December 17, 2012

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SUBJECT: Audit Report of Finance Department’s Purchasing Division San Antonio eProcurement System (SAePS) Procurement Controls

Mayor and Council Members:

We are pleased to send you the audit report of the Audit of Finance Department’s Purchasing Division SAePS Procurement Controls. This audit began in March 2012 and concluded with an exit meeting with department management in November 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,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio
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Audit of Finance Department’s Purchasing Division:
San Antonio eProcurement System (SAePS) Controls

Project No. AU12-014

December 17, 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 adequacy of controls within the San Antonio eProcurement System (SAePS) administered by Finance Department’s Purchasing Division (Purchasing). The audit objective, conclusions, and recommendations follow:

Are purchasing controls within the SAePS application adequate?

Yes, overall SAePS controls are adequate. We tested controls within SAePS and determined they were working effectively. Specifically, the following controls were determined to be functioning as intended:

- Budget controls that ensure various accounts are maintained within a specified threshold.
- Purchase requisition controls that ensure required fields are correctly populated before finalized.
- Target value controls that ensure purchases are prevented on contracts where target values have been met.
- Vendor solicitation controls that prevent vendors from bidding on contracts after the assigned deadline.
- Purchase order controls that ensure proper approval.
- Controls to ensure the accuracy of SBEDA vendor certification.

However, we identified some areas that need improvement. Specifically, Purchasing does not have adequate controls to monitor user access, prevent shoppers from circumventing SAePS system, and ensure internal catalogue pricing is accurate. Additionally, Purchasing has not updated the City’s Procurement Policy and Procedures Manual to reflect changes due to the implementation of SAePS.

We recommend the Finance Director:

- Implement monitoring procedures that will assist in identifying and limiting roles in SAePS to users’ specific business needs. Additionally, restrict the access to processing purchase orders in SAP to authorized users.

- Update the City’s Procurement Policy and Procedures Manual and AD 1.6 Purchasing Procedures to reflect current procurement business processes within SAePS.

- Ensure quotes from Historically Underutilized Businesses are utilized for procurements between $3,000 and $50,000. Also, ensure the “after the fact” procurements are tracked and properly communicated to department directors so they can deter this type of process.
• Implement stronger business process controls, such as more frequent review of contractual items, to ensure the internal catalogue pricing is maintained accurately. Additionally, request reimbursement of funds from vendor for those items purchased above the contract price.

The Finance Department’s verbatim response is in Appendix B on page 8.
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Background

The San Antonio eProcurement System (SAePS) is the electronic system administered by the Finance Department’s Purchasing Division (Purchasing) for all departmental procurement requirements. The City purchased SAePS in 2009 and began the implementation process in 2010. SAePS was purchased for $600,000 and the City subsequently contracted with SAP America for implementation services in the amount of $2.7 million, for a total of $3.3 million. SAePS was fully operational in March of 2011.

SAePS implemented SAP’s Supplier Relationship Management (SRM) and Procurement for Public Sector (PPS) modules. This solution has been designed from a government point of view to handle sourcing, procurement, transaction processing, order management, and payment support functions. All of which are connected to create a single view of the spending levels for an organization and how its purchasing activities are integrated into the supplier community that can be easily tracked, benchmarked, and analyzed.

The goal of SAePS is to automate and streamline the procurement process, improve requisition-to-purchase order cycle time, and facilitate cost savings with the ability to analyze City spending habits. SAePS allows vendors to self-register via the SAePS website, which provides them the ability to electronically respond to City solicitations for goods or services. Additionally, SAePS is equipped with a document builder¹ that creates the legal documents in the solicitation and contract creation phase. The document builder ensures contracts are consistent with the City of San Antonio procurement requirements and facilitates contract management as well as contract enforcement/compliance.

There are three key roles within SAePS: “Shoppers”, “Approvers”, and “Buyers”. Department “Shoppers” create shopping carts from internal catalogues maintained by Purchasing or external catalogues maintained by the vendor. All items available in a catalog have been established with a vendor contract. Additionally, items can be purchased as “free text” which are items not available from a vendor contract. Department “Approvers” review the shopping cart for reasonableness and provide the initial approval. The departments Fiscal “Approver” reviews the shopping cart and ensures funds are available and the purchase was recorded in the appropriate cost center and general ledger account. Finally, “Buyers” process and distribute purchase orders. They create vendor solicitations and the corresponding contracts awarded to vendors.

¹ Document builder is a function within SAePS that populates contracts with standard clauses based on answers provided to a logic-based question system.
Audit Scope and Methodology

The audit scope included Purchasing’s procurement process and the controls implemented within the SAePS as well as associated documentation from fiscal year (FY) 2011.

Specifically, we tested the following controls in SAePS:

- Budget controls that ensure various accounts are maintained within a specified threshold.
- Purchase requisition controls that ensure required fields are correctly populated before finalized.
- Target value controls that ensure purchases are prevented on contracts where target values have been met.
- Vendor solicitation controls that prevent vendors from bidding on contracts after the assigned deadline.
- Purchase order controls that ensure proper approval.
- Controls to ensure the accuracy of SBEDA vendor certification.

We interviewed the Director of Finance and procurement administrators from Purchasing. We observed processes and reviewed City Administrative Directives (ADs), along with the City’s Procurement Policy and Procedures Manual to obtain an understanding of the procurement process.

We reviewed relevant information technology AD’s (i.e., 7.8.1 Information Security Program, 7.8D Account Access Management and 7.8E User Account Manager) to ensure Purchasing’s compliance with managing user access in SAePS. We relied on the IT Governance Institute’s Control Objectives for Information and related Technology (COBIT version 4.1) for evaluating IT internal controls.

We tested user access by obtaining a list of all system users and corresponding roles and authority to verify appropriate segregation of duties. Additionally, we reviewed the SAP Supplier Relationship Management software (SRM) to ensure security configuration and sensitive access adheres to City AD’s and best practices. We obtained view-only access to SRM and independently reviewed security settings, configuration, and sensitive access.

We relied on computer-processed data in SAP to obtain populations. Our reliance was based on performing direct tests on the data rather than evaluating the system’s general and application controls. Our direct testing included review of purchase orders. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We verified SAePS users attended the required training classes prior to having a functional role in SAePS. We judgmentally selected a sample of 25 users with
We tested the accuracy of pricing for items in the external and internal catalogues. To test the accuracy, we compared the price of an item in the catalogue to the agreed upon contact price. This also included ensuring that restricted items in both catalogues were in fact restricted and not available for purchase.

Finally, we conducted interviews with users identified as “Shoppers” in SAePS to obtain an understanding of their overall experience with SAePS related to the training provided, improvement in cycle time, and Purchasing’s response to issues of concern while using the system.

We conducted this audit from March 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. SAePS Users Have Conflicting Roles or Inappropriate Access

We determined that some users have conflicting roles or inappropriate access in SAePS. Specifically, 10 of the 130 users tested had conflicting roles within the procurement process in SAePS that violated proper segregation of duties. For example, six users had both the “Shopper” and “Approver” role in SAePS. Additionally, 11 of 130 users tested had inappropriate access in SAePS. These users had roles that were no longer needed to perform their job function. Finally, we determined that 8 out of 130 users had access to process purchase orders in SAP and were not authorized to do so.

This occurred because Purchasing is not properly monitoring users’ access to SAePS. Additionally, users’ ability and associated need to process purchase orders in SAP have not been appropriately eliminated. AD 7-8E, User Account Management, states that individuals should only be given the minimum level of access needed to perform their job duties.

When users have conflicting roles, inappropriate access or are allowed to bypass SAePS, circumvention of the City’s established procurement policies is possible. This can result in improper purchases for the City or violation of State procurement laws.

Recommendation

Finance Director should implement monitoring procedures that will assist to identify and limit roles in SAePS to users’ specific business needs. The Director should also restrict the processing of purchase orders in SAP to authorized users.

B. SAePS Guidance Not Included in Procurement Policies

The City’s Procurement Policy and Procedures Manual and AD 1.6 Purchasing Procedures do not reflect current procurement processes in place for the SAePS. The current policies still reference outdated SAP procurement processes.

Based on COBiT AI4.1 Planning for Operational Solutions, a plan should be developed that identifies and documents all technical, operational and usage aspects such that all those who will operate, use and maintain the automated solutions can exercise their responsibility.

Without current procurement policies, employees are not aware of the new business processes when procuring goods and services. Additionally, employees are more at risk of violating State procurement statutes.
Recommendation

Finance Director should update the City’s Procurement Policy and Procedures Manual and AD 1.6 Purchasing Procedures to reflect current procurement business processes associated with SAePS.

C. City “Shoppers” Can Circumvent the Solicitation Process in SAePS

A department “Shopper” is able to circumvent the solicitation process and procure goods individually. We tested 25 purchase orders between $3,000 and $50,000 to ensure they followed City bidding guidelines in SAePS. During testing, we noted four procurements that did not follow the standard procurement guidelines. Specifically, we identified two procurements where the department solicited their own vendors and procured the goods without using SAePS. According to Purchasing, this is considered an “after-the-fact” purchase since the goods were procured with a predetermined vendor and not competitively bid. Purchasing mentioned they have no viable control that will eliminate this practice. Additionally, we noted Purchasing did not obtain quotes from Historically Underutilized Businesses (HUBs) for the two “after-the-fact” procurements and one other procurement. Finally, we identified one instance where Purchasing could not provide an RF(x)\(^2\) or any evidence that the competitive bidding process occurred.

Per the City’s Procurement Policy and Procedures Manual, the first step in the procurement of goods is to draft an RF(x) and obtain quotes from HUBs which is compliant with Texas Local Government Code Chapter 252 Purchasing and Contracting Authority of Municipalities. Departments are able to directly contact vendors and procure goods outside of SAePS. Although these purchases are eventually approved by Purchasing, there is no follow up to notify and educate department directors to help prevent reoccurrences.

As a result, contract purchases did not consistently adhere to the Local Government Code Chapter 252 as well as the City’s Procurement Manual.

Recommendation

Finance Director should ensure that the “after the fact” procurements are tracked and properly communicated to department directors so they can deter this type of process. Also, ensure quotes from Historically Underutilized Businesses are utilized for procurements between $3,000 and $50,000.

\(^2\) RF(x) references the type of solicitation methods that will be used to procure goods and services. Examples include RF (P), Request for Proposal; RF (PQ), Request for Price Quote, etc.
D. Internal Catalogue Controls Not Adequate to Ensure Accurate Pricing

Purchasing's internal controls over internal catalogue pricing are not adequate to ensure prices are consistent with City contracts. During testing, we haphazardly selected 25 items from the internal catalogue to determine if they were priced according to the contract agreement between the City and vendor. Specifically, we noted three items that were associated with an expired contract and should have been removed from the internal catalogue. Another item was priced at the contract “year one rate” and should have been priced at the current “year two rate.” Finally, we noted an item that was priced $60 more than the agreed upon contract price.

This occurred because Purchasing does not have adequate controls to ensure items from expired contracts are eliminated from the internal catalogue and/or priced according the contract. Currently, ad hoc reviews are performed but not on a consistent basis.

As a result of inadequate controls, the City is at risk of allowing non contractual purchases and paying for items that are above the agreed upon contract price.

Recommendation

Finance Director should implement stronger business process controls, such as more frequent review of contractual items, to ensure the internal catalogue pricing is maintained accurately. Additionally, request reimbursement of funds from the vendor for those items purchased above the contract price.
Appendix A – Staff Acknowledgement

Brian K. Williams, MBA, CIA, CFE, CRMA, CGAP, Audit Manager
Danny Zuniga, CPA, CIA, Auditor in Charge
Doug Francis, MSA, Auditor
December 7, 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
San Antonio eProcurement System (SAePS) Controls

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

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<tr>
<th>#</th>
<th>Description</th>
<th>Audit Report Page</th>
<th>Accept, Partially Accept, Decline</th>
<th>Responsible Person’s Name/Title</th>
<th>Completion Date</th>
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<td>A</td>
<td>SAePS Users Have Conflicting Roles or Inappropriate Access</td>
<td>4</td>
<td>Accept</td>
<td>Norbert Dzuik, Lead Procurement Administrator</td>
<td>January 4, 2013</td>
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Recommendation:
The Finance Director should implement monitoring procedures that will assist to identify and limit roles in SAePS to users’ specific business needs. The Director should also restrict the processing of purchase orders in SAP to authorized users.
### Appendix B – Management Response (continued)

**Action plan:**
The Finance Department is currently working with the users and City Departments to remove the conflicting procurement roles that were identified during the course of this internal audit. Mitigating controls will be designed, documented and monitored in the event a user has the unique operational need to possess multiple roles that may be in conflict. The completion of the Shared Services Program will further strengthen controls with regard to the provisioning of Procurement roles. The Shared Services program is in the process of identifying procurement specialist position(s) in City Departments and based on the job functions of the position will be assigned predefined procurement roles with established controls.

Furthermore, staff is currently working on expanding the use of Approva software which will be used as a tool to determine the provisioning of procurement roles and to identify any potential role conflicts. If conflicts cannot be completely eliminated, the department will design mitigating controls which must be approved by the Finance Department prior to issuance of the role.

The procurement roles that have been identified as in conflict will be eliminated or mitigating controls established by January 4, 2013.

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**Action plan:**
The Procurement Policy and Procedures manual is scheduled to be updated as part of the Purchasing Division reorganization and business process review. 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.

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### Action plan:
In order to strengthen controls and standardize business processes, the Purchasing Division was reorganized by job function in September 2012. In this structure, one Purchasing Administrator is responsible for ensuring all procurements are conducted in compliance with Chapter 252 of the Local Government Code. This includes verifying Historically Underutilized Businesses are contacted as required by statute and documented accordingly in the resulting Purchase Order. In addition, implementation of the Shared Services program is identifying procurement specialist position(s) in City Departments and will place trained purchasing personnel in departments to standardize procurement processes and provide additional oversight of procurements. The Shared Service Program is scheduled to be completed by the end of June 2013.

Upon completion of the updates to the Procurement Policy and Procedures manual in March 2013, the Purchasing Division will conduct training with client City departments regarding procurement rules and procedures. Upon completion of this training, City departments will be required to provide justification for any "after the fact" purchases and be signed by the department director. In addition, the Purchasing Division will identify any "after the fact" purchases by annotating "ATF" in the Reference field of the Table Extension tab of SAePS.

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### Action plan:
In order to strengthen business process controls, the Purchasing Division’s FY 2013 budget included an improvement to add a new Compliance Analyst position. The position is expected to be filled by February 2013 and will be responsible for compliance activities which include periodic reviews of internal and punch out catalog items and pricing in SAePS. In addition, new processes have been implemented which require all new internal catalog data, as well as any changes to existing internal catalog items, must be approved by a Procurement Manager or Procurement Administrator prior to upload in SAePS.

For those items purchased above the contract price, the vendor has issued credit memos in the amount of the overcharge.

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

Sincerely,

Troy Elliott, CPA  
Finance Director

Ben Gorzell, Jr, CPA  
Chief Financial Officer

[Signature]

Date: 12/1/12

[Signature]

Date: 12/1/12

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