



Purchasing & Strategic Sourcing Department Audit No. A2014-12

Issued by the
Internal Audit Office
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**City of El Paso
Internal Audit Office
Purchasing & Strategic Sourcing Department Audit No. A2014-04**

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of the Purchasing & Strategic Sourcing Department. Based on the results of the audit, two findings have been identified. Both of these findings are considered significant.

Listed below is a summary of the findings identified in this report:

1. A review of the Purchasing & Strategic Sourcing Department's "*City of El Paso Purchasing Manual*" identified that:
 - The manual has not been updated since January 2010.
 - The manual is currently being updated and pending finalization.

2. A review of Purchase Orders between the amounts of \$3,000.00 and \$49,999.99 identified that the Purchasing and Strategic Sourcing Department needs improvement in enforcing the City's procurement policies and procedures and retaining supporting documentation from City Departments before issuing Purchase Orders.
 - 5 out of 10 (50%) Purchase Orders reviewed, were not properly reviewed and/or missing supporting documentation.

For a detailed explanation of the findings please refer to the body of this Audit Report.

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BACKGROUND

The Purchasing & Strategic Sourcing Department is the primary agency responsible for purchasing and e-sourcing matters for supplies and services necessary for the efficient operation of all City Departments. The Purchasing & Strategic Sourcing Department works jointly with the various City Departments in developing bid specifications, scopes of work and is responsible for facilitating the bidding and contract awarding process.

In addition to the above, the Purchasing & Strategic Sourcing Department is responsible for monitoring annual contracts, contract administration, issuing and approving purchase orders. The Purchasing & Strategic Sourcing Department also provides internal and external workshops and trainings relating to contract administration, bid and proposal preparation, vendor outreach with the focus on clarifying “How to do Business with the City”.

In our review, we identified the effort and willingness of the Purchasing & Strategic Sourcing Department to continue improving the procurement process for the City of El Paso in a more efficient and effective manner. The following improvements were noted:

- On November 2014, the Purchasing & Strategic Sourcing Department organized an informative event to promote the use of Federal, State, and Regional Cooperative Purchasing Programs to different City agencies from various organizations. The City of El Paso 2014 Cooperative Purchasing Expo (Expo) had approximately 500 attendees and 90 vendors that participated. The Expo allowed vendors to showcase the type of services and items they offer through the Cooperative Purchasing Programs.
- On October 2014, the Purchasing & Strategic Sourcing Department launched the *e-Procurement* method for the City of El Paso, an electronic web application for purchasing goods and services. The *e-Procurement* method allows City Departments to acquire items and services through the El Paso e-Marketplace in more effective, efficient, and secure way. This process will expedite and improve the procurement process for the City of El Paso.

AUDIT OBJECTIVES

The purpose of this audit was to review the effectiveness of the Purchasing & Strategic Sourcing Department’s policies, procedures, and operations. The audit objective was to determine if the Purchasing & Strategic Sourcing Department’s operations are complying with City guidelines and consistent with “best practices” for procurement functions. The audit also documented areas where inefficiencies exist and where internal controls may be strengthened or improved. This included evaluating the:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations.
- Compliance with laws, regulations, and contracts.

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AUDIT SCOPE

The scope of this audit focused on operations and documents of the Purchasing & Strategic Sourcing Department, for the period of Fiscal Year 2013-2014.

AUDIT METHODOLOGY

In order to achieve the audit objectives we:

- Conducted interviews with management and staff from the Purchasing & Strategic Sourcing Department;
- Reviewed bid files, Purchase Orders, City of El Paso PeopleSoft-Financial records, 2015 City of El Paso Strategic Plan, and the City of El Paso Purchasing Manual;
- Tested bid files, Sole-Source Contracts, and Cooperative Purchases;
- Surveyed and interviewed City Departments and Purchasing staff to gather feedback on Purchasing's customer services and training;

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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***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, is a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as a “Regular Finding”.

Finding 1

City of El Paso Purchasing Manual

City of El Paso “2015 Strategic Plan”, Goal 6.13 states that: *Maintain systems integrity, compliance, and business continuity.*

A strong system of internal controls requires that policies and procedures are written to document routine or repetitive activity followed by an organization. The development and the use of policies and procedures are an integral part of a successful quality system as it provides individuals with the information and guidance to perform a job properly.

A review of the Purchasing & Strategic Sourcing Department’s “*City of El Paso Purchasing Manual*” was conducted. Our review identified that the manual has not been updated since January 2010 and the following updates are needed:

- The electronic catalog procurement method,
- The \$500,000 threshold approval requirement for Cooperative purchases.

Further review identified that the manual is currently being updated. An updated version of the Purchasing Manual has been drafted and pending finalization.

Recommendation

The Purchasing & Strategic Sourcing Department should include the updates mentioned in the finding and finalize the revisions of the City of El Paso Purchasing Manual. Once final, the manual should be distributed to all City Departments.

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Management's Response

Background information - With the reimplementation of PeopleSoft the City purchased the Strategic Sourcing module with the goal being to convert its entire manual and paper processes into an on-line bidding and paper friendly processes. When the implementation of the on-line bidding module failed the City obtained fee proposals from various sources to complete the implementation of the on-line bidding module. As of January 2015 the City was reengaged by Cherry Road to consider allowing said vendor to complete Strategic Sourcing. Due to the dramatic nature of the proposed changes to the procurement processes, the manual was not updated.

Current Efforts - To date a draft version has been completed. However, said version was drafted prior to the merging (centralization) of the procurement functions of the Engineering Department with the Purchasing & Strategic Sourcing Department. In addition to the above, the manual processes and procedures are part of three different efficiency projects. Two projects are being facilitated by City of El Paso's Six Sigma Green Belt (candidates) and the third project is being facilitated by Grainger Six Sigma-Lean Team.

Consequently, we are recommending the manual not be updated until each of the above referenced projects (analysis and recommendations) are completed and the recommended and actionable business processes mapped for implementation.

Responsible Party

The responsible parties are the Purchasing Director, Purchasing Agents, and Procurement and Business Systems Analyst.

Implementation Date

Based on the above, the proposed completion and publishing date is December 2015.

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Finding 2

Purchases Between \$3,000.00 to \$49,999.99

City of El Paso “2015 Strategic Plan”, Goal 6.6 states that: *Ensure continued financial stability and accountability through sound financial management, budgeting, and reporting.*

City of El Paso Purchasing Manual dated January 2010, Section 3.2 – Responsibilities of the Purchasing Division: *Maintain a centralized contract’s file and retrieval system for all City of El Paso Contracts.*

City of El Paso Purchasing Manual dated January 2010, Section 7.3: “Section 252.0214 of the local government code requires that *for purchases over \$3,000 and less than \$50,000 at least 2 Historically Underutilized Businesses (HUBs) must be contacted.*”

City of El Paso Purchasing Manual dated January 2010, Section 10.1: “*Once it has been determined that a desired good or service is available through an Interlocal Agreement, a copy of the Interlocal Agreement contract and a quoted price from the vendor specifying work to be completed or materials to be delivered is required.*”

City of El Paso Purchasing Manual dated January 2010, Section 31.1: “*The Information Technology Department must approve all technology purchases. This includes all computers and computer related equipment, software, technology systems, audio/visual technology, and communications equipment. Technology Request Forms need to be signed by the IT Director or his designated representative.*”

The Purchasing and Strategic Sourcing Department needs improvement in enforcing the City's procurement policies and procedures and retaining supporting documentation before issuing Purchase Orders.

A random sample of 10 Purchase Orders was selected for review. These Purchase Orders were between the amounts of \$3,000.00 and \$49,999.99 and issued between June 1, 2014 to August 31, 2014. The following was identified:

- 5 out of 10 (50%) Purchase Orders reviewed, were not properly reviewed and/or missing supporting documentation. The exceptions noted are illustrated in the table below:

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# of Purchase Orders	Total Purchase Order Dollar Amount	Exception
2	\$7,457.78	No evidence found that at least two Historically Underutilized Businesses (HUBs) were contacted.
2	\$28,517.56	Copy of the vendor's quote and/or a COOP contract was not attached to the Purchase Order in PeopleSoft via DocLink. The quote and COOP contract was misfiled and later provided.
1	\$7,000.00	Purchase Order was issued to continue on-call plumbing services from an existing contract. The award amount of this contract was \$99,990.00 and had an available balance of \$488.42 when the Purchase Order was issued. The Purchase Order was cancelled 40 calendar days later, when it was determined that the Purchase Order exceeded the awarded contract amount by \$6,511.58. No purchases were charged to the Purchase Order and the contract was re-bid after the discrepancy was identified.
5	\$42,975.34	

Recommendation

The Purchasing & Strategic Sourcing Department should ensure that procurement guidelines are followed and supporting documentation is obtained from City Departments before issuing or approving a Purchase Order.

Management's Response

The Purchasing & Strategic Sourcing Department is currently working with the Greater Hispanic Chamber in conducting outreach to HUBs for inclusion in the EPMarket Place. Therein increasing the visibility and assurance that HUBs are searched during the appropriate sourcing processes.

In addition to the above, checklists are being updated to reflect the dates HUB searches are completed and recording the appropriate findings.

Ultimately, the EPMarket Place will replace the need for City Departments to facilitate informal purchases and/or bids.

Responsible Party

The responsible parties are the Purchasing Director, Purchasing Agents, and Procurement and Business Systems Analyst.

Implementation Date

City wide training on the EPMarket Place was completed in January 2015. Revised and published checklist shall be completed by September 1, 2015.

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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 work on the objectives of the Purchasing & Strategic Sourcing Department Audit. In accordance with *Generally Accepted Government Auditing Standards*, we are required to conclude whether the Purchasing & Strategic Sourcing Department met the objectives of this audit. Based on our audit work, we have determined that:

1. The Purchasing & Strategic Sourcing Department met the audit objectives in the following:
 - Complying with procurement laws, regulations, and contracts for Sole Source purchases and purchases over \$50,000.00.
2. The Purchasing & Strategic Sourcing Department did not meet the audit objectives in the following areas:
 - Complying with City’s procurement regulations for purchases between \$3,000.00 and \$49,999.99.
 - Maintaining a centralized contract file and retrieval system for all City of El Paso contracts.
 - Ensuring that at least two Historically Underutilized Businesses are contacted.
 - Updating policies and procedures in the City of El Paso Purchasing Manual in order to be consistent with current procurement processes.
 - Obtaining all supporting documentation from City Departments before a Purchase Order is issued for purchases between \$3,000.00 and \$49,999.99.

The creation of the e-Procurement method (El Paso Marketplace) and the Cooperative Purchasing Expo are examples that the Purchasing & Strategic Sourcing Department continues to improve the efficiency and effectiveness of the procurement process. Implementing the recommendations identified in this audit will help strengthen the effectiveness of the Purchasing and Strategic Sourcing Department’s policies, procedures, and operations.

We wish to thank the Purchasing & Strategic Sourcing Department’s management and staff for their assistance and numerous courtesies extended during the completion of this audit.

Signature on File

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