



# INTERNAL AUDIT REPORT

## PeopleSoft Procurement Software

**Mayor**

Mattie Parker

March 7, 2023

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## Executive Summary

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**This *PeopleSoft Procurement Software* Audit was performed in accordance with the approved schedule of engagements identified in the Department of Internal Audit Fiscal Year 2021 Annual Audit Plan.**

The City's Procurement of Goods and Services Administrative Regulation (Procurement AR) is administered by the Purchasing Division (Purchasing) within the Financial Management Services Department (FMS), and it serves as a comprehensive set of rules to guide procurement activities.

The City uses the PeopleSoft Enterprise Resource Planning financial application (PS) to automate multiple internal controls (including authorization, segregation of duties, validation, verification, etc.) meant to be applied within various transactional activities (including requisitions, contracts (PSK), purchase orders (PO), vouchers, receipts, and payments). City staff has also established manual, nonautomated internal controls to monitor transaction activities not wholly subject to the configured automated controls.

Based on our independent review of a set of PS transaction activities, we observed opportunities for improvement in both the design and operating effectiveness of automated and manual internal controls.

Our audit findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report.

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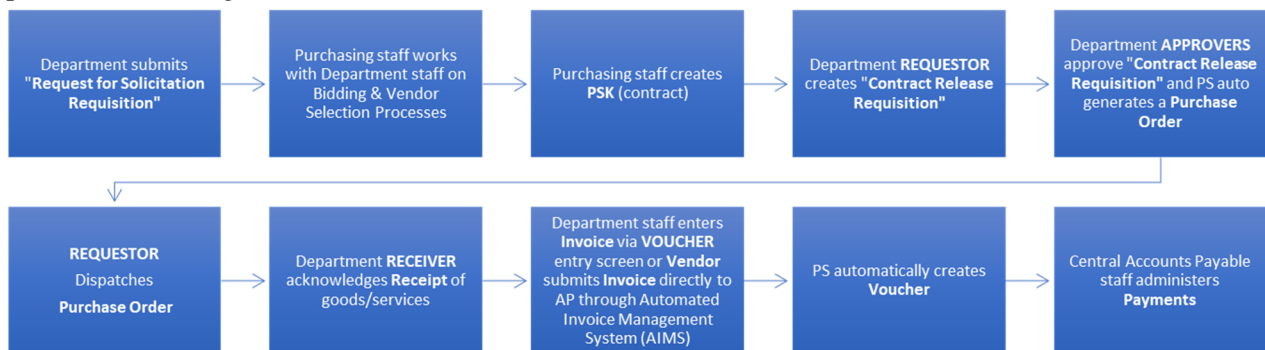
## Background

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By way of introduction, and in general, an organization's procurement process concentrates on the strategic sourcing of goods and services, for example, researching, negotiation, and planning, whereas its purchasing activities, which are a subset of its overall procurement process, focus on how goods and services are ordered and acquired.

The City has adopted a decentralized procurement process wherein departments are authorized to request and approve purchases, administer vendor contracts, and manage spending within their authorized budgets. With the exception of Public Works contracts, Purchasing provides administrative and subject matter expert support to all of the departments, including but not limited to assistance with bid solicitations and vendor selection.

The following diagram provides a high-level overview of activities within the City's current procurement process when using a PO:



Source: Department of Internal Audit

Beginning October 1, 2018, the City has used PS to support and automate many purchasing activities. The City implemented various enhancements to PS, including purchase-related modules such as eProcurement, Purchasing, Supplier/Vendor Management, and Procurement Contract Management, all of which serve to integrate and electronically warehouse multiple procurement and purchasing related data elements from across the enterprise.

The City's Procurement AR provides guidance for purchasing, and staff has implemented various internal controls to reduce risks related to the purchase of goods and services, including but not limited to those in the following categories:

### Automated Controls

- PS automated controls authenticate that the goods and/or services procured were, firstly, allowable and further, that purchasing activities were performed by authorized users.
- Three-way match process is applied to PS records (i.e. PSK, requisitions, POs).
- Controls exist to ensure appropriate chain of custody through the receipting process.



## **Manual Controls**

- Authentication that the goods and/or services purchased were allowable through the use of a Non-Purchase Order (NonPO) Memo signed by the Department Head.
- Chief Procurement Officer (CPO) manual review and approval of the NonPO.
- CPO monitors and reports on procurement compliance with state and local regulations via submission of quarterly compliance reports to City Management.

Internal Audit evaluated purchasing transactional data as it related to the above controls. Our audit procedures included random sample testing from a population of 115,528 PS vouchers (totaling \$2,364,143,972.08) considered to be purchase-related. Our sampled set of transactions included 83 Purchase Order (PO) vouchers, 78 Non-Purchase Order (NonPO) and Single Supplier (SGLP) vouchers, and 78 PS Contracts (PSK).

## **External Consultant Process Review**

During this audit, the FMS engaged external consultants to perform a Strategic Procurement Assessment of the City's Purchasing Division ("City Purchasing"), including a review of the effectiveness of the City procurement policies, procedures, internal controls, and organizational structures. The following consultant's recommendation has been implemented:

- Authorizing departments to execute purchasing agreements of between \$3,000.00 and \$50,000.00 for City-Wide spending within a single fiscal year.

In addition, the following changes have been made, by Purchasing:

- Elimination of the three-quote requirement for Cooperative purchases;
- Delegation of compliance responsibilities related to Historically Underutilized Business (HUB) to departments; and,
- Elevating the required approval for NonPO vouchers up to an authorized Assistant City Manager (ACM) when the combined city-wide expenditures to a given supplier exceed \$3,000.00 in any single fiscal year.

Furthermore, Purchasing revised the CFW Administrative Regulations: Procurement of Goods and Services (Effective August 1, 2022) to include these changes.



## Objective

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The objective of this audit was to evaluate internal controls related to the procurement of goods and services.

## Scope

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Our audit included a review of a sample set of purchasing-related PeopleSoft transactions from October 1, 2019, through June 30, 2021.

To the extent possible, areas within the scope of the External Consultant Process Review were excluded from the scope of our audit engagement.

## Methodology

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To achieve the audit objectives, the Department of Internal Audit performed the following:

- interviewed Purchasing and FMS staff;
- reviewed applicable CFW Financial Directives, CFW Administrative Regulations, and other departmental training documents/job aides;
- reviewed applicable state and local regulations (e.g., Texas Government Code, Texas Local Government Code, Fort Worth City Charter (City Charter), Fort Worth City Code);
- reviewed relevant audits reports (internal and external);
- reviewed and analyzed procurement contracts, requisitions, purchase orders, and vouchers;
- reviewed the logs in the IT Service Management System to identify various changes made to PS;
- reviewed PS access and user controls;
- reviewed and analyzed PS data;
- reviewed PS system configurations supporting purchasing activities and related technical documents; and,
- evaluated the automated and manual internal controls referenced above.

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

## Audit Results

Internal Audit’s review of policies and procedures and assessment of purchase-related transactional data (including PSKs, requisitions, purchase orders, receiving records, and vouchers) revealed opportunities for improvement in the design of automated and manual internal controls (as further discussed in the Detailed Findings section of this report), and identified the following opportunity for improvement in process design:

- Currently, the automated purchasing process continues to require manual intervention in certain instances. For example, we observed that the Contract Management module allows Purchasing to create PSKs (i.e., vendor contracts) as both “line item” and “category” types. However, the eProcurement module (which is used to create a requisition) allowed department users to create “amount only” Contract Release Requisitions for “line item” type PSKs. This inconsistency may prevent funds from releasing back to the PSK and processing additional Contract Release Requisitions. Multiple incidents were observed in which this occurred, and in those instances, IT Solutions (ITS) was required to intervene to allow further, and enable continued, automated processing of a purchasing transaction. To address this, the CPO communicated the known issue to department users (on November 30, 2022) and provided guidance to prevent this issue from reoccurring.

The Department of Internal Audit would like to thank the FMS for its cooperation and assistance during this audit.

## Overall Risk Evaluation

High	Medium	Low
Existing procedures permit purchases inconsistent with City Charter		
Compliance reports for purchases were not reported to City Manager as required per City policy		
Direct Connect does not work as intended		
	Lack of Segregation of Duties were identified	
	Certain City purchasing practices do not follow, and/or are not documented in, the City’s Procurement AR	
	PSKs did not match the City Secretary Contract (CSCO) or bid terms as required	



## Detailed Audit Findings

### 1. Existing procedures permit purchases inconsistent with City Charter.

Chapter X §7 of the City Charter states that “*No claim against the city shall be paid, unless it is evidenced by a purchase order approved by the head of the department or office for which the indebtedness was incurred ... The controller of accounts shall examine all ... bills and other claims and demands against the city, and shall issue no warrant for payment unless he finds that the claim is in proper form, correctly computed and duly approved; that it is justly and legally due and payable; that an appropriation has been made therefor which has not been exhausted, or that the payment has been otherwise legally authorized; and that there is money in the city treasury to make payment.*”

§XIII (C – D) of the Procurement AR, however, enables a workaround to the above requirement thereby permitting a purchase and subsequent remittance of payment via the NonPO or SGLP voucher method.

Audit testing revealed that over the 21-month test period, 11,634 NonPO and SGLP vouchers totaling \$973,035,570.47 occurred.

NonPO and SGLP vouchers were used when transaction types meeting certain criteria (i.e. expired PSK, insufficient funds, items not allowed per contract, etc.) could not be processed within the PS system controls functionality as designed.

The lack of adequate controls over purchases (i.e. NonPO and SGLP vouchers) inconsistent with City Charter increases the risk that the City may pay bills and may issue a warrant for payment that violates state procurement laws and/or local requirements, or that were otherwise inappropriate. For example, purchases may:

- exceed the spending authority/contract limit,
- not meet City goods and services specifications,
- exceed contractually agreed upon unit prices,
- have occurred for items not received; and/or,
- not be properly authorized (by M&C and/or other departmental reviews, including IT and Legal, when and where required).

**Recommendation 1A:** *The Chief Financial Officer should develop a procedure wherein purchase process and related transaction activity comply with the City Charter; and, prospectively as of the date of this audit report, the Chief Financial Officer should:*

*(i) Develop and implement a plan of action that would serve to discontinue the practice of allowing alternative forms of documentary evidence to substitute for, and/or serve as replacement to, the evidence of a purchase order, as this practice facilitates the payment of claims with no evidence of a purchase order, and diverges from the City Charter, Chapter X §7, as approved by the electorate of the City of Fort Worth in Ordinance 8929.*

*If recommendation (i) above is not the selected course of action to be taken, then alternatively, the Chief Financial Officer should, before the next available city-wide election cycle:*

*(ii) Develop criteria that would identify and describe categories and/or types of transactions for which payment of claims without evidence of a purchase order could occur, and propose the*





*criteria developed to the electorate of the City of Fort Worth who would, through a formal city-wide election, be allowed to approve the proposed amendment to the City Charter,*

*and/or,*

*(iii) Identify and describe alternative forms of documentary evidence that would serve as substitute for, and/or serve as replacement to, evidence of a purchase order, and propose this substitute and/or replacement form/s of documentary evidence to the electorate of the City of Fort Worth who would, through a formal city-wide election, be allowed to approve the proposed amendment to the City Charter.*

*Provided alternatives (ii) and/or (iii) are rejected by the electorate of the City of Fort Worth, then recommendation would revert to back to (i). Further, for any course of action selected, each should be designed with an adequate level of internal control for its usage, that serves to safeguard the disbursement of public funds of the City of Fort Worth.*

**Auditee's Response:** Do Not Concur. The City's current processes comply with the City Charter, as interpreted by the City Attorney's Office ("CAO").

Because (1) the CAO has opined that the use of an alternate naming convention for the different payment methods is not a violation of the City Charter, and (2) the AR and current practice ensure that the criteria listed in the Charter are met prior to payment, FMS does not concur with the finding.

1. The CAO has Opined that Use of a Different Naming Convention is Not a Charter Violation

In 2018, Aaron Bovos, former Chief Financial Officer for the City, identified that the naming convention being used in the Purchasing AR was not an identical match to the naming convention used in the City Charter. The CAO and FMS worked closely on this issue and determined that the use of a different naming convention did not violate the City Charter. It should also be noted that FMS worked closely with the CAO in developing the current Purchasing Administrative Regulation ("AR").

FMS obtained the following opinion from the CAO regarding this audit finding and the use of a different naming convention in the AR:

"This finding is based on an overly technical and proscriptive reading of "purchase order" that looks to terminology in the City's purchasing system and internal policies to interpret a voter-approved charter provision. The term "purchase order" is not defined in the charter. Per statutory construction rules, when a term is not explicitly defined in law, the language used is generally considered to have its commonly understood meaning. It is the opinion of the City Attorney's Office that the average person/voter at a Charter election would have been unaware of and unconcerned with terminology in the City's internal policy (assuming the system and/or policy even existed at the time of the charter election adding this language) and would instead have been expecting a "purchase order" to simply mean some form of written contractual or purchase authorization by the City. If there is proper written authorization supporting a purchase or payment of claim, that document could lawfully be considered a 'purchase order' for charter-compliance purposes. It is also worth noting that attempting to comply with the proposed overly strict reading of the charter could cause delays in the timely processing of payments and result in the City violating the state's prompt payment law and being subjected to the mandatory obligation to pay interest."



The CAO also researched the legislative history surrounding the 1983 Charter election and found multiple references saying that that the labelling change was done to mirror the then-current purchasing policy. The CAO also noted that the policy that precipitated the Charter amendment, which was included in the file, was limited to traditional ‘purchases’ with no reference to debt, utility, tax, or other payments constituting the \$900+ million and that the policy contemplated a number of transactions that would be direct pay and would not include a purchase order. The CAO concluded that the contemporaneous documents further support the legal opinion cited above.

Further, the cited section of the City Charter goes into more detail, providing the following criteria in order to pay a claim against the City, “the claim is in proper form, correctly computed and duly approved; that it is justly and legally due and payable; that an appropriation has been made therefor which has not been exhausted, or that the payment has been otherwise legally authorized; and that there is money in the city treasury to make payment.”

2. Existing Authorization Processes Comply with the Criteria Included in the City Charter

The audit identifies more than \$900 million in transactions over a twenty-one-month period that it contends would need to have a “purchase order” in order to comply with the Charter. From a monetary perspective, the vast majority of the cited dollar amount consists of payments for something other than the types of goods and services that would go through the usual procure-to-pay process, with these other payment types having their own documentation and verification processes.

The following chart below details the payment types, which include debt payments, payments to governmental entities, costs associated with land and easement purchases, CARES Act purchases, utility payments, risk management and insurance payments, retainage payments, lawsuits and settlement claims, and payments for refunds. A description of the authorization process for these payment types are listed below the chart to further illustrate the City’s compliance with the City Charter.

Type	Count	Amt
Debt	34	507,524,502
Governments	430	144,129,675
Land/Easements	352	81,864,126
CARES	1,566	67,075,567
Utilities	154	35,521,321
Risk Mgt /Insurance	169	25,035,412
	2,705	861,150,603
	23.19%	88.51%
Retainage	129	12,925,355
Lawsuits/Settlements	133	2,401,525
Refunds	1,258	6,611,452

More than half of the dollar amount (\$507,524,502.00) is attributable to payments on City-issued debt (bonds, certificates of obligation, tax notes, etc.). Each debt ordinance is adopted by the City Council and includes a repayment schedule that spells out how much principal is to be repaid each year. Other debt-related documents, which are vetted by FMS, external financial advisors, the bond purchasers, and internal and external legal counsel, are adopted at or around the time a particular debt is initially issued and spell out the interest rate and payment amounts over the life of the debt repayment. All debt service schedules are recorded in an online database and regularly maintained and reconciled by the debt manager. For each budget cycle, Budget and Finance staff work together to establish a budget for debt



service payments based on the repayment schedules for all outstanding debt. Before semi-annual debt payments are made, the City's debt manager coordinates with the City's cash manager in advance of each payment date to set up a wire transfer of funds to a third-party paying agent with the City treasurer signing off in Adobe Sign before funds are actually transferred. The debt manager or cash manager confirms payments are received by the paying agent on the same day the wire transfer occurs.

The other governments category (\$144,129,675.00) includes payments to the United States Internal Revenue Service related to payroll taxes and other required assessments; payments to the various appraisal districts that serve the City; and the Tarrant County Assessor-Collector, which collects and remits tax payments and public improvement district assessments, as well as pro-rated property tax payments that owed when acquiring real estate from a private party. Unlike goods and services obtained via the procure-to-pay process, these payments are generally mandatory, rather than discretionary, and are often dictated by law. Payments are approved by City Council action and subject to required appropriation.

Payments associated with land and easement acquisition, (\$81,864,126.00), including escrow and other transaction-related fees, are supported by closing documents that are prepared by a title company. Prior to payment being made through a voucher, the requesting department has multiple staff, including a management level staff person, review and approve the request and confirm it is consistent with the authorizing authority before ultimate approval is provided by the City Manager's Office. As with debt payments, any required wire transfers are initiated by staff (in this case in Property Management) in coordination with the City's cash manager and approved in Adobe Sign by the City treasurer, then funds are disbursed to a third-party escrow agent/title company,

A substantial portion of the cited amount consists of CARES funding (\$67,075,567.00), which was provided to the City by the federal government for a limited purpose and was eligible for expenditure during a narrowly defined window. These expenditures included grants for rental, mortgage, and utility assistance, grants related to the Preserve the Fort Program and Non-Governmental Organization Assistance Program, purchases related to providing emergency shelter for Covid-positive homeless individuals, assistance for the acquisition and development of Casa de Esperanza, a single-site permanent supportive housing development to serve Covid-vulnerable chronically homeless individuals, and purchases of personal protective equipment. Due to public health concerns and time constraints, those expenditures were classified as emergency purchases, which are subject to a streamlined process under the City Code. Despite the lack of "purchase orders" the CARES expenditures were authorized and documented via a memo process as is customary for emergency purchases (See AR §VI (B)(c)(4)(C)-(J)), with the memos also serving to document how the procurement complied with the restrictions imposed by CARES. In addition to the approval process for the emergency memos, many of the larger expenditures, such as the Preserve the Fort and NGO programs and the financial assistance for Casa de Esperanza, were also presented to and approved by the City Council.

Utility payments (\$35,521,321.00) are processed to pay for gas and electrical services provided to City facilities. Utility providers submit invoices to the necessary department which then verifies the invoice and processes the request for payment. Similarly, risk management and insurance payments include payments for insurance premiums covering City assets and projects, health, dental, vision, and other benefit claims, and the Fort Worth Firefighters Healthcare Trust. When the City purchases insurance or contracts for benefits, certain payments are required and authorized as part of the agreements. The managing department is responsible for ensuring that payments are appropriate and accurate, and departmental management will approve such payment before it is processed. Funds are appropriated annually and approved through the budget process for payment of utilities and insurance and risk management costs.



As for retainage (\$12,925,355.00), when progress payments for a construction project are processed, a defined percentage of the amount owed is withheld, or retained, per the terms of the specific construction contract. Following final completion and sign off of the project, the retainage payment is due to the contractor. Because the retainage represents the collection of multiple prior authorized payments, each of which was generally supported by a purchase order, FMS disagrees with this amount as lacking purchase orders.

Although settlements and lawsuit costs (\$2,401,525.00) represent a lesser portion of the total included, payment of these costs also follow processes that have ample safeguards in place to ensure payment is proper before being made. Legal settlements are paid in the same manner as land and easement acquisitions listed above, and specifically require City Council or City Manager approval. Lawsuit costs include purchases that could not result from a typical procure-to-pay process, such as transcripts from official court reporters, expert fees, and mediation fees. These invoices are reviewed by the department, verified, approved by department management and processed, and are subject to funds being appropriated for that purpose.

Lastly, refunds (\$6,611,452.00) consist mainly of returning funds for overpayments related to the development and public event permitting processes, returning funds to rightful owners that were involved in the criminal justice process, refunds for employee- and retiree-benefit overpayments, and other similar payments. In all of these events, the City received funds that it was not entitled to keep and is remitting those funds to the rightful or lawful owner. Many of these payments are one-time payments to entities and individuals who do not conduct regular business with the City. Each department verifies that a refund is appropriate and proper, department management approves the request and includes a brief summary of why such payment is necessary, and the request is processed.

Because ample process with separated duties and cross-checks supports and documents the validity and amount of each of the identified payment types, it is open for debate what, if any, “value add” would result from inserting a document labeled “purchase order” as an additional step into each of these processes.

#### FMS is Committed to Ensuring Good Stewardship of City Funds and Will Continue to Review and Update Policies

FMS will continue to follow relevant laws, the CAO’s legal advice, and applicable best practices to ensure that the City’s procurement policies and procedures are transparent, promote accountability, ensure good stewardship of public funds, and allow the City to conduct business efficiently. FMS has recently completed the first phase of a multi-phase wholistic review of the City’s purchasing program, which was conducted by NIGP Consulting, an industry leader in public procurement. NIGP found that “the [AR]...is in alignment with industry best practices and [American Bar Association Model Procurement Code]...[t]he AR is an effective document that clearly explains the procurement policy[.]” FMS is set to start the second phase soon. Additionally, FMS will continue to work with stakeholders and the CAO to ensure that any changes identified through these reviews further the City’s and FMS’ missions.

**Target Implementation Date:** Not applicable

**Responsibility:** Not applicable

**Applicable Department Head:** Reginald Zeno, Chief Financial Officer



**Recommendation 1B:** *The Chief Financial Officer should ensure all purchases are linked to the existing PSK where applicable.*

**Auditee's Response:** Concur. This involves purchases from an expired PSK (the electronic representation of a contract in PeopleSoft Purchasing that allows a Department to create Purchase Orders). Currently, the only way to accomplish this recommendation is to change the dates of the PSK so that it is no longer “expired” and allow the Department to create a PO. However, if this was done automatically, the City would be in violation of Audit Finding number 6 (and Recommendation number 6A) in this report because the PSK would have the wrong ending date. FMS will manually update and document procedures. FMS will also work with the Information Technology Solutions (ITS) Department to determine if there is a way to add information to the Voucher that can be linked or “shown” on the PSK without changing the PSK end date.

**Target Implementation Date:** 09/30/2023

**Responsibility:** Jo Ann Gunn, Chief Procurement Officer (Effective start date February 11, 2023)

**Applicable Department Head:** Reginald Zeno, Chief Financial Officer

**2. Compliance reports for purchases were not reported to City Manager as required per City policy.**

§IV (G.c) of the Procurement AR requires that the CPO provide a quarterly report to the City Manager that describes and/or identifies, “*department compliance with [the Procurement] AR; a description of each ‘After the Fact Purchases’ made by a Department; a list of bids requested and status; and any other information the City Manager requests.*”

Based on interviews with Purchasing staff, this quarterly report was not provided to the City Manager in FY2020 or FY2021 due to the lack of scheduled monitoring procedures being in place.

Without providing these quarterly reports as required, there is no evidence that City management is being informed of the volume of compliant/noncompliant purchases made during the reporting year, and as such, may not be aware of the risks that such purchases pose for the City.

**Recommendation 2:** *The Chief Financial Officer should ensure that the quarterly reports be provided to the City Manager, as required by the current policy.*

**Auditee's Response:** Concur. Quarterly Reports were not submitted to the City Manager as required by the Purchasing AR; however, Department Directors were being made aware of non-compliant purchases through the Non-PO Voucher with Memo process. In addition, this issue was previously discussed with the City Manager’s Office, and as a result, beginning in July 2022, all Non-PO Vouchers with Memo over \$3,000 are required to be approved by the respective Assistant City Manager. Prior to December 2022, this was a manual process; however, this information can now be provided in an electronic format.

**Target Implementation Date:** January 2023 – March 2023 will be reported in the first week of April 2023.

**Responsibility:** Jo Ann Gunn, Chief Procurement Officer (Effective start date February 11, 2023)



**Applicable Department Head:** Reginald Zeno, Chief Financial Officer

### 3. Direct Connect does not work as intended.

The intent of “Direct Connect” is to integrate and interact directly with a third-party supplier’s website to purchase contracted goods using “punchout” features. This interaction enables the user to browse the website and select items to add to the requisition, which links to a given PO.

§XI (A.a.2) of the Procurement AR states, “... *the City does not exceed the spending authority that has been approved to be spent with the vendor.*” Based on our results, the Direct Connect “punchout” configuration needs updating; currently, the PSK spending authority is not always reduced for related purchases after the Direct Connect requisition has occurred and subsequent POs have been approved. Furthermore, the “punchout” configuration allows users to purchase items not on the City’s negotiated contract core price list.

Internal Audit was informed that a PS system change, which occurred in February 2021, was designed to create purchasing and Direct Connect line items which would link to POs. Internal Audit staff was not able to obtain documentation confirming that PS application changes were appropriately tested and approved prior to implementation. Purchasing staff informed Internal Audit that currently, their practice is to manually review the Direct Connect vendor's POs each month and then reduce the PSK amount. However, these manual reviews had not been performed for several purchases identified. Purchasing staff confirmed that automated controls do not exist to ensure that products and prices uploaded to a vendor's Direct Connect website agree to the City’s contracted rates or prices.

Ineffective automated controls may permit employees to purchase unauthorized items (e.g., items not on the core list, goods that are not fairly/reasonably priced at the contractual rates, or based on contractual agreed-upon price), and could result in noncompliance with the state regulation and the City PSK exceeding the allowable contractual authorized spending limits.

**Recommendation 3:** *The Chief Financial Officer, in conjunction with the Chief Technology Officer, should ensure that the Direct Connect functionality updates the PSK accurately, and prohibits users from purchasing incorrectly priced and/or non-contracted items.*

**Auditee's Response:** Partially Concur. The current Direct Connect functionality is working as intended because it was designed to align with the City Secretary Contract for goods allowed to be procured under the contract agreement. For example, the Staples contract allows the City to purchase core and non-core items. The core items have a set price that can only change periodically. The non-core items can be purchased at market prices. To track each individual SKU would be too administratively burdensome and does not provide value with low dollar items. From FY2019 through FY2022, the City used a total of 2,945 vendors to purchase goods and services. Of the 2,945 vendors used, there have been 5 vendors setup through Direct Connect. During the four-year period, the total amount of Purchase Orders (POs) recorded through Direct Connect was \$18,269,817.44 which represents 0.39481% of the total recorded POs of \$4,627,499,693.07. PeopleSoft will be configured to provide adequate system controls for spending authority management. System Controls will be developed within twelve months, and in the meantime, Purchasing staff will manually update the PSK spending authority on a monthly basis.

**Target Implementation Date:** 03/01/2024



**Responsibility:** Jo Ann Gunn, Chief Procurement Officer (Effective start date February 11, 2023);  
Donlen Ruffin, Assistant IT Solutions Director

**Applicable Department Head:** Reginald Zeno, Chief Financial Officer  
Kevin Gunn, Chief Technology Officer

**Applicable Assistant City Manager for IT:** Valerie Washington

**4. Lack of Segregation of Duties were identified.**

§IV (B.f) of the Procurement AR states, “... *If a Department has 10 or fewer support personnel...the Department Head can assign a single employee to serve as both a Requestor and Receiver, provided however that same employee may never serve both roles on the same transaction....*” We analyzed user roles and rights to identify any potential segregation of duties conflicts, and we identified 11 users who served in both the “Requestor” and the “Receiver” roles on the same transaction (in 18 instances). As such, rights and roles configuration within PS does not restrict a user from being both a “Requestor” and “Receiver” on the same transaction.

The Government Finance Officers Association's (GFOA) Best Practices recommend “...*proper segregation of duties among staff initiating, authorizing, preparing, signing, and mailing payments and reconciling bank statements...*”. Internal Audit staff identified an instance in which a Purchasing staff entered, modified, and approved a PSK within PS.

Improper access controls within the PS system can lead to increased susceptibility to fraud or other inappropriate actions.

**Recommendation 4:** *The Chief Financial Officer, in conjunction with the Chief Technology Officer, should ensure that PS user rights and roles comply with City policy.*

**Auditee's Response:** Concur. Currently, the Purchasing AR allows departments that have 10 or fewer support personnel to assign one person to serve as both a Requester and Receiver, provided that the same employee never serves in both roles on the same transaction. There are no system controls in place to prevent an employee from serving both roles on the same transaction. Since there have been several instances where an employee has served both roles on the same transaction, the Purchasing AR will be updated to reflect that no employee is allowed to have both a Requestor and a Receiver role. Affected departments will be contacted and Purchasing will work with them to develop appropriate procedures. In addition, FMS will work with the ITS Department to develop system controls that prohibit an employee from serving as the Requestor and Receiver on the same transaction. Developing system controls is expected to take 90 – 180 days to implement and must be prioritized among other pending PeopleSoft requests and enhancements. The tentative deadline for activities will be:

Date	Activity
2/14/2023	Meet with affected departments and assist in developing new process
2/28/2023	Update Purchasing AR to remove the exception for smaller departments
8/31/2023	Implement system controls
9/30/2023	Update AR to reflect that an employee can have both the Requestor and Receiver role because there are system controls in place



**Target Implementation Date:** 09/30/2023

**Responsibility:** Jo Ann Gunn, Chief Procurement Officer (Effective start date February 11, 2023);  
Donlen Ruffin, Assistant IT Solutions Director

**Applicable Department Head:** Reginald Zeno, Chief Financial Officer  
Kevin Gunn, Chief Information Officer

**Applicable Assistant City Manager for IT:** Valerie Washington

**5. Certain City purchasing practices do not follow, and/or are not documented in, the City’s Procurement AR.**

**“After the Fact” Purchases**

An “After the Fact” purchase is defined in the Procurement AR as when a “... purchase occurs when a Department orders or receives goods, materials, and/or services prior to a Purchase Order being issued ... or prior to a PSK being created.” §III(F) of the Procurement AR states that “In no instance is a Department authorized to make a telephone purchase or an online purchase to be followed at a later date by completing a requisition and purchase order.” §III(F) further states that “Acquisitions of this nature will be treated as unauthorized purchases.” Currently, “After the Fact” purchases are occurring.

§XIII (C.b-3) of the Procurement AR states that “A Non PO Voucher with a Non-PO Memo ... should be submitted to pay the Supplier in the event that goods and/or services are provided to the City and ... A PO was not created because the purchase is an ‘After the Fact Purchase’”. However, inconsistent with §XIII (C.b-3), our inspection of the “After the Fact” Purchase report revealed that POs were, in fact, being created for “After the Fact” purchases. The results of our inspection identified 17,741 vouchers (totaling \$378,730,500.27) linked to “After the Fact” POs (see Table 1, below).

**Table 1**





Department Rollup		Vouchers paid via "After the Fact" PO Method	
		Count	Amount
FW060	Water	6,671	\$ 131,728,104.82
FW014	Human Resources	1,079	\$ 65,941,780.36
FW017	Economic Development	132	\$ 62,791,244.33
FW023	Code Compliance	630	\$ 22,284,712.29
FW004	ITS	898	\$ 18,619,245.21
FW025	Public Events	255	\$ 15,472,404.76
FW035	Police	1,693	\$ 12,276,637.49
FW020	TPW	929	\$ 10,124,033.24
FW021	Property Mgmt	1,051	\$ 8,634,302.58
FW080	PACS	1,191	\$ 6,617,704.90
FW013	FMS	218	\$ 6,296,779.09
FW019	Neighborhood Services	643	\$ 5,713,668.85
FW036	Fire	945	\$ 3,188,409.78
FW002	City Manager	198	\$ 2,638,436.03
FW006	Development Services	46	\$ 2,039,558.16
FW055	Aviation	146	\$ 1,913,295.23
FW084	Library	777	\$ 1,754,926.43
FW011	City Secretary	107	\$ 215,777.29
FW003	Planning & Data Analytics	19	\$ 196,041.91
FW007	Comm & Pub Engagement	71	\$ 87,621.34
FW010	City Auditor	2	\$ 83,460.00
FW038	Municipal Court	31	\$ 52,771.60
FW008	Diversity & Inclusion	5	\$ 37,010.83
FW012	City Attorney	4	\$ 22,573.75
<b>Grand Total</b>		<b>17,741</b>	<b>\$ 378,730,500.27</b>

Source: PS "After the Fact" Purchase Report

### **Authorization**

§4.1 of the General Accounts Payable Guidelines (AP Administrative Regulation) requires that all payments be “*properly authorized prior to disbursement ...*” and “*... made only to authorized vendors/suppliers for goods or services received ...*”.

Purchases using a PO and/or PSK have automated, safeguarding, controls (including 3-way match) in place to confirm that a purchase was properly authorized. FMS staff informed Internal Audit that the CPO performs a manual review of, and approves, NonPO vouchers meeting a given criteria, and, all SGLP vouchers. §IV (D.c) of the Procurement AR delegates limited authority to the CPO. Currently, §XIII (C.d) of the Procurement AR as written states that, “*If more than \$100,000 is spent and there is not an M&C authorizing the expenditure, the Department shall be responsible for placing a ratification M&C on the Council's agenda.*” The manual review, as currently designed, does not require inclusion of the ratified M&C in the documentary evidence to be reviewed as part of any approval process supporting NonPO and SGLP vouchers. Without evidence of the attached M&C, proper authorization from Council for the purchase is unable to be confirmed.



### **Fleet Purchases**

Current practice requiring Property Management approval for fleet and equipment purchase requisitions are not reflected in the Procurement AR, nor does the referenced Capital Assets Policy provide any guidance related to this process.

Creating policies with permissible exceptions to the rules makes compliance with those rules complicated and confusing to the users, as well as to the approvers. Inadequate and contradictory policies and procedures increase the likelihood of inconsistent interpretation of the guidance and an inconsistent and/or inefficient application of those rules as described in the examples below, and could ultimately result in the City paying for purchases that violate state procurement laws and/or local requirements, or that were otherwise inappropriate.

Inconsistencies were identified in our testing of 78 randomly selected NonPO and SGLP vouchers:

- Memos (which evidence a Department Head's approval for the purchase) were not submitted for 46% (36 of 78) of the NonPO/SGLP vouchers reviewed;
- NonPO vouchers were approved for payment even when the memos failed to meet all elements required per Section §XIII (C.c) of the AR. Furthermore, generic memos were sometimes copied and re-used (without evidence of Department Head acknowledgment) to support certain NonPO purchase types (i.e., Grant assistance, Trust payments).

**Recommendation 5A:** *The Chief Financial Officer should ensure that written policies and procedures be updated to resolve contradictory and confusing guidance so that adequate guidance is provided to departments purchasing goods, as well as to the individuals responsible for reviewing and approving the purchases. The CFO should limit allowances for exceptions to rules as much as possible to prevent confusion and misuse.*

**Auditee's Response:** Concur. FMS agrees that written policies and procedures should be clear and provide adequate guidance to departments purchasing goods, as well as to individuals responsible for reviewing and approving the purchases. FMS will review the Purchasing AR with Departments and update it to eliminate any confusion, as appropriate. FMS was not provided with a draft copy of the report; and therefore, we are not able to verify (or agree with) all of Internal Audit's conclusions regarding what they considered contradictory or confusing.

**Target Implementation Date:** 09/30/2023

**Responsibility:** Jo Ann Gunn, Chief Procurement Officer (Effective start date February 11, 2023)

**Applicable Department Head:** Reginald Zeno, Chief Financial Officer

**Recommendation 5B:** *The Chief Financial Officer should ensure that NonPO memorandums (when required) are submitted, to facilitate compliance with the AR.*

**Auditee's Response:** Concur. The Chief Procurement Officer currently ensures that Non-PO memorandums are submitted when required. The Purchasing AR will be updated to clarify instances where a memorandum is not required.

**Target Implementation Date:** 09/30/2023

**Responsibility:** Jo Ann Gunn, Chief Procurement Officer (Effective start date February 11, 2023)



**Applicable Department Head:** Reginald Zenzo, Chief Financial Officer

**6. PSKs did not match the City Secretary Contract (CSCO) or bid terms as required.**

§XI (A.c) of the Procurement AR states, “*the terms in the PSK must match the CSCOs or bid terms. If a department has a fully executed CSCO and needs an amendment to the PSK, the CSCO must be amended and fully executed.*” However, according to the City Attorney's Office, the default effective date of a contract should follow the City Code §2-9, which states that “... *all contracts ... shall be approved by the city council prior to execution by the city manager... the term CITY MANAGER shall also include assistant city manager....*”.

Based on audit testing of 78 PSKs, we identified the following discrepancies between PSK and CSCO:

- Four instances in which beginning and/or ending (expiration) dates on PSKs did not match the contract term dates.
- The expiration date for six PSKs within Transportation & Public Works and Aviation construction contracts were manually assigned a five-year PSK expiration date. The PSKs modified did not have any expiration date specified on the corresponding CSCO.

Purchasing staff indicated the current contract review procedures do not include a step to review the contract term (i.e. expiration date). City Attorney's office and Purchasing have arranged for the default expiration date of PSKs related to TPW/Water/Parks construction contracts, to be 5-7 year terms when an expiration date is not specified in the contract. There is no written guidance to clarify contract start and end dates for construction projects.

Without accurately capturing the contract's stated beginning and ending terms into the system, there is no way to ensure that City purchases are in compliance with contract terms, nor that agreements were properly authorized. Consequently, CFW may lose out on negotiated discounted prices and savings with a vendor. Departments are allowed to spend before the contract is finalized by having the ability to order against any PO issued by the contract. A PO must not extend beyond the contract expiration date. Purchases made after contract expiration are not legally covered by the terms of the contract and may not have sufficient funding to cover the purchase. Furthermore, the lack of documented guidance on handling TPW/Water/Parks construction contracts creates an increased risk of the transaction being inappropriately processed.

Additionally, we found the following anomalies:

- Three PSKs were approved by Purchasing staff who were not a Purchasing Supervisor or Manager.
- Two non-Purchasing employees had PS access to modify a PSK.
- PS is not tracking contract history (i.e. modifications after contract approval has taken place), thus adversely impacting an effective audit trail.

**Recommendation 6A:** *The Chief Financial Officer should require that beginning and ending dates entered into PeopleSoft Financial PSK be accurately stated based on the terms of the legal City Secretary contract or ACM approval date.*

**Auditee's Response:** Partially Concur. FMS agrees that the PSK should accurately reflect the terms in the CSCO; however, we believe there should be 2 exceptions to this and will amend the AR to reflect those situations (rules and safeguards are in place):



- CPO should have the discretion to extend the PSK dates to minimize bureaucracy. For example, to facilitate the payment of services/goods provided during the contract period. The PSK will be extended for 5 working days so that the Department can issue a PO.
- When the contract is for longer than 1 year and there is an annual spend limit, there will be a PSK created for each year to control the annual spending limit.

**Target Implementation Date:** 09/30/2023

**Responsibility:** Jo Ann Gunn, Chief Procurement Officer (Effective start date February 11, 2023)

**Applicable Department Head:** Reginald Zeno, Chief Financial Officer

**Recommendation 6B:** *The Chief Financial Officer should consider creating a procedure to monitor and close PSKs timely when all purchase orders have been processed completely and/or all funds have been spent.*

**Auditee's Response:** Concur. Purchasing will work with the ITS Department to develop an automated process to close PSKs within 30 days when all purchase orders have been processed completely and/or all funds have been spent.

A draft of the report stated that “A PO must not extend beyond the contract expiration date.” FMS believes this statement is too strict and does not reflect the reality of a purchasing process. The AR will be amended to provide that all POs must not extend past 3 months beyond the contract expiration date to accommodate purchases that occur near the end of the contract term and have lagging POs. This will give the Department time to process any outstanding invoices. If a Department needs more than 3 months, they will be required to amend the CSCO (contract filed with the City Secretary’s Office) to extend the expiration date.

**Target Implementation Date:** 09/30/2023

**Responsibility:** Jo Ann Gunn, Chief Procurement Officer (Effective start date February 11, 2023)

**Applicable Department Head:** Reginald Zeno, Chief Financial Officer