



**Environmental Services Department  
Purchasing Follow-Up Audit Report  
A2015-11**

Issued by the  
Internal Audit Office  
August 25, 2015

**City of El Paso  
Internal Audit Office  
Environmental Services Department Purchasing Follow-Up Audit No. A2015-11**

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***EXECUTIVE SUMMARY***

The Internal Audit Office conducted a Follow-Up Audit of the Environmental Services Department Purchasing Audit Report dated October 31, 2013. The original Audit Report contained six findings. Upon completion of the audit fieldwork, we have determined the status of the recommendation for each audit finding as outlined in the table below:

<b>Finding No.</b>	<b>Description of Findings</b>	<b>Status</b>
1	The Standard Operating Procedures utilized at the Environmental Services Department are outdated and have not been revised since year 2010.	Implemented
2	A sample of 5 Purchase Orders was reviewed to ensure the bidding process was properly applied. The following discrepancies were identified in our review: <ul style="list-style-type: none"> <li>• 3 out of 5 (60%) Purchases Orders reviewed were not properly bid or solicited. The total value of these Purchase Orders was \$32,833.12.</li> </ul>	Implemented
3	A sample of 3 Sole Source Purchase Orders totaling \$7,439.88, \$4,000.00, and \$6,980.00 were reviewed to ensure that Purchase Orders were properly classified and processed. The following discrepancies were identified in our review: <ul style="list-style-type: none"> <li>• 3 out of 3 (100%) Purchase Orders were improperly classified as a Sole Source provider.</li> <li>• 1 out of 3 (33%) Purchase Orders did not have a Sole Source Affidavit on file and did not have a signed Sole Source Letter from the vendor.</li> </ul>	Implemented
4	Purchases exceeding \$3,000.00 are required to have a Purchase Order issued. A review of transactions exceeding \$3,000.00 identified 9 transactions that did not have a Purchase Order. These purchases ranged from \$3,179.60 to \$102,461.25.	Implemented
5	A random sample of 35 invoices was selected for review to ensure compliance with the City of El Paso's Accounts Payable Manual. Our testing identified the following: <ul style="list-style-type: none"> <li>• 18 out of 35 (51%) invoices contained no evidence showing that invoice amounts were recalculated.</li> <li>• 7 out of 35 (20%) invoices were not paid within 30 days.</li> <li>• 7 out of 35 (20%) invoices reviewed did not have approval on invoice.</li> </ul>	Implemented
6	An invoice containing 7 receipts for footwear purchases made by Environmental Services employees identified the following discrepancies: <ul style="list-style-type: none"> <li>• 6 out of 7 (86%) receipts reviewed contained prices and/or items that did not match with the vendor's quoted prices</li> </ul>	Implemented

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	<p>and items.</p> <ul style="list-style-type: none"><li>• Environmental Services allows their employees to select the type of footwear they want to purchase instead of requiring the footwear that has been quoted by vendor and approved by the department.</li><li>• The Voucher Forms used by the department to allow employees to acquire footwear are inconsistent regarding the verbiage used.</li></ul>	
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For a detailed explanation of the findings and current observations please refer to the appropriate finding contained in the body of this Audit Report.

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***BACKGROUND***

The Environmental Services Department provides a clean, safe, healthy and beautiful environment for all El Paso residents. As part of their mission, the Environmental Services team strives to maintain top quality code enforcement, environmental health and integrated solid waste management services that have a direct impact on the future of the community.

The Environmental Services Department is responsible for providing a wide range of services to the residents of El Paso. They include: garbage and curbside recycling collections, landfill operations, animal services programs, air quality monitoring, and code compliance enforcement among other services to help keep the community clean and beautiful.

***AUDIT OBJECTIVES***

The audit objective was to ensure that corrective action was taken by management to address the recommendations detailed in the original Audit Report dated October 31, 2013.

***AUDIT SCOPE***

The audit period covered the operations of Fiscal Year 2014 – 2015.

***AUDIT METHODOLOGY***

To achieve our audit objectives we:

- Referenced the City of El Paso 2015 Strategic Plan,
- Conducted interviews with the Environmental Services Department Staff and Procurement Analyst,
- Verified if the Environmental Services Standard Operating Procedures have been updated,
- Reviewed a sample of Purchase Orders to ensure the bidding process was properly applied,
- Reviewed a sample of Sole Source Purchase Orders to ensure they were properly classified and processed,
- Reviewed a sample of purchases over \$3,000.00 to ensure they have Purchase Orders issued,
- Verified a sample of invoices to ensure compliance with the City of El Paso's Accounts Payable Manual,
- Confirmed if footwear purchases are in compliance with approved pricelist amounts and terms prior to payment,
- Verified if the employees are wearing the specified safety footwear, and determined if a standard Footwear Voucher Form is used by the department.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. 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.

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***ORIGINAL FINDINGS, ORIGINAL RECOMMENDATIONS, MANAGEMENT'S RESPONSE  
TO ORIGINAL FINDINGS, CURRENT OBSERVATION, AND STATUS***

Based on the results of follow-up test work, each original finding recommendation will be designated with one of the following four status categories:

<i>Implemented</i>	The finding has been addressed by implementing the original corrective action or an alternative corrective action.
<i>In Progress</i>	The corrective action has been initiated but is not complete.
<i>Not Applicable</i>	The recommendation is no longer applicable due to changes in procedures or changes in technology.
<i>Not Implemented</i>	The recommendation was ignored, there were changes in staffing levels, or management has decided to assume the risk.

**Finding: 1**

**Standard Operating Procedures**

*A strong system of internal controls requires that Standard Operating Procedures (SOP) are written to document routine or repetitive activity followed by an organization. The development and use of SOPs are an integral part of a successful quality system as it provides individuals with the information to perform a job properly.*

Based on our review of Environmental Services' Standard Operating Procedures, we identified the following weaknesses:

- Policies and procedures are outdated and have not been revised since year 2010.
- There are no documented policies and procedures concerning how the department manages purchasing, ordering, receiving, and payment of invoices. (e.g. the use of the department's approval stamp and requisition form)

**Recommendation:**

Environmental Services should update their "Standard Operating Procedures" and provide a copy of the updated manual to all the Environmental Services' employees.

**Management's Response**

Environmental Services staff in Business & Finance updated desk procedures in December 2012 and saved these procedures on the P-drive for use by all staff as needed. Throughout the year, as new policies and procedures were implemented, staff was advised through memos and staff meetings. Although communication is continuing, we agree that SOP's should be updated regularly and provided to employees.

**Responsible Party**

Pat Degman, Administrative Services Manager

**Implementation Date**

January 1, 2014

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**Current Observation**

Environmental Services updated their Standard Operating Procedures (SOP) and provided a copy of the updated manual via email to all the Environmental Services Department employees on December 31, 2014.

The following necessary revisions were noted by the Internal Audit Office and will be corrected in the December 2015 SOP revision:

- The Accounts Payable section references the “*Financial Accounts Payable, 2008.*” This reference is outdated. The current Accounts Payable Manual is dated September 2014.
- The Environmental Services Department has a second set of procedures named “*ESD Voucher Process and ESD Final Voucher Process*” that are not embedded in the departments SOP’s. These procedures do not have a revision date. The items mentioned in the additional procedures will be added to the SOP’s.

**Status**

Implemented

**Finding: 2**

**Informal Bidding Process**

As required by the City of El Paso Purchasing Manual dated January 2010:

- Section 9.0 – “Specifications” & 9.1 – “Guidelines/Requirements”: *Requires that bid specifications are fair to the vendors and allow for a competitive bid.*
- Section 11.2 – “Three Quotes Procurement”: *Quotes obtained must all be equivalent in respect to what is being requested such as quantity, commodity, any, and all additional charges in order for the quotes to be competitively compared to one other.*
- Section 31.1 – “Technology”: *The Information Technology Department (IT) must approve all technology purchases. This includes all computers and computer related equipment, software, ...*

A sample of five Purchase Orders was reviewed to ensure the bidding process was properly applied. These Purchase Orders were issued based on a quote and processed during the period of September 1, 2012 to April 30, 2013. The following discrepancies were identified in our review:

- 3 out of 5 (60%) bids reviewed were not properly bid or solicited.
  - One P.O. totaling \$9,990.00 lacked approval from the Information Technology Department to purchase a Car Pooling Software. Also, we found indications that the winner bidder was pre-selected before the bidding process began. The bidding process was executed by the Sustainability Division. The payment for the software was processed and approved on PeopleSoft by the Environmental Services Department’s staff. The following was identified:

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- Conversations with the winner bidder before the bidding process began regarding the services rendered and the price for the service.
- The written bid specifications matched the bid proposal submitted by the winner bidder.
- Equivalent vendors were not solicited for a quote. A total of six vendors were contacted and only one responded with a quote. The non-responsive vendors offered general software services and did not offer the specialized software needed by the department. We conducted an internet search and we identified other vendors that could offer the specialized software needed by the department. These types of vendors were not contacted for a quote.
- o One P.O. totaling \$15,000.00 contained bid specifications that were not accurate and fair to the vendors. The bid specifications solicited vendors for a quote for 60,000 container tags. After the lowest bid was identified, the department increased the dollar amount of the P.O. to purchase 60,000 additional tags. We determined that this process was not fair to the vendors because vendors were not requested to submit a quote for 120,000 tags.
- o One P.O. totaling \$7,843.12 contained documentation showing that equivalent vendors were not solicited for a quote. A total of four vendors were solicited for electrical services and only one vendor responded with a quote. When contacting the three non-responsive vendors we discovered that these vendors do not offer the type of electrical services requested by Environmental Services.

**Recommendation:**

The Environment Services Department should abide to Sections 9.0, 9.1, 11.2, and 31.1 of the Purchasing Manual dated January 2010.

**Management's Response**

The Environmental Services Department will review items being solicited by bid or quote to ensure similar vendors are contacted and quantities reflect the needs of the organization. The recent assignment of a Procurement Analyst to our department will help support our efforts to complete procurement according to policy.

**Responsible Party**

Pat Degman, Administrative Services Manager

**Implementation Date**

Immediately

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**Current Observation**

A sample of three Purchase Orders was reviewed to ensure the bidding process was properly applied. These Purchase Orders were issued based on a quote and processed during the period of September 1, 2014 – February 28, 2015. 3 out of 3 (100%) Purchase Orders contained documentation that:

- Three vendors that responded with a quote were solicited,
- Bidding criteria was properly applied, accurate and fair,
- Equivalent vendors were solicited for a quote,
- Vendors were not pre-selected,
- Conversations with vendors were not held prior to initiating the bidding process.

**Status**

Implemented

**Finding: 3**

**Sole Source Vendors**

As required by the City of El Paso Purchasing Manual dated January 2010:

Section 21.0 – “Sole Source”: *Sole source purchases are goods and services available from only one supplier.*

Section 21.1 – “Sole Source Letter”: *All letters must be dated and signed by an executive officer of the manufacturer or Vendor, as applicable.*

Section 21.2 – “Sole Source Affidavit”: *A Sole Source Affidavit must be filled out and notarized by either the requesting vendor or the manufacturer along with a letter detailing specifically why their product or service is unique.*

During September 1, 2012 – April 30, 2013, three Sole Source Purchase Orders totaling \$7,439.88, \$4,000.00, and \$6,980.00 were processed by the Environmental Services Department. A review was conducted to ensure that these Purchase Orders were properly classified and processed as outlined in the Purchasing Manual dated January 2010. The following discrepancies were identified in our review:

- 3 out of 3 (100%) Purchase Orders were improperly classified as a Sole Source provider. (See: Note 1)
- 1 out of 3 (33%) Purchase Orders did not have a Sole Source Affidavit on file and did not have a signed Sole Source Letter from the vendor.

**Note 1**: The information used to conclude that these services were not sole source were the following:

- The service provided by the vendors was to train Environmental Services' employees.

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- The training topics offered by these vendors were different, but contained the same outcome/service - trainings for motivating and improving employees in the workplace.
- These vendors are not the only capable vendor than can provide this type of service.
- Offering specific training materials or training brands does not designate a vendor as a sole source.

**Recommendation:**

The Environmental Services Department should comply with the sole-source requirements outlined in Section 21.0 – “*Sole Source*” of the City of El Paso Purchasing Manual dated January 2010.

**Management’s Response**

The Environmental Services Department will work with our Procurement Analyst to ensure sole source procurement meets all the requirements for this type of purchase.

**Responsible Party**

Kurt Fenstermacher, Deputy Director, and John Garza, Deputy Director

**Implementation Date**

Immediately

**Current Observation**

Two Sole Source Purchase Orders were selected for review. The following was identified:

- 2 out of 2 (100%) Purchase Orders were properly classified as a Sole Source provider, included a signed Sole Source Letter from the vendor, and had a Sole Source Affidavit on File.

**Status**

Implemented

**Finding: 4**

**Purchase Orders**

As required by the City of El Paso Purchasing Manual dated January 2010:

Section 6.0 – “Initial Steps”: *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).*

Purchases exceeding \$3,000.00 are required to have a Purchase Order (PO) issued. A review of purchase transactions processed during the period of March 1, 2013 through May 31, 2013 and exceeding \$3,000.00 identified nine (9) transactions that did not have a Purchase Order. These transactions ranged from \$3,179.60 to \$102,461.25 and were paid using

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Environmental Services funds.

#	Date	Vendor	Invoice	Pay Amount
1	4/30/2013	TX Commission on Environmental Quality	SWD0018880	\$102,461.25
2	4/17/2013	El Paso Downtown Management District ( <i>Paid on-behalf of the Economic Development Division of City Development</i> )	INTLCL-01-001	\$100,000.00
<b>Total Transactions over \$50,000</b>				<b>\$202,461.25</b>

3	4/29/2013	Waste Connections Inc.	4012013	\$25,753.00
4	4/1/2013	Truepoint Solutions LLC ( <i>Paid on-behalf of the Information Technology Department</i> )	13-026	\$15,253.82
5	3/12/2013	Truepoint Solutions LLC ( <i>Paid on-behalf of the Information Technology Department</i> )	13-027	\$6,225.00
6	5/21/2013	Truepoint Solutions LLC ( <i>Paid on-behalf of the Information Technology Department</i> )	13-068	\$3,900.00
7	4/18/2013	Harless Benthul Attorney ( <i>Paid on-behalf of the City Attorney Office</i> )	110511	\$3,532.46
8	4/1/2013	BE Graphic	11	\$3,500.00
9	4/29/2013	Stericycle Specialty Waste Solutions Inc.	ENV-SI021198	\$3,179.60
<b>Total Transactions between \$3,000 - \$49,999.99</b>				<b>\$61,343.88</b>

<b>Total transactions without a P.O. issued</b>				<b>\$263,805.13</b>
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**Notes:**

All nine purchases were processed and approved on PeopleSoft by the Environmental Services Department's staff.

**Recommendation:**

The Environmental Services Department should comply with Section 6.0 of the City of El Paso's Purchasing Manual that states that user departments are required to obtain appropriate authorization from the Purchasing Division prior to incurring services or purchasing goods.

**Management's Response**

The Environmental Services Department agrees that proper authorization is required for the purchase of goods/services. A concerted effort is underway to ensure Purchase Orders are in place for goods/services being purchased.

**Responsible Party**

Pat Degman, Administrative Services Manager

**Implementation Date**

September 1, 2013

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**Current Observation**

A random sample of ten voucher transactions of \$3,000.00 and over processed by the Environmental Services Department during the period of September 1, 2014 – February 28, 2015 was selected for review. The following was identified:

- 9 out of 10 (90%) vouchers had a Purchase Order issued by the Purchasing Department for transactions exceeding \$3,000.00.
- 1 out of 10 (10%) vouchers was a legal settlement. Legal settlements are exempt from standard Purchasing requirements.

**Status**

Implemented

**Finding: 5**

**Payment of Invoices**

As required by the City of El Paso Accounts Payable Manual dated November 1, 2012:

Section 6.4.4 – “General Procedures for all Types of Purchases”: *Invoices should be footed and cross-footed to ensure the accuracy of the calculations made by the vendor.*

Section 6.5.1 – “General Procedures for all Types of Purchases”: *Supervisor or authorized official should review and sign off on the document to ensure that there is compliance with the contract or quoted prices.*

Section 28.2 – “Prompt Payment Fees”: *A payment is considered overdue on the 31<sup>st</sup> day after the date the City receives an invoice for goods or services.*

A random sample of 35 invoices processed by the Environmental Services Department during the period of March 1, 2013 to May 31, 2013 was selected for review to ensure compliance with the City of El Paso’s Accounts Payable Manual. Our review identified that invoices are not being properly processed for payment:

- 18 out of 35 (51%) invoices contained no evidence showing that invoice amounts were recalculated.
- 7 out of 35 (20%) invoices were not paid in a timely manner. These invoices exceeded the 30 day time period for payment by 2 to 273 days when paid.
- 7 out of 35 (20%) invoices reviewed did not have a proper approval on the invoice.
  - Four invoices obtained approval on the invoice after the invoice was paid.
  - Two invoices had no approval stamp or approval signature on the invoice.
  - One invoice had an approval stamp, but was not signed.

**Recommendation:**

The Environmental Services Department should comply with Section 6.4.4, 6.5.1, and 28.2 of the City of El Paso’s Accounts Payable Manual when processing invoices for payment.

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**Management's Response**

Procedures in Accounts Payable have been revised to include recalculation of the invoice amount (indicated by tick marks on the invoice), proper approval by the pertinent manager or supervisor, and timely processing of payments.

**Responsible Party**

Pat Degman, Administrative Services Manager

**Implementation Date**

September 1, 2013

**Current Observation**

A random sample of 29 invoices processed by the Environmental Services Department during the period of December 1, 2014 to February 28, 2015 was selected for review. The following was identified:

- 3 out of 29 (10.3%) of invoices were not paid in a timely manner due to valid reasons.
  - Invoice #288767477 was paid 41 days after the invoice date. The invoice was paid late due to a dispute in freight charges.
  - Invoice #170617 shows an invoice date of 11/13/14; however the invoice was not received until 2/9/15. Payment of this invoice was made 2/11/15, two days after the invoice was received.
  - Invoice #14-020253 was paid 36 days after the invoice date. The Environmental Services Department purchased seven computers. The IT Department approved the invoice for payment on 1/13/15 which was 29 days after the invoice date; however the Office of the Comptrollers did not issue payment until 1/20/15.
- 29 out of 29 (100%) invoices were approved for payment before they were paid.
- 29 out of 29 (100%) invoices showed evidence that invoice amounts were recalculated.

**Note:** The finding will be cleared because the issues noted were issues out of the control of the Environmental Service Department.

**Status**

Implemented

**Finding: 6**

**Footwear Purchases**

As required by the City of El Paso Accounts Payable Manual dated November 1, 2012:

*Section 6.5 – “General Procedures for all Types of Purchases”:* All invoices should be reviewed for compliance with approved agreement amounts and terms prior to payment. All invoices should follow the Purchase Order terms.

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As required by the City of El Paso Employee Safety Procedures Manual dated April 2012:

Section – “Personal Protective Equipment”: *Safety footwear specified as mandatory by a department shall be used as instructed.*

An invoice containing seven receipts for footwear purchases made by Environmental Services’ employees during the period of February 26, 2013 through May 2, 2013 identified the following discrepancies:

- 6 out of 7 (86%) receipts reviewed contained prices and/or items that did not match with the vendor’s quoted prices and items.
- Environmental Services allows employees to select any type of footwear they want to purchase instead of requiring the footwear that has been quoted by vendor and approved by the department.
- Employees are acquiring a less quality and inexpensive work boot. The Senior Safety Specialist for the City of El Paso recognized this process as a safety concern that can cause injury to an employee.
- The Voucher Forms used by the department to allow employees to acquire footwear are inconsistent regarding the verbiage used in the forms.
  - 1 out of 7 (14%) Voucher Forms reviewed notified the employee that he/she is allowed to select the type of work shoe he/she wants to purchase and the other forms did not.
  - 1 out of 7 (14%) Voucher Forms reviewed specified what model shoe should be bought and the other forms did not.

**Recommendation:**

The Environmental Services Department should ensure that:

- Footwear purchases are in compliance with approved pricelist amounts and terms prior to payment.
- Employees wear the specified safety footwear identified by the department.
- A standard Footwear Voucher Form is used by the department.

**Management’s Response:**

The Uniform Policy and Footwear Voucher have been updated to reflect the current pricing and safety requirements. Employees must show evidence (invoice or vendor receipt) that the safety shoes or boots comply with the safety requirements in the policy. Both documents are attached for review.

**Responsible Party:**

Pat Degman, Administrative Services Manager

**Implementation Date:**

September 2013

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**Chief Internal Auditor Response**

A review of the updated Footwear Voucher indicates that employees are still allowed to purchase alternate safety shoes. Employees are responsible for paying the difference in cost. The Environmental Services Department is still exposed to significant risks by allowing their employees to deviate from the established list of approved footwear. To include the purchase of sub-standard footwear.

The Internal Audit Office will evaluate the updated procedure during the Follow-Up Audit that will be conducted.

**Current Observation**

Invoice #87991232014 was selected for review out of the invoice testing sample. The invoice had a total of twenty footwear purchases and one return. The first five of the twenty footwear purchase receipts were reviewed. The following was identified:

- 5 out of 5 (100%) footwear receipts were in compliance with the approved Region 19 Contract and price amounts.
- 5 out of 5 (100%) footwear receipts reviewed indicated that employees are wearing the specified safety footwear identified by the department.
- 5 out of 5 (100%) footwear purchases indicated that a standard Footwear Voucher Form is used by the department.

**Status**

Implemented

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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***

We have concluded our audit work on the objectives of the Environmental Services Department Purchasing Follow-Up Audit. The audit evidence used in the analysis is sufficient and appropriate for addressing the objectives and supporting the observations and conclusion. In accordance with Generally Accepted Government Auditing Standards we are required to conclude on whether the Environmental Services Department met the objectives of this audit. The following is our conclusion.

The Environmental Services Department has met the Audit objectives in the following areas:

- Updating the Standard Operating Procedures.
- Applying the proper bidding process to Purchase Orders issued based on a quote.
- Classifying and processing Sole Source Purchase Orders properly.
- Issuing Purchase Orders to purchases exceeding \$3,000.00 prior to incurring services or purchasing goods.
- Complying with the City of El Paso Accounts Payable Manual when paying invoices.
- Footwear purchases are in compliance with contract terms and price amounts. Employees are wearing the specified safety footwear and a standard Footwear Voucher Form is used.
- Additionally, the Environmental Services Department is meeting Goal 6.6 by: Ensuring continued financial stability and accountability through sound financial management, budgeting and reporting.

We wish to thank the Environmental Services Department and staff for their assistance and courtesies extended throughout this audit.

Signature on File  
Edmundo S. Calderón, CIA, CGAP, CRMA, MBA  
Chief Internal Auditor

Signature on File  
Lyz Gonzalez, MBA  
Auditor

Signature on File  
Liz De La O, CFE, CIA, CGAP, MPA  
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