

INTERNAL AUDIT REPORT

DATE: May 16, 2018

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
William O'Mara, Commissioner of Finance & Administration
Todd Slatin, Director of Purchasing
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Teresa Gipson, CFE, Internal Auditor

RE: Purchasing Controls Audit

Background

The Lexington-Fayette Urban County Government Division of Purchasing system and processes are designed to assure that all purchases are made in the most economic manner possible and in compliance with local, state, and federal laws (when necessary), while providing enough flexibility to permit Divisions and Departments to follow all purchasing rules and procedures without unduly disrupting daily operations.



Purchasing facilitates the purchase of goods ranging from office supplies to expensive fixed assets depending on the needs of the Division or Department. Small purchases are made through Pro-cards or informal and formal quotes obtained by Divisions and Departments. For larger projects, purchases are obtained through the competitive bid process. Bid requests are advertised in newspapers, online, and through the Lexington-Fayette Urban County Government Economic Engine Marketplace called IonWave. All vendors must be registered with the city before submitting bids. Professional Services costing less than \$20,000 are exempt from the competitive bidding process; however, other forms of competition may be used. A Request for Proposal (RFP) is used to obtain professional services costing \$20,000 or more.

The Division of Purchasing provides a competitive and inclusive procurement environment for all businesses and has set goals to conduct business with minority businesses through the Minority Business Enterprise Program.

Scope and Objectives

The general control objectives for the audit were to provide reasonable assurance that:

- A system of comparative pricing for all purchases has been established in adherence with purchasing procedures
- Vendors are set up, approved, and maintained properly on the vendor master file by authorized individuals
- Purchase orders are properly approved, processed, and receipting controls regarding purchases are proper and entered timely into PeopleSoft Financials
- Automated purchasing process controls for purchasing systems are in accordance with the Institute of Internal Auditors Global Technology Audit Guide (GTAG) Information Technology Risk and Controls/Application Controls

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance controls are in place and effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

The period of review for our audit included transactions from July 1, 2016 through December 31, 2017.



Statement of Auditing Standards

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Audit Opinion

In our opinion, the controls and procedures provided reasonable assurance that the general control objectives were being met. Opportunities to improve controls are included in the Summary of Audit Findings.

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: Informal Quote Documentation Needs Improvement

Priority Rating: Moderate

Condition:

The Division of Central Purchasing Policies & Procedures indicate that purchases for amounts between \$2,499 and \$10,000 that are not a procurement contract may be made only after quotations have been received from three or more vendors by telephone or in person. Instructions state to contact three or more vendors and make notes of the acquired information and attach to the competing quotes page of the requisition. We noted during our review that quote information and amounts were not always documented in PeopleSoft.

Effect:

The absence of clearly documented informal quotes results in an inadequate audit trail of competing quotes as required by purchasing guidelines.

Recommendation:

The Director of Purchasing should issue a reminder to all Departments and Divisions to make notes within the requisition detail section of PeopleSoft of any competing quotes obtained, including the vendor name, name of person giving the quotation, price, and any other relevant information about the quote obtained.

Director of Purchasing Response:

Purchasing will issue a reminder to all Departments and Divisions to make notes within the requisition detail section of PeopleSoft of any competing quotes obtained, including the vendor name, name of person giving the quotation, price, and any other relevant information about the quote obtained.

Commissioner of Finance & Administration Response:

The Commissioner of Finance concurs with the response from the Director of Purchasing.



Finding #2: Timely Payment and Correct Account Coding of Goods and Services Need Improvement

Priority Rating: Moderate

Condition:

End user departments are responsible for entering the receipt of goods or services in a timely manner and correctly posting account coding into the PeopleSoft Financial Module in order for Accounts Payable to process payments in accordance with the Net 30 payment terms. We noted that payment was approximately two to eight months late for three purchase orders and two purchase orders had the incorrect account code.

Effect:

Delays in entering receipt of goods or services results in the late payment of purchases. This could negatively impact the cash flow of smaller companies doing business with LFUCG. The accuracy of financial records is affected when incorrect account codes are used.

Recommendation:

The Director of Purchasing should issue a reminder to all Departments and Divisions stressing the importance of receiving goods and services in a timely manner and ensuring that all purchases are coded to the correct accounts.

Director of Purchasing Response:

Purchasing will issue a reminder to all Departments and Divisions stressing the importance of receiving goods and services in a timely manner and ensuring that all purchases are coded to the correct accounts.

Commissioner of Finance & Administration Response:

The Commissioner of Finance concurs with the response from the Director of Purchasing.

