



CITY OF SAN ANTONIO

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September 25, 2014

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SUBJECT: Audit Report of Follow-Up Audit of Finance Sole Source (Exempted) Procurement Purchases

Mayor and Council Members:

We are pleased to send you the final report of the Follow-Up Audit of Finance Sole Source (Exempted) Procurement Purchases. This audit began in May 2014 and concluded with an exit meeting with department management in August 2014. Management's verbatim response is included in Appendix B of the report. The Finance Department management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Follow-Up Audit of Finance

Sole Source (Exempted) Procurement Purchases

Project No. AU14-F04

September 25, 2014

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted a follow-up audit of the recommendations made in the Audit of the Finance Department's Purchasing Division Sole Source (Exempted) Procurement Purchases dated November 15, 2012. The audit objective and conclusion follow:

Has the Finance Department successfully implemented action plans to address prior audit recommendations relating to Sole Source (Exempted) Procurement Purchases?

Yes, Finance has successfully implemented action plans that address all recommendations from the previous audit.

The prior audit observations included control deficiencies related to adequately supporting and identifying sole source procurement purchases and updating the City's procurement policies and procedures to address all potential categories of exempted purchases.

Finance Management's verbatim response is in Appendix B on page 5.

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Background

In November of 2012, the Office of the City Auditor completed an audit of the Finance Department's Purchasing Division Sole Source (Exempted) Procurement Purchases. The objective of the audit was as follows:

Are controls sufficient to ensure that Sole Source (Exempted) procurement purchases are appropriate?

The Office of the City Auditor issued a report that found that key management controls were insufficient to ensure that exempted procurement purchases were appropriate. Purchasing did not process exempted procurement transactions through SAP or SAePS in accordance with City policies and procedures and some purchases did not include the required support documentation. In addition, staff could not adequately identify all exempted purchases. Finally, the audit office found that the City's procurement policies did not adequately address all potential exempted transaction types.

Audit Scope and Methodology

The audit scope was limited to the recommendations made in the original report and corresponding action plans and included exempted purchases processed from May 2013 through May 2014.

To obtain an understanding of the department's processes, we interviewed staff and observed controls. Testing criteria included Chapter 252.022 of the Texas Local Government Code, the City's Procurement Policy & Procedures Manual, and AD (Administrative Directive) 1.6 over Purchasing Procedures.

We reviewed sole source purchases for compliance with local purchasing guidelines and adequate document support. Document support consists of Justification and Certificate of Exemption forms as well as a Sole Source Letter obtained from the vendor.

We also verified exempted purchases were authorized in accordance with AD 1.6, Purchasing Procedures. Additionally we verified that the City's Procurement Policy & Procedures Manual was updated and agreed with Chapter 252.022 of the Texas Local Government Code.

We relied on computer-generated data in the SAePS and SAP systems to identify a population of exempted purchases and to perform our testing. Our reliance was based on performing direct tests on the data rather than evaluating the systems' general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this follow-up 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 audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Prior Audit Recommendations and Status

A. Compliance with City Policies

The Finance Director should ensure that all exempted transactions are processed in accordance with City policies and procedures. In addition, the Director should ensure that all exempted procurement transactions are properly documented to adequately justify and support the exemption.

Status: Implemented

Finance has developed internal procedures that require procurement staff to electronically attach all pertinent documents to the contract or purchase order prior to Management approval. If proper forms and approvals are not attached, requests are redirected to the respective department for correction. We reviewed a sample of 42 exempted purchases consisting of 24 contracts worth \$6,150,357 and 18 purchase order transactions totaling \$420,969 and verified that adequate approvals and forms were obtained.

B. Exempted Transactions Not Adequately Identifiable in SAP or SAePS

The Finance Director should ensure that all exempted transactions are appropriately identified and tracked in SAePS.

Status: Implemented

Finance has implemented procedures that now require exempted purchases be identified and recorded in SAePS by exemption type. As a result, all exempted purchases initiated through SAePS are electronically tracked and reported. Items initiated through SAP are manually recorded and tracked.

C. Incomplete and Outdated Procurement Policy and Procedures

The Finance Director should update the City's procurement policies and procedures to adequately address all potential categories of exempted transactions.

Status: Implemented

Finance has updated the City's Procurement Policy & Procedures Manual to adequately address all potential categories of exempted purchases.

Appendix A – Staff Acknowledgement

Buddy Vargas, CFE, Audit Manager
Cristina Stavley, Auditor in Charge

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

September 5, 2014

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for AU14-F04 Follow-Up Audit of Finance Sole Source
(Exempted) Procurement Purchases

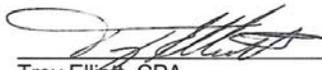
Finance Department has reviewed the audit report and provided its comments to the auditors. As there are no recommendations for management, no management responses are required.

Department:

Fully Agrees (provide detailed comments)

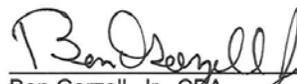
Does Not Agree (provide detailed comments)

Sincerely,



Troy Elliott, CPA
Director
Finance Department

9/5/2014
Date



Ben Gorzell, Jr., CPA
Chief Financial Officer
City Manager's Office

9/8/14
Date