



**Environmental Services Department
Purchasing Audit Report
A2013-10**

Issued by the
Internal Audit Office
October 31, 2013

**City of El Paso
Internal Audit Office
Environment Services Department Purchasing Audit A2013-10**

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of the purchasing functions at the Environmental Services Department. Based on the results of the audit, six findings have been identified. All six of these findings are considered significant.

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

1. The Standard Operating Procedures utilized at the Environmental Services Department are outdated and have not been revised since year 2010.
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:
 - 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.
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:
 - 3 out of 3 (100%) Purchase Orders were improperly classified as a Sole Source provider.
 - 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.
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.
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:
 - 18 out of 35 (51%) invoices contained no evidence showing that invoice amounts were recalculated.
 - 7 out of 35 (20%) invoices were not paid within 30 days.
 - 7 out of 35 (20%) invoices reviewed did not have approval on invoice.
6. An invoice containing 7 receipts for footwear purchases made by Environmental Services employees 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 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.
 - The Voucher Forms used by the department to allow employees to acquire footwear are inconsistent regarding the verbiage used.

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

**City of El Paso
Internal Audit Office
Environment Services Department Purchasing Audit A2013-10**

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 objectives for the Environmental Services Department Purchasing Audit were to determine if:

- The purchasing cycle and related controls within the Environmental Services Department are meeting management's objectives.
- Proper segregation of duties exists within the Environmental Services' purchasing function.
- The Environmental Services purchasing cycle has a good internal control environment. A good internal control environment is characterized by strong:
 - Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations.
 - Safeguarding of assets.
 - Compliance with laws, regulations, and contracts.

AUDIT SCOPE

The audit was a limited scope audit and focused on the Environmental Services' purchasing function and operations during Fiscal Year 2012-2013.

AUDIT METHODOLOGY

In order to achieve the audit objectives we:

- Conducted interviews with Environmental Services management and staff;
- Reviewed the City of El Paso's Purchasing Manual and Accounts Payable Manual;
- Conducted a review of the Environmental Services' 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 approval and 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, 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

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

**City of El Paso
Internal Audit Office
Environment Services Department Purchasing Audit A2013-10**

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:
 - 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.
 - 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.
 - 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.

**City of El Paso
Internal Audit Office
Environment Services Department Purchasing Audit A2013-10**

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

**City of El Paso
Internal Audit Office
Environment Services Department Purchasing Audit A2013-10**

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.
- 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

**City of El Paso
Internal Audit Office
Environment Services Department Purchasing Audit A2013-10**

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 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
Total Transactions over \$50,000				\$202,461.25

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
Total Transactions between \$3,000 - \$49,999.99				\$61,343.88

Total transactions without a P.O. issued				\$263,805.13
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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.

**City of El Paso
Internal Audit Office
Environment Services Department Purchasing Audit A2013-10**

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

**City of El Paso
Internal Audit Office
Environment Services Department Purchasing Audit A2013-10**

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 31st 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.

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

**City of El Paso
Internal Audit Office
Environment Services Department Purchasing Audit A2013-10**

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.*

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

**City of El Paso
Internal Audit Office
Environment Services Department Purchasing Audit A2013-10**

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 expose 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.

**City of El Paso
Internal Audit Office
Environment Services Department Purchasing Audit A2013-10**

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

The Environmental Services Department is meeting the following audit objectives:

- The purchasing function has proper segregation of duties in place.
- Proper controls are in place to safeguard assets at Environmental Services.

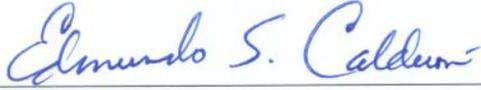
The Environmental Services Department did not meet the audit objectives in the following areas:

- Compliance with procurement laws and regulations.
 - 3 out of 5 (60%) bids reviewed were not properly bid or solicited as outlined in the City of El Paso's Purchasing Manual.
 - Sole Source contracts are not in compliance with City of El Paso's Purchasing Manual.
 - Purchases exceeding \$3,000.00 are not properly authorized by obtaining a Purchase Order.
 - Invoices are not recalculated, paid in a timely manner, or approved properly as outlined in the City of El Paso's Accounts Payable Manual.
 - Footwear purchases are not in compliance with approved pricelist.
- Effectiveness and efficiency of operations.
 - Outdated Standard Operating Procedures.
 - The bidding and solicitation process at Environmental Services needs improvement.
 - Inconsistent voucher forms are used by the department to purchase footwear.

Implementing the recommendations provided in this Audit Report will help improve the purchasing function within the Environmental Services Department and establish a stronger system of internal controls in the purchasing cycle.

**City of El Paso
Internal Audit Office
Environment Services Department Purchasing Audit A2013-10**

We wish to thank the Environmental Service Department's management and staff for their assistance and numerous courtesies extended during the completion of this audit.



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