



Lexington-Fayette Urban County Government  
OFFICE OF INTERNAL AUDIT

## **INTERNAL AUDIT REPORT**

DATE: September 14, 2012

TO: Jim Gray, Mayor

CC: Richard Moloney, Chief Administrative Officer  
Stacey Maynard, Council Administrator  
Chad Cottle, Director of Enterprise Solutions  
Urban County Council Members  
Internal Audit Board Members

FROM: Bruce Sahli, Director of Internal Audit  
James Quinn, Internal Auditor

RE: Council Office Purchases Review

### **Background**

This review was conducted at the request of an Internal Audit Board member who questioned whether some of the purchases for the Council Office made by the former Acting Council Administrator were appropriate and complied with LFUCG's purchasing policies and procedures. The Board member also questioned whether vendors providing goods and services to the Council Office were being paid in a timely manner.

### **Scope and Objectives**

The scope and objectives for the review were to determine with reasonable assurance whether or not the concerns brought to the attention of the Office of Internal Audit as stated in the Background section of this report were substantiated.

Our work focused on investigating the specific concerns brought to our attention. We did not perform an audit, and therefore we cannot provide an opinion regarding Council Office operations or its overall purchasing processes and procedures. Our investigation substantiated that standard purchasing procedures were not completely followed, and identified an opportunities for improving Council Office purchase activity. Those opportunities for improvement are included in this report.

### **Priority Rating Process**

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks and/or costs associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks and/or costs associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.

## **SUMMARY OF AUDIT FINDINGS**

### **Finding #1: Normal Purchasing Policies and Procedures Not Completely Followed** **Priority Rating: High**

#### **Condition:**

The Council Office leased a new copier when a former Acting Council Administrator was in charge of the Council Office, but the former Acting Council Administrator did not completely follow standard LFUCG purchasing policies and procedures. The former Acting Council Administrator apparently negotiated a lease agreement with IKON Office Solutions to lease a copier prior to submitting an approved requisition or obtaining an authorized Purchase Order from the Division of Purchasing, in violation of Purchasing Policies and Procedures. The lease agreement was approved by Council and executed by the Mayor on November, 11, 2011. However, an approved requisition and an authorized Purchase Order were not submitted and obtained for this lease until February 6, 2012 and February 13, 2012, respectively. The former Acting Council Administrator did use an approved vendor for

this transaction, under an existing Commonwealth of Kentucky Price Contract used by the LFUCG.

The new copier lease agreement has a \$977.25 monthly lease payment and a \$396.20 monthly service charge, bringing the minimum monthly payment for the new copier to \$1,373.45. We were unable to locate a lease agreement for the previous copier, but based on Council Resolutions authorizing that lease agreement, the previous copier had a \$507.00 monthly lease payment and a \$45.61 monthly fee for an internal hole punch and expanded paper deck, bringing the previous copier's minimum monthly fee to \$552.61. The Council Office is now paying \$820.84 more per month for a leased copier, an increase of almost 150% above the former copier's monthly lease expense. In addition, the current lease agreement contains a usage clause that levies an additional monthly fee if copier usage exceeds 18,500 black & white or 7,500 color copies per month. The current Council Administrator informed us that this monthly limit is often exceeded, resulting in additional copier expense, and she also stated this copier has experienced several maintenance issues. Over the life of this three year lease agreement, the total cost of the current copier will approach \$50,000.

**Effect:**

Failure to completely follow LFUCG Purchasing Policies and Procedures resulted in less review of the current lease agreement and appears to have resulted in the Council Office entering into an expensive lease agreement with terms unfavorable to the LFUCG.

**Recommendation:**

The Council Office should seek to renegotiate the lease agreement terms to obtain a more equitable lease agreement, including exploring the possibility of obtaining another copier that can meet the needs of the Council Office at less cost to the LFUCG. LFUCG Purchasing Policies and Procedures should also be fully complied with to ensure thorough vetting of a lease agreement before it is executed.

**Council Administrator Response:**

I agree with the recommendation. I am working with IKON management to determine what our options are.

**Finding #2: Purchasing Duties Not Properly Segregated**  
**Priority Rating: High**

**Condition:**

The former Acting Council Administrator was both the requestor (i.e., employee making and submitting requisitions for purchases) and the sole approver for most purchases made by the

Council Office during her time as Acting Council Administrator (February 2011 through mid-November 2011), including ten transactions exceeding \$1,000. This resulted in inadequate segregation of duties and the absence of appropriate purchase oversight. We also noted that, immediately prior to February 2011, another Council Office staff employee served as both the requestor and approver for Council Office purchases below \$1,000. However, PeopleSoft Requisition Approval Workflow required the Council Administrator to approve the transactions of \$1,000 or more.

Since it was evident that an LFUCG employee could be set up as both requestor and approver within the PeopleSoft Financial System, we inquired about the possibility of additional requestor/approver dual roles existing within the LFUCG. As a result of our inquiry, the Division of Enterprise Solutions subsequently identified 66 additional LFUCG employees with both requestor and approver roles in the PeopleSoft Financials System, of which 25 typically acted in the role of requestor and 41 typically acted in the role of approver. Although it is our understanding that most of these employees with combined requestor and approver roles typically have their transactions routed to another approver within the PeopleSoft Requisition Approval Workflow for final approval, this still represents a basic segregation of duties issue. This list was provided to the Protiviti auditors conducting an audit of the PeopleSoft System and to the Director of the Division of Enterprise Solutions for examination and resolution in Protiviti's PeopleSoft Audit.

**Effect:**

Inadequate segregation of purchase requisition and approval roles creates the opportunity for inappropriate purchase activity.

**Recommendation:**

The roles of requestor and approver for purchases should be segregated to reduce the risk of inappropriate purchases and the potential for fraudulent transactions.

**Council Administrator Response:**

I agree with the recommendation. This issue has already been addressed in the Council Office by having a core staff employee create requisitions that I then approve.

**Finding #3: Requisition Approval Anomaly**

**Priority Rating: Low**

**Condition:**

We noted an anomaly in the requisition approval for PeopleSoft Requisition #0000080929, which originated in the Council Office and was approved on March 3, 2011. The requisition approval history indicated approval by the current Council Administrator, who started work

at the LFUCG on November 14, 2011, eight months after the requisition was actually approved. The PeopleSoft System somehow retroactively changed the approval information for this transaction once the current Council Administrator began her employment with LFUCG, and inserted her name in the requisition workflow approval history as an approver, although it did not insert a date/time approval stamp. We discussed this anomaly with Division of Enterprise Solutions personnel and with the Protiviti auditors. The exact cause of this anomaly is unknown, but an Error Step was required by Division of Enterprise Solutions personnel in order to approve the requisition. At our request, the Protiviti auditors examined PeopleSoft Requisition Approval Workflow for the Council Administrator and determined that it appears to be properly configured. Therefore, this particular event appears to be an outlier with no evidence to support a concern that it will be repeated.

**Effect:**

This anomaly appears to be an isolated event.

**Recommendation:**

It does not appear that any remediation is required for this specific event. Division of Enterprise Solutions personnel should be alert for such a recurrence if it becomes necessary to conduct another Error Step to force approval of a requisition.

**Director of Enterprise Solutions Response:**

Based on our collective review, we agree this was an anomaly not observed before. We also agree with the audit recommendation as stated.

**CAO Response:**

I concur with the Director of Enterprise Solution's response.