendation:

We recommend that the Harbor and Water Departments develop and have their respective Commissions formally adopt a set of purchasing policies and procedures.

Management Response:

Management concurs and is in the process of developing formal Water Department purchasing policies and procedures. (Water)

Management will develop formal purchasing policies and procedures for the Harbor Department by fiscal year end. (Harbor)

APPENDIX A

The following represents our review procedures:

- We reviewed the City Charter, Administrative Regulations, and Financial Policies and Procedures memos regarding the purchasing process. We also contacted the Harbor and Water Departments regarding their written policies and procedures for purchasing. We reviewed the City's Ethics Handbook with regard to Conflicts of Interest.
- We interviewed individuals throughout the City who are responsible for procurement. We also interviewed the staff of the Purchasing Division regarding all facets of the purchasing process and the Technical Systems Officer responsible for maintenance of the City's Purchasing System (ADPICS).
- We performed interviews and documented the processes for Requests for Proposals, competitive bidding, sole source identification and approval, contract execution, and insurance requirements. We also documented procedures and requirements for issuing and processing of purchase requisitions, standard purchase orders, direct purchase orders, direct payments, change orders and blanket purchase orders.
- We selected a sample of 12 change orders processed during 2003 and 2004 for testing to ensure validity of the changes and to verify proper documentation and approvals were on file.
- Using specialized audit software and a database of purchase orders issued during the period October 1, 2003 through July 9, 2004, we performed testing to determine whether any duplicate purchase orders were issued during that period.
- We selected a sample of 36 purchase orders issued during FY04 for testing to determine whether departments and the Purchasing division are adhering to policies and procedures with regard to approvals, insurance requirements, bidding requirements, and vendor documentation and review requirements.
- We reviewed reports of Direct Purchase Orders issued during FY02, FY03, and FY04 using specialized audit software to identify instances of combined purchases to single vendors exceeding the \$10,000 limit requiring competitive bidding.
- We tested a sample of 15 Direct Purchase Orders of over \$10,000 processed during FY03 and FY04 to determine whether bids were obtained as required.
- We tested a sample of 15 Direct Purchase Orders of under \$10,000 processed during FY04 to determine whether departments obtain verbal quotes for the purchases as recommended by procedures.

- We reviewed a sample of Blanket Purchase Orders issued by the Purchasing Division and compared rates to retail rates available for similar products and/or services to determine the level of discounts being secured for volume purchases.
- We reviewed the processes in place for adding, deleting and changing user access to the ADPICS system, for tracking of critical system changes, and for ensuring user access assignments are in compliance with written policies and procedures for authority. We reviewed the list of users with System Administrator access for appropriateness.
- We obtained reports from the ADPICS system of initiators and approvers for purchase orders in five departments; Water, Harbor, Parks, Recreation & Marine, Health & Human Services, and Public Works and reviewed the user assignments for appropriateness. We then obtained a report of users with access to initiate vouchers in the ADPICS system and reviewed this in conjunction with the above reports to ensure proper segregation of duties. We also obtained and reviewed a report of users with access to post vouchers directly to the FAMIS accounting system and reviewed this report to ensure appropriateness of assignments and proper segregation of duties.
- We used specialized audit software to compare vendor name and address information against employee name and address information to determine whether the City is utilizing any employees as vendors.
- We reviewed the vendor database file to determine whether vendor information is complete and includes a tax identification number when applicable. We also interviewed responsible employees regarding the process for adding vendors to the database and processing changes to the vendor file to determine whether appropriate controls are in place to ensure only valid adds and changes are processed.
- We judgmentally selected ten of the top 100 vendors utilized by the City and reviewed documentation on file to determine whether appropriate approvals were obtained, a formal bidding process was undertaken, insurance requirements were met and that billings from these vendors reflect agreed upon rates from the original bid.
- We reviewed the Purchasing Card program and interviewed the Program Administrator to determine whether adequate controls are in place over these purchasing transactions. We reviewed the list of users and approvers and tested a sample to ensure a signed user/approver card agreement is on file. Testing of transactions was not performed as this function is performed monthly by the Auditor's Office on a sample of transactions.

- We contacted all City departments to obtain copies of their Theftable Asset Inventory Listings. Listings were cursorily reviewed to determine whether the listings are up-to-date.