



CITY OF SAN ANTONIO

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November 15, 2012

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SUBJECT: Audit Report of Finance Department's Purchasing Division - Sole Source (Exempted) Procurement Purchases

Mayor and Council Members:

We are pleased to send you the audit report of the Audit of Finance Department's Purchasing Division Sole Source (Exempted) Procurement Purchases. This audit began in April 2012 and concluded with an exit meeting with department management in August 2012. Management's verbatim response is included in **Appendix B** of the report. The Finance Department should be commended for its 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,

A handwritten signature in black ink, appearing to read "Kevin W. Barthold".

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



Audit of Finance Department's Purchasing Division

Sole Source (Exempted) Procurement Purchases

Project No. AU12-013

November 15, 2012

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

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Finance Department's Purchasing Division, specifically sole source (exempted) procurement transactions. The audit objectives, conclusions, and recommendations follow:

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

No, key management controls are insufficient to ensure exempt procurement transactions are appropriate. Although we did not identify any explicit violations of State procurement laws, Purchasing was not appropriately processing exempted procurement transactions as required by City policy within the City's accounting system (SAP) or the San Antonio e-procurement system (SAePS). Additionally, Purchasing could not adequately identify all exempted transactions in SAP or SAePS. We also determined that the City's Procurement Policies and Procedures Manual was outdated and did not adequately address exempted transactions.

We recommend that the Director of Finance:

- Ensure that all exempted transactions are processed in accordance with City policies and procedures. In addition, ensure that all exempted procurement transactions are properly documented to adequately justify and support the exemption.
- Ensure all exempted transactions are appropriately identified and tracked in SAePS.
- Update the City's procurement policies and procedures to adequately address all potential categories of exempted transactions.

Finance Department Management's verbatim response is in **Appendix B** on page 6.

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Background

The Finance Department's Purchasing Division is responsible for the procurement of goods and services necessary for the delivery of municipal services. The division is also responsible for providing support services to all City Departments for strategic and material management of procurements.

Prior to fiscal year (FY) 2011, Purchasing functioned as a City Department reporting to an Assistant City Manager. However, during the City's FY 2011 Annual Budget process, City Management consolidated the Purchasing function with the Finance Department in an effort to streamline the purchasing process. This reorganization was designed to allow for better coordination between Finance and Purchasing staff on procurements and fiscal operations.

In order to ensure the City follows consistent and uniform purchasing procedures for all procurement transactions, City Management issued Administrative Directive (AD) 1.6 *Purchasing Procedures* and the City's *Procurement Policy and Procedures Manual*. Both documents provide guidance to City purchasing processes and help ensure adherence to State laws associated with procurements for municipalities.

Most purchases for goods and services, in accordance with federal, state, and local laws, are subject to competitive solicitation (bids). However, under limited conditions the City is authorized to make procurements outside of the bidding process. For instance, Texas Local Government Code Chapter 252 provides guidance regarding general exemptions from competitive solicitations, which include Cooperative Purchasing Agreements as well as Emergency and Sole Source procurements. Therefore, these exempted transactions are not subject to State or local bidding requirements, but are still subject to City policies.

For the 18-month period under review, Purchasing processed approximately 270 exempted transactions valued over \$12.8 million.

Audit Scope and Methodology

The audit scope included exempted transactions from October 2010 to March 2012. We reviewed a sample of exempted procurement files which included purchase orders and contracts processed in the City's Accounting System (SAP) and/or the San Antonio electronic Procurement System (SAePS). We interviewed Procurement Administrators as well as the Director of Finance. Testing criteria included Local Government Code Chapter 252, City Administrative Directive 1.6, and the City's Contracting and Procurement Manual. Since exempted transactions could not be identified in SAP or SAePS (see Finding **B** on page 3), we relied on a list provided by Purchasing to judgmentally select our sample for

testing. However, we incorporated data reliability testing for the completeness of our population.

We relied on computer-processed data in both SAP and SAePS to obtain the appropriate documentation used to validate exempted procurement transactions. Each transaction was reviewed and compared to the testing criteria to ensure the transaction was lawful and processed in accordance with City policy. Our reliance was based on performing direct tests on the data rather than evaluating the system's 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 audit from April 2012 to August 2012 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.

Audit Results and Recommendations

A. Exempted Transactions Not in Compliance with City Policies

Purchasing did not process exempted procurement transactions through SAP or SAePS in accordance with City policies and procedures. Although all exempted transactions tested were compliant with State law, 69 of the 107 (64%) transaction files tested did not comply with AD 1.6 and the City's Contracting Manual.

According to City policies, exempted transactions processed through SAP and/or SAePS are required to contain a solicitation document, exemption certification, justification form, and approval by a Purchasing Administrator. Of the 69 procurement files deemed non-complaint with City policies, 53 were missing documentation, 49 were not approved by a Purchasing Administrator, and 10 files were not approved by any level of management. Moreover, 1 of the 10 files processed that did not have management approval was a public safety transaction for \$875,722.

During testing, we also determined that several files associated with transactions exempted for public safety purposes did not include documentation that would better support the exemption. For example, there were cases where research and analysis were performed before the decision was made to exempt the procurement. Although these files were in accordance with City policies, there was no evidence of the initial analysis performed that provides better support for claiming the public safety exemption.

Although these purchases were lawful, the lack of documentation and proper approvals could expose the City to undue risks if these exemptions were to be challenged.

Recommendations

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.

B. Exempted Transactions Not Adequately Identifiable in SAP or SAePS

Purchasing staff could not adequately identify all exempted transactions within SAP or SAePS. In order to locate exempted transactions, Purchasing staff had to manually review each transaction in the system, using professional judgment, to provide us with a population of exempt contracts. During our reliability testing, we identified three additional exempted transactions that were not identified by

Purchasing. During the audit, Purchasing began labeling exempted transactions within SAePS by adding a reference field to each file.

Exempted transactions are a significant risk to the City since State competitive solicitation rules are not applied, leaving City policies and monitoring as the only criteria. Also, management reports need to contain adequate information in order for management to effectively make sound business decisions. High risk transactions should be readily identifiable in order to effectively monitor and reduce the organizations risk exposure.

Recommendation

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

C. Exempted Transactions Types Not Properly Addressed in City Policies

The City's procurement policies do not adequately address all potential exempted transaction types. The current policies only address 3 of the 16 allowable exemptions. In addition, the manual has not been updated to reflect the new procurement process associated with SAePS, which was implemented in March 2011. Policies & procedures are essential in providing guidance to staff responsible for processing procurement transactions. Without formal guidance, City staff may unknowingly process inappropriate or unjustified exempted transactions exposing the City to risk of financial loss.

Recommendation

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

Appendix A – Staff Acknowledgement

Brian K. Williams, MBA, CIA, CFE, CRMA, CGAP, Audit Manager

Kimberly A. Weber, MPA, CIA, CFE, CRMA, CGAP, Auditor in Charge

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

November 2, 2012

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

RE: Management's Corrective Action Plan for the Audit of Finance Department's Purchasing Division Sole Source (Exempted) Procurement Purchases

The Finance Department has reviewed the audit report and developed the Corrective Action Plan below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A	<p>Exempted Transactions Not in Compliance with City Policies</p> <p>Recommendation: 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.</p>	3	Accept	Norbert Dzuik, Lead Procurement Administrator	Completed

Appendix B – Management Response (continued)

Recommendation				
Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
<p>Action plan:</p> <p>The internal audit scope for exempted transactions tested items from October 2010 through March 2012. During this period, a new electronic procurement system (SAePS) was implemented in March 2011. Required approvals have been strengthened with this system through improved workflow requiring a Procurement Administrator or Manager to approve all purchase orders and contracts processed in the electronic procurement system. In addition to implementation of SAePS, internal policies and procedures have been developed and implemented which require procurement staff to electronically attach all pertinent documents to the contract or purchase order (exemption certificate, sole source justification form, vendor sole source letter, copy of executed contract, etc) prior to approval by the Procurement Manager or Administrator. The procurement staff and management have been trained on these policies and procedures. Additionally, the policies and procedures have been incorporated into a desktop manual which is provided to procurement specialists, managers and administrators. As a result of these changes, management controls have been strengthened to ensure that Sole Source procurement transactions are appropriate.</p> <p>In order to ensure consistency and further improve controls and the quality of work, the Purchasing Department was consolidated as a division of the Finance Department effective October 1, 2012. As a result of the consolidation, the Purchasing Division completed a comprehensive assessment of its existing business processes, organizational structure as well as solicited feedback from staff and internal customers. The division completed its reorganization in September 2012 and the procurement functions are the focus of two teams with distinct and specialized job responsibilities. In the new structure, one Purchasing Administrator is solely responsible for all procurements governed by Chapter 252 of the Local Government Code while the other administrator is responsible for all discretionary solicitations.</p> <p>The Purchasing Division is also in the processes of finalizing revised processes in order to streamline operations, improve quality and strengthen controls. The revised procedures are scheduled to be finalized by January of 2013 with implementation and training complete by March 2013.</p>				
<p>B</p> <p>Exempted Transactions Not Adequately Identifiable in SAP or SAePS</p> <p>Recommendation: The Finance Director should ensure that all exempted transactions are appropriately identified and tracked in SAePS.</p>	4	Accept	<p>Norbert Dzuik, Lead Procurement Administrator</p>	Completed

Appendix B – Management Response (continued)

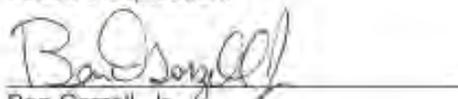
Recommendation				
Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
<p>Action plan:</p> <p>Exempted transactions were historically managed and documented through a manual and paper intensive process. The implementation of SAePS has now provided the capability to record exempted transactions electronically in the SAePS system. Revised policies and procedures have been developed and implemented in parallel to this audit and now require procurement staff to identify and record all exempted transactions in SAePS by exemption type for documentation, tracking and reporting purposes.</p>				
<p>C Exempted Transactions Types Not Properly Addressed in City Policies</p> <p>Recommendation: The Finance Director should update the City's procurement policies and procedures to adequately address all potential categories of exempted transactions.</p>	4	Accept	Norbert Dzuik, Lead Procurement Administrator	March 29, 2013
<p>Action plan:</p> <p>As part Purchasing Division reorganization, the Procurement Policy and Procedures manual is scheduled to be updated. These updates will reflect changes brought about by the implementation of SAePS, state statute, internal policies and procedures and the reorganization. As part of the updates, the Purchasing Division will conduct focus group meetings to review proposed changes with stakeholders and invite feedback. The updated Policy and Procedures Manual is scheduled to be completed by March 2013.</p>				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,


Troy Elliott
Director
Finance Department

11/2/12
Date


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

11/2/12
Date