



Library Purchasing Audit Audit Report

Issued by the
Internal Audit Office
September 29, 2010

City of El Paso
Internal Audit Office
Library Purchasing Audit

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of the Library's Purchasing function. We identified internal control weaknesses in the processing and monitoring of transactions completed from September 1, 2009 to June 22, 2010. Based on the results of the audit, three findings were identified to indicate that improvements are needed in order to be in compliance with the City of El Paso's Purchasing Policies and Procedures. All three of these findings are considered significant in nature.

Listed below is the summary of the three significant findings identified in this report.

1. The Library Purchasing function is not getting purchase orders issued for purchases over \$3,000.00 60% of the time. 29 out of 48 transactions totaling \$214,272.84 did not have purchase orders issued.
2. The Library Purchasing function is not processing transactions or paying invoices in a timely manner 18% of the time. A review of 17 invoices resulted with three being overdue for a total amount overdue of \$17,521.29 and calculated late fees of \$77.02 due to vendors.
3. The Library Purchasing function is not showing evidence of recalculating invoices 47% of the time on transactions **over** \$3,000.00. Eight out of 17 invoices were not recalculated.

The Library Purchasing function is not showing evidence of recalculating invoices 12% of the time on transactions **under** \$3,000.00. Three out of 25 invoices were not recalculated.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

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BACKGROUND

The City of El Paso operates one main library located in downtown El Paso, 12 branch libraries throughout the city and also operates a bookmobile. In addition, the City of El Paso library system is affiliated with the Texas Trans – Pecos Regional Library System (TTPLS) and with 12 other Regional libraries such as local universities and school districts.

AUDIT OBJECTIVES

The audit objectives for the Library Purchasing Audit are to determine if,

1. The purchasing cycle and related controls within the City of El Paso Library System are meeting management’s objectives.
2. Proper segregation of duties exists within the Library Department’s purchasing function.
3. The library purchasing cycle has a good internal control environment. A strong internal control environment is characterized by the:
 - Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations.
 - Safeguarding of assets.
 - Compliance with laws, regulations, and contracts.

AUDIT SCOPE

This was a limited scope audit and focused on the Library’s Purchasing cycle. The audit time period covered was all transactions from September 1, 2009 to June 22, 2010.

AUDIT METHODOLOGY

To achieve our audit objectives we:

- Conducted interviews with Library management and staff;
- Conducted an analysis of the City of El Paso’s Purchasing Manual;
- Conducted a review of the Library’s applicable policies and procedures;
- Conducted a review for proper segregation of duties;
- Performed tests of selected transactions;
- Conducted a review of purchase orders for proper documentation;

We conducted this performance 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit was also conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

**SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT’S RESPONSES**

The definition of a significant finding is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, a violation of a City procedure, law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as an “Other Finding”.

Finding: 1

Purchase Orders

The City of El Paso’s Purchasing Manual January 2010, Purchasing Process, page 14, states the following:

“... User Departments are never authorized to incur services or to purchase goods without the appropriate authorization (i.e. a Purchase Order issued by the Purchasing Division).”

The total number of transactions exceeding \$3,000.00 for the period September 1, 2009 through June 22, 2010 was 48. Every purchase exceeding \$3,000.00 is required to have a purchase order issued.

Based on our review, 29 out of 48 (60%) of all transactions over \$3,000.00 for the period from September 1, 2009 through June 22, 2010 did not have a purchase order issued.

Transaction Description	Number of Transactions	Percentage	Amount
Transactions over \$3,000.00 with a PO issued	14	29.17%	\$155,064.21
Transactions over 3,000.00 without a PO issued	*29	60.42%	\$214,272.84
Transactions over 3,000.00 with payment pending	5	10.41%	\$16,546.71
Totals	48	100.00%	\$385,883.76

* 44% (13 of the 29 transactions) were for library book purchases.

Recommendation:

The library should comply with the City of El Paso’s Purchasing Manual, January 2010, purchasing process on page 14, which states user departments are required to get appropriate authorization, (Purchase Order) from the Purchasing Division prior to incurring services or purchasing goods.

Management’s Response

The majority of the transactions that were out of compliance were for the purchase of books and other library resources. It should be noted that the issuance of individual PO’s for each book order can slow down the book purchasing process. However, the option of issuing open PO’s for book vendors works well, and so in FY2011 open PO’s will be issued for the purchase of all books and related resources over \$3,000. These open PO’s will be based on the Library’s book budget for FY2011, in accordance with the Library’s annual plan for book and resource expenditures.

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Expenditures will be monitored by the Business Office in cooperation with the Acquisitions Unit of Technical Services.

Responsible Party

Library Business Office

Implementation Date

September 1, 2010 for FY2011

Finding: 2

Transactions Processed In A Timely Manner

Pursuant to Government Code 2251.021, the City of El Paso shall pay interest at the time of payment on goods and services if the payment is overdue. For contracts executed on or after September 1, 1987, a payment is considered overdue on the 31st day after the later of:

- The date the City receives the goods under contract.
- The date the performance of the services under the contract is completed.
- The date the City receives an invoice for the goods or services.

Based on our review, 3 out of 17 invoices (18%) over \$3,000.00 with no purchase orders issued, were not paid in a timely manner.

	Number of invoices overdue	Number of invoices tested	Percent of invoices Overdue	Total Amount Overdue	Interest Due to Vendors
Totals	3	17	18%	\$17,521.29	\$77.02

Recommendation:

The Library's Accounts Payable function should comply with the Texas' Prompt Payment Law of 1987. Texas Government Code Sec. 2251.021.

Management's Response

During FY2010, the Library Business Office was working to cross-train all Office Staff. During the cross-training process, errors did occur related to the timeliness of payment, but these have now been corrected and will not occur in the future.

Responsible Party

Library Business Office

Implementation Date

October 1, 2009 and ongoing.

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Finding: 3

Invoices Not Recalculated

In accordance with the City of El Paso's Accounts Payable Manual July 2008. Section 5.0, Unencumbered Purchase Orders, Paragraph 2, page 7 states the following:

“The invoice document should also be footed and cross footed to ensure the accuracy of the calculations made by the vendor.”

- Based on our review, 8 out of 17 invoices (47%), **over** \$3,000.00 with no purchase orders issued showed no evidence of recalculation for the period from September 1 to June 22, 2010.
- Based on our review, 3 out of 25 invoices (12%), **under** \$3,000.00, showed no evidence of recalculation for the period from September 1, 2009 to June 22, 2010.

Recommendation:

The Library's Accounts Payable function should comply with the City of El Paso's Accounts Payable Manual section 5.0, paragraph 2, page 7 which states invoices should be recalculated to ensure accuracy of the vendor calculations.

Management's Response

This process of recalculation has been routinely performed by the Library's Acquisitions Unit of Technical Services using the Library's Integrated Automated System (Horizon.) Documents demonstrating that these recalculations have been performed will now be provided to the Library Business Office for record retention. The recalculation of invoices received directly by the Library Business Office was also taking place routinely in the past, but this was not documented on the actual invoices. Library Business Office Staff will now clearly document the recalculation of all invoices.

Responsible Party

The Library Acquisitions Unit of Technical Services will continue verifying book and resource invoices in the Horizon System and forwarding copies to the Business Office. The Library Business Office will document the recalculation of all invoices received.

Implementation Date

Ongoing

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INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

Based on the results of this Audit, we have concluded work on the audit objectives of the Library Purchasing Audit. In accordance with Generally Accepted Government Auditing Standards we are required to conclude on whether the Library met the audit objectives of this audit. The following is our conclusion.

1. The purchasing cycle and related controls within the City of El Paso's Library System are meeting management's objectives with the exception of the findings identified in this report.
2. There is proper segregation of duties within their purchasing function. This was determined through an analysis of PeopleSoft roles assigned to the Library Business Office staff. The PeopleSoft roles for each staff member were analyzed for any anomalies that would allow one person to conduct a complete transaction such as entering a voucher and approving the same voucher for payment.
3. The library's purchasing cycle internal control environment is meeting management's objectives in two of the following areas:
 - The effectiveness and efficiency of operations are meeting management's objectives. This was determined through observations and inquiries. The Library is monitoring and documenting vendor / contractor performance to help ensure deliverables are of the best quality and value.
 - There is adequate safeguarding of assets within the Library's purchasing function to meet management's objectives. This was determined through observations and inquiries. Inquiries of the Acquisitions Department staff and a review of documented policies and procedures regarding routines that ensure the accuracy of the quality and quantity of items received. Observations during a tour of the receiving area in the basement of the Library resulted in assessment of adequate security.
4. The library's purchasing cycle internal control environment has not met management's objectives in three of the following areas:
 - A weakness was identified regarding the reliability and integrity of financial and operational information.
 - We identified a lack of recalculation evidence for invoice amounts within the Library's Business Office Accounts Payable function
 - Weaknesses were identified regarding the compliance with laws, regulations and contracts.
 - We identified a failure within the Library's Purchasing function to adhere to the purchase order requirement as defined by the City of El Paso's Purchasing Manual.
 - We also identified that the Library's Business Office Accounts Payable function is not complying with Texas' Prompt Payment Law of 1987

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The implementation of the recommendations provided in this Audit Report should assist the Library in making improvements in their Purchasing functions.

We wish to thank the management and staff of the Library for their assistance and courtesies extended throughout this audit.

Signature on File
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