



City of
Corpus
Christi

AU14-F01
Financial Services Department
Purchasing Program Audit
Follow-up Report

Office of the City Auditor
Arlena Sones, CPA, CIA, CGAP
City Auditor

May 6, 2014

Executive Summary

As part of our annual Audit Plan, we conducted a follow-up of the Financial Services Department, Purchasing Program audit report dated September 20, 2012. The original report contained 19 recommendations which were all accepted by management.

The objective of this follow-up audit is to determine if prior audit recommendations were successfully implemented and are working as intended.

We concluded that 16 of the 19 recommendations have been implemented. The three recommendations not fully implemented are described below:

- The Assistant Director does not review quarterly reports validating the number of procurement cards issues.
- The department is not deactivating procurement cards based on the weekly notification of employee terminations.
- All employees granted access to the purchasing module have not received training.

Discussion of prior recommendations begins on page 3. A summary of the recommendations and the current status can be seen in Appendix A.

Management of the Financial Services Department agrees with this report. See management's response in Appendix B.

Table of Contents

Executive Summary	i
Background	1
Audit Objective, Scope and Methodology	1
Audit Conclusion	2
Staff Acknowledgment	2
Prior Recommendations and Status	3
B.3 Program Administrator Duties are Incompatible	3
B.5 Procurement Cards not Deactivated for Inactive Employees	3
C. Non-compliance with Purchase Order and Competitive Bidding City Policies	3
Summary of Recommendation Status	Appendix A
Management Response	Appendix B

Purchasing Program Audit Follow-up Report

Background

The City Auditor's Office conducted an audit of the Financial Services Department (Finance) Purchasing Program dated September 20, 2012. The objective of that audit was to determine if:

- The Purchasing Division is providing the proper administrative oversight of the decentralized purchasing process.
- City purchases are in compliance with competitive bidding requirements and in conformity with dollar thresholds established by City management.
- Purchase orders and procurement card purchases are properly approved and supported; and processed in accordance with City policies and relevant regulations.

Statutory Authority and Municipal Guidelines

City Procurement Policies

Audit Objective, Scope and Methodology

The objective of this follow-up audit is to determine the status of the recommendations detailed in the audit report dated September 20, 2012.

The follow-up audit was limited to a review of the findings and recommendations detailed in original report. The audit scope covered the operations of purchasing processes for October 2013 to March 2014.

We inquired of management the status of the recommendations in October 2013. Per management only 5 of the 19 recommendations had been implemented within the timeframe created by management; therefore, we postponed further testwork until February 2014.

To accomplish our audit objective, we reviewed updated policies and procedures related to purchasing, and we conducted interviews with management and staff of Finance. We tested current procurement cardholders/approvers and purchase order buyers/approvers to determine if they attended the mandatory training held in November 2013. We tested whether the procurement cards of recently terminated employees were deactivated. We inquired whether the workflow process of the PeopleSoft financial system and the new ERP system were set up to require approval of decentralized purchase orders.

We relied on user information from the City's financial system of record, PeopleSoft; however, we did not audit the system's general or application controls.

City management is responsible for establishing and maintaining a system of internal controls to ensure assets are safeguarded, financial activity is accurately reported and reliable, and management and their employees are in compliance with laws, regulations, and agreements with other entities.

This audit report provides independent, objective analysis, recommendations, and information concerning the activities reviewed. The report is a tool to help management discern and implement specific improvements. The report is not an appraisal or rating of management.

We conducted the follow-up audit in accordance with guidance from the Institute of Internal Auditors' (IIA) Professional Practices Framework (Practice Advisory 2500 A1-1) and other procedures that we considered necessary. IIA standards require that we establish a follow-up process to monitor and ensure that management has effectively implemented actions or that senior management has accepted the risk of not taking actions. We conducted this audit from October 2013 through March 2013.

Audit Conclusion

Sixteen of the 19 recommendations have been fully implemented. The table in Appendix A summarizes the recommendations made to management and the current status of management efforts.

Discussion of the three recommendations not fully implemented begins on page 3. Management agrees with our conclusion and their responses can be seen in Appendix B.

Staff Acknowledgment

Sarah Arroyo, Management Assistant

Prior Recommendations and Status

B.3 Program Administrator Duties are Incompatible

This section of the audit report contained two recommendations. The first was to provide for adequate segregation of duties, which was accomplished, and the second was related to controls of over the number of procurement cards issued. Management's corrective action plan included a step to have the Assistant Director or designee validate the number of procurement cards issued to the cardholder applications maintained in the cardholder file each quarter.

Status: Not Implemented

The Assistant Director does not validate the number of procurement cards issued to the cardholder applications.

B.5 Procurement Cards not Deactivated for Inactive Employees

Management's corrective action plan included a step to obtain weekly notification of terminated employees from the Human Resources Department for timely deactivation of procurement cards.

Status: Partially Implemented

The department began receiving the weekly list of terminated employees in January 2014; however, procurement cards were still activated in March 2014 for five employees who terminated from January 3, 2014 to February 3, 2014.

C. Non-compliance with Purchase Order and Competitive Bidding City Policies

Management's corrective action plan indicated that a mandatory training program had been implemented effective June 2012 for all employees with access to the Procurement Module.

Status: Partially Implemented

Management conducted the first of its mandatory training sessions in November 2013. Per management records, 49% of buyers and approvers attended the training. Access to the Procurement Module was not removed for those employees who failed to attend.

Appendix A - Summary of Recommendation Status

Summary of Recommendation Status		
Issue No.	Issue	Status
A.1	1. Update procurement policies and procedures.	Implemented
	2. Make updated policies available on the Financial Services webpage.	Implemented
A.2	3. Develop procedures for auditing decentralized purchases less than \$3000.	Implemented
	4. Initiate audits of departmental purchases initiated.	Implemented
	5. Report results of desk audits to the department director, director and assistant director of Financial Services, and the assistant city managers over Financial Services and the department being audited.	Implemented
B.1	6. Review and update policy to address gratuity tips, vehicle parts and repairs, and technological items.	Implemented
	7. Provide mandatory training and annual refresher training for p-card users.	Implemented
B.2	8. Address documentation of verbal bids in the revised procurement policy.	Implemented
	9. De-activate P-Cards if users are non-compliant with City policy.	Implemented
B.3	10. Provide for appropriate segregation of incompatible duties.	Implemented
	11. The Asst. Director should review quarterly reports validating the number of cards issued.	Not Implemented
B.4	12. Address processing and maintenance of cardholder files in the revised procurement policy.	Implemented
	13. Address issuance of p-cards to non-city employees in the revised procurement policy?	Implemented
B.5	14. Deactivate access for terminated employee based on weekly reports from Human Resources.	Partially implemented
C	15. Provide training for all employees granted access to the purchasing module.	Partially implemented

D.	16. Implement a workflow approval process to require a department head to approve all purchase orders between \$1000 and \$3000.	Implemented
	17. Implement a workflow approval process to require purchasing approval for all purchase orders between \$3,000 and \$50,000.	Implemented
	18. Implement a workflow approval process to require purchasing approval for all purchase orders between \$3,000 and \$50,000 in the new ERP system.	Implemented
	19. Develop a policy for obtaining access to the purchasing module.	Implemented
A total of 16 of 19 recommendations have been fully implemented by management.		

APPENDIX B - Management Response



City of
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April 3, 2014

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Corpus Christi, Texas

Re: Management Response to AU14-F01 Financial Services Department,
Purchasing Audit Follow-up Report

Financial Services Department has reviewed the audit report and provided its comments below. As there are no recommendations for management, no responses are required.

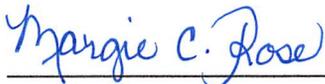
Fully Agree

Do Not Agree

Sincerely,



Constance P. Sanchez, Director
Financial Services Department



Margie C. Rose
Assistant City Manager



Ronald L. Olson
City Manager