



Colorado Independent
Consultants Network, LLC



City of Santa Fe, New Mexico

Internal Audit Procurement and Accounts Payable

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Executive Summary

Colorado Independent Consultants Network (CICN) has been engaged to perform a review of the City of Santa Fe's (the City's) Procurement function.

The overall objective of this project is to review the current and historical (past year) purchasing practices of the City, identifying areas to improve efficiency and controls. Specifically, process documentation and evaluation, as well as administrative analysis is current as of the date of fieldwork, completed in April 2019. Transactional testing was performed on a sample of transactions from the one-year period 3/1/18-2/28/19. The contract management phase of the procurement process, which occurs after a contract with a vendor has been executed, was not included in the scope of the audit.

To answer the audit objective, CICN performed a variety of audit procedures, as follows.

1. Reviewed existing and proposed purchasing policies and procedures, identifying any control deficiencies or excessive controls which may result in non-compliance.
2. Flowcharted purchasing & Accounts Payable (A/P) processes with Purchasing Director & key staff.
3. Conducted interviews with department heads and key buyers to determine issues and frustrations with current system.
4. Performed testing on a sample of 30 transactions.
5. Performed data analytics on all purchasing transactions within the scope period to look for anomalies such as unusual transactions, duplicate transactions, duplicate vendors, and employee vendors.

The audit resulted in nine observations, as detailed beginning on page 10. These observations are as follows:

1. There are several burdensome approval requirements that create an inefficient purchasing process and create incentives to go around existing purchasing controls. (Page 10)
2. In some cases, controls in both the purchase order process and invoice approval process could be strengthened. (Page 17)
3. The bidding, contracting, and accounts payable processes is largely a manual, paper-driven process, which would benefit from automation. An automated procurement tracking process would also help management identify high priority issues that need to be addressed. (Page 19)
4. Improved documentation would better support competitive procurement evaluation by identifying reasons for the scores that are provided. (Page 22)



5. The City could broaden its reach in bid postings, and improve opportunities for competitive bids, by using regional, statewide, or national bid websites in addition to its own website and local newspapers. (Page 23)
6. Director level P-Card purchases were being approved by subordinates rather than someone higher in the organization. (Page 25)
7. The City could develop price agreements for goods and services purchased by multiple departments, or better communicate to departments about existing price agreements. (Page 27)
8. Testing for duplicate vendors or employee vendors in a purchasing system is a basic test that can be performed to identify possible avenues for improper payments, and City has both duplicate vendors and employee vendors in its purchasing system. (Page 29)
9. The proposed procurement manual would be more effective with enhancements in key areas, and a training program should be developed to supplement the manual. (Page 30)

End of Executive Summary Section



Background

The City of Santa Fe's Purchasing Division is within the Finance Department. The role of Purchasing Division is to assist the Finance Department's financial management efforts by leading the procurement of goods and services at optimal cost. This includes managing the Request for Proposal (RFP) and Invitation for Bid (IFB) processes. The Purchasing Division has three staff members, including the Chief Procurement Officer, the Assistant Procurement Officer, and a Procurement Analyst.

The work of procurement in the City is largely regulated by the New Mexico State Procurement Code which was adopted by the City of Santa Fe in January 2018. While a draft procurement manual has not been officially adopted, interview data indicates that the manual has been followed since May 2018. The main differences between the old manual and new manual are the thresholds that trigger the type of procurement and the exemptions from the procurement procedures. The new manual also incorporates exemptions outlined in the NM State Procurement Code. While departments generally feel the Purchasing Division is helpful and responsive, there is a perception that formal training is not provided for City departments on the procurement manual or processes, including best practices.

Approval levels for purchases are straightforward. The City Manager can approve purchases up to \$60,000. The City Council must approve purchases exceeding \$60,000. Although not required by the purchasing manual, some additional reviews are completed. Specifically, the Police Chief reviews all Police purchases over \$15,000, and the Community Services Department accounting unit reviews purchases for Senior Services.

Currently, formal contracts are required for purchases over \$20,000 unless the procurement is exempt from the Code, for goods only, or unless the purchase is from the State Price Agreement. Contract administration is entirely the responsibility of departments; no monitoring occurs by Purchasing Division. If problems occur, departments are encouraged to engage the City Attorney to assist with resolution.

The purchasing process incorporates the work of the Purchasing Division, the requesting Department, the City Attorney's Office, and possibly the City Manager or City Council. The process is generally manual and paper-based. However, the City uses some automated systems to assist with purchasing, including a JD Edwards system. A citywide ERP system launched in July 2019, subsequent to completion of our audit fieldwork. The primary purchasing process is summarized in graphic form on page 9.

The City's procurement function was included as part of the 2017 Fraud Risk Assessment conducted by the McHard Accounting and Consulting firm and reported upon within the McHard firm's report (The McHard Report), issued 9/25/17. Please see our "Objectives, scope, and procedures performed" section for further discussion on this report and the relationship to our audit.



Objective, Scope, and Procedures Performed

Colorado Independent Consultants Network (CICN) has been engaged to perform a review of City of Santa Fe's (the City's) Procurement function.

The overall objective of this project is to review the current (as of the date of the audit fieldwork, completed in April 2019) and historical (3/1/18-2/28/19) purchasing practices of the City, identifying areas to improve efficiency and controls. Specifically, process documentation and evaluation, as well as administrative analysis is current as of the date of the audit. Transactional testing was performed on a sample of transactions from the one-year period 3/1/18-2/28/19. The contract management phase of the procurement process, which occurs after a contract with a vendor has been executed, was not included in the scope of the audit.

To answer the audit objective, CICN performed a variety of audit procedures, as detailed below. In determining which procedures to perform on any given audit, we use our professional judgement gained from nearly 100 years of collective team experience to weigh the expected benefit of performing the procedure with the "cost" to the project budget of performing such a procedure.

Internal controls are evaluated using two criteria: design effectiveness (is the control appropriately designed) and operating effectiveness (if the control is properly designed, is it adhered to (i.e. is it operating effectively)). If a control is deemed to be ineffectively designed, we do not proceed to test compliance (operating effectiveness) with such a control. A control design deficiency means the control is not adequately designed to protect the organization from fraud, waste, abuse, or other loss. In other cases, the efforts involved with execution of a control may outweigh the control benefits. Whether recommending new controls, or evaluating existing controls, we always weigh the benefit of such controls with the associated cost, including personnel costs/opportunity costs. In some cases, the time spent executing an improperly designed control could be repurposed towards a more effective control or furtherance of the organization's goals. If we have determined the design of the control is ineffective, it would be a waste of audit resources to proceed to test compliance with such a control.

As an example, we deem the City's current change order process to be ineffectively designed, in that it is overly stringent resulting in departments circumventing the control to "get the job done" in a timely and efficient manner. During our interviews, it was represented to us that this problem is currently occurring within the city. At this point we would make a recommendation in the report to reexamine the current control to improve compliance (see observation #1, *Change order process creates incentive to circumvent controls* section, and associated recommendation 1.5 on how to improve compliance). We did not proceed to further investigate to determine which departments were actually circumventing the change order process¹.

Procedures performed as part of our audit include the following:

¹ While we did not specifically test for change order approvals, our substantive transactional review included attribute testing to ensure transactions were approved at the requisite level in accordance with City policy and commensurate with the dollar amount of the transaction. Other than several P-card issues noted in issue #6, we did not note any instances of non-compliance with established approval thresholds.



1. Reviewed existing and proposed purchasing policies and procedures, identifying any control deficiencies or excessive controls which may result in non-compliance.
2. Flowcharted purchasing and Accounts Payable (A/P) processes with Purchasing Director and key staff.
3. Conducted interviews with department heads and key buyers to determine issues and frustrations with current system.
4. Performed testing on a sample of 30 transactions, including the following attributes:
 - Was the purchase processed in a timely manner, considering the following key milestone points:
 - Date of initial purchase request
 - Date RFP/IFB initiated
 - Date bids were due
 - Date vendor was selected
 - Date of purchase approval
 - Date of contract execution
 - Invoice and payment dates (for payment timeliness)
 - Was a purchase order used appropriately if required (not after-the-fact)
 - Did the purchase appear reasonable (for a valid business purpose)
 - Was the purchase appropriately authorized in accordance with the City's approval guidelines?
 - Was the purchase competitively bid, if such bidding was required? (Including obtaining three price quotes for purchases not required to undergo formal bidding)
 - Was the rationale for vendor selection appropriately documented (could an outsider read the documentation and understand why the buyer decided to go with a particular vendor)?
5. Performed data analytics on all purchasing transactions within the scope period to look for anomalies such as unusual transactions, duplicate transactions, duplicate vendors, and employee vendors.

As mentioned in the previous section, the City underwent a fraud risk assessment in 2017 (the McHard report). We were not engaged to perform a follow up audit on the items contained in the McHard report, and accordingly did not perform such follow up procedures. We did, however, review the McHard report as part of the enterprise wide risk assessment conducted by CICN in 2018 and again in risk planning in developing our procurement function audit program.

Several issues were noted through our work which tie into those issues noted within the McHard report. As summary of Procurement related issues noted in the McHard report is presented in *Figure 1- McHard procurement issue summary*. It is important for the reader of this report to note that a fraud risk assessment and internal audit of a function have different goals. The goal of a fraud risk



assessment is to identify areas within a function that may be more susceptible to fraud or are demonstrating indicators of fraudulent activities. The goal of an internal audit engagement is to identify weaknesses in internal controls, compliance issues, and opportunities to improve the efficiency of a process, making actionable recommendations to management on how to rectify these problems before they result in undesirable consequences.

In performing our internal audit, we examined the purchasing, p-card, and accounts payable functions of the City. Given the breadth of coverage, we balanced our procedures performed with available budget with the goal of providing the City with actionable items to improve the procurement function, considering both strengthening of internal controls as well as improving the efficiency of the process. We believe efficiently running processes will encourage the use of such processes and compliance with associated policies and procedures. As such, while some of our recommendations may appear to reduce internal controls (ex. value based change order approvals, value based purchasing director reviews, and sample based p-card compliance testing), we believe such recommendations will serve to increase compliance as users of the procurement function will be more likely to comply with an efficiently operating system where such compliance does not overly burden their department.

Figure 1- McHard procurement issue summary

#	McHard Report	CICN Report
1	Time consuming and inefficient and Procurement Department practices, not aligned with state procurement code or internal City policies	We noted similar opportunities to improve efficiency within the City’s procurement function. See report issue #'s 1,2,3,7,and 9
2	Lack of procurement training	We noted a lack of procurement training. See report issue #9.
3	Payments made to vendors lacking tax ID numbers; ability for any employee to set up a new vendor; duplicate vendors	Through inquiry, we noted new vendor set up is now restricted to personnel within the procurement department, with a requirement to provide tax IDs. While we did not re-perform testing on missing tax ID’s, we did identify multiple duplicate and employee vendors. See issue #8.
4	City’s lack of a P-Card system	A P-Card system has since been implemented and was reviewed as part of our audit. See issue #'s 1, 2,and 6 for associated P-Card recommendations.
5	Hybrid of centralized and decentralized procurement function	We noted the City’s current (as of the date of our fieldwork, concluded in April 2019) system of procurement is tedious and incentivizes departments to circumvent the system in the interests of efficiency. We recommend all purchases requiring formal competitive bidding (RFP/ITB) be made by



#	McHard Report	CICN Report
		the purchasing department, while all other purchases be delegated to the individual departments, freeing the Chief Procurement Officer to focus her efforts on more strategic priorities and internal control related data analytics. While we believe this is the appropriate end goal for the City, additional follow up work resulting from the McHard report should be performed prior to implementation. See issue #1.
6	Vendors entered into the system from multiple sources	Through inquiry, we noted new vendor set up is now restricted to personnel within the procurement department.



Interviews Conducted

Our review involved interviews and discussions with key personnel involved in the procurement process. These interviews included employees in the purchasing function; as well as discussions with individuals in end-user departments. Departments represented in the audit process were: Finance (Fleet); Public Works; Parks and Recreation; Police; and Community Services. These interviews allowed us to understand both the administrative and end-user perspectives of the procurement function.

The following individuals were interviewed as part of our review:

Alan, Webber, Mayor
Erik Litzenberg, City Manager
Mary McCoy, Finance Director
Debra Harris-Garmendia, Controller

Shirley Rodriguez, Chief Procurement Officer
Jessica Chavez, Assistant Procurement Officer
Nathan Salazar, Procurement Analyst
Christina Keyes, Treasury Officer (responsible for P-Card operations)
Amy Martinez Duran, Accounts Payable Supervisor
Monique Maes, Accounts Payable staff

Ben Blea, Fleet Auto Parts, Finance
Juan F. Tapia III, Fleet Mechanic Supervisor, Finance

Lois Amador, Transit Supervisor, Public Works
John Romero, Engineering Division Director, Public Works
Jason Kluck, Facilities Project Administrator, Public Works

Jennifer Romero, Golf Course Manager, Parks and Recreation
Jerry Schilling, Recreation Section Manager, Parks and Recreation
Debora Romero, Parks and Rec Administrative Manager, Parks and Recreation

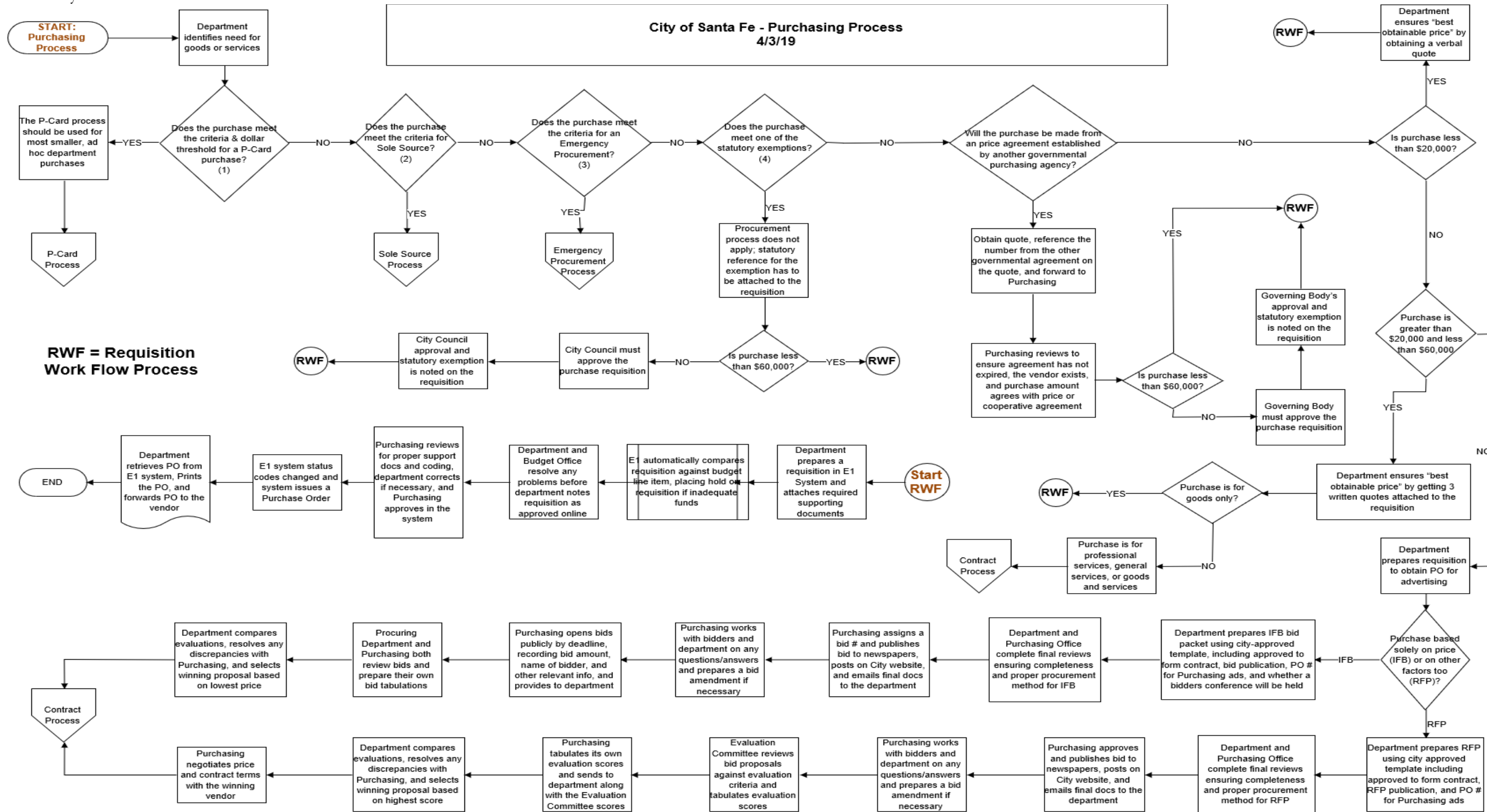
Robert Vasquez, Deputy Chief of Police- Administration
Nancy Jimenez, Fiscal Officer, Police Department
Mia Petty, Accounting Staff, Police Department
Laura Vigil, Accounting Supervisor, Police Department

Yvette Sweeney, Senior Services Nutrition Program Administrator, Community Services
Julie Sanchez, Youth and Family Services Program Manager, Community Services
Maria Finley, Library, Community Services
Gail Vigil, Library, Community Services



Process Overview

The following flowchart illustrates the current purchasing processes in place for City of Santa Fe. The flowchart was used to better understand the process, highlight potential control deficiencies, and identify potential opportunities for efficiency improvement. Additional flowcharts were created for P-Card, sole source, emergency procurement, and contract processes. These flowcharts were provided to the City but omitted from this report for brevity.





Observations and Recommendations

The audit identified several areas for improvement within the City of Santa Fe procurement processes, as shown in the following observations and recommendations.

1. Stringent approval requirements create procurement inefficiencies and incentives to go around controls

Issue:

Audit interviews and audit analysis of the procurement process identified over burdensome approval requirements that delay purchases, create incentives to undermine purchasing controls, and contribute to frustrations with process.

Purchasing approvals are not the best use of Purchasing resources: With the exception of P-Card transactions, the procurement office currently approves every purchase. The procurement function’s primary purpose should be to assist departments in the efficient procurement of goods, balancing the ease of making a purchase with obtaining the best value for the City. The current approval requirement detracts from the core mission of the procurement function and should be discontinued. Individual departments, rather than the procurement function, should be charged with ensuring compliance with the City’s procurement code and obtaining the best value for the city for smaller dollar purchases. Such responsibilities should be included in the job descriptions for department directors and other individuals tasked with procurement code compliance. Approval by Purchasing should be limited to large dollar purchases requiring formal competitive bidding (i.e. Requests for Proposals and Invitations For Bids). To balance procurement code compliance with efficiency, the procurement function could consider replacing their current approval with monthly compliance checks on a random subset of transactions.

Purchase approval hierarchy is needed: Purchase approval timeframes are unnecessarily lengthy due to the requirement that multiple committees provide approvals throughout the procurement and contracting process. A clear approval matrix should be developed so that it is clear who must approve at various levels. The full City Council can approve purchases at the highest level with the thought that such purchases have already gone through a selection committee to evaluate the merits of vendor proposals. A possible approval matrix is shown below:

Purchases totaling:	Must be approved by:
\$0-\$10,000	Department level supervisor, independent of requestor
\$10,001-\$50,000	Department Director
\$50,001-\$100,000	Chief Procurement Officer
\$100,001-\$250,000	City Manager
>\$250,000	City Council



An approval matrix could be embedded into the City's purchase order (PO) system, which would enforce approval thresholds and automatically route PO's to the next approver. Invoices received against an approved PO could be processed by individual departments at a clerical level, because the purchase has already been approved via the PO process.

The number of approvals required for the same type of purchase varies among and within departments. For example, Senior Services has four approvals on a requisition before it goes to Purchasing for approval; Library (in the same department) has two approvals before it goes to Purchasing. To reduce confusion and inefficiencies, a universal and consistent approval matrix, such as that suggested above, should be deployed.

Change order process creates incentive to circumvent controls: All City departments are required to request City Council approval for any change order, regardless of the amount, if the original contract required City Council approval (required on all contracts exceeding \$60,000²). At Public Works Facilities³, for example, which has large construction and renovation projects, this requirement creates perverse effects. For example, since Public Works projects often cannot stop work to wait months for approval of the change order, the projects may continue without an approved change order amendment. Alternatively, the requirement creates an incentive for the department to create an initial \$20,000 contract with \$200,000 in change orders, to avoid months of delay in work while change orders are approved at the highest level. Both of these scenarios demonstrate the desire to improve efficiency in project work, at the cost of effective purchasing controls. Departments should be authorized to execute change orders within established limits, to better balance project efficiency with purchasing controls for higher dollar projects. To affect this change, commensurate with footnote 2 below, Departments should be provided training on effective contracting mechanisms.

A/P review of P-Card purchases is generally redundant: While not affecting the time required to make a purchase or payment, the Accounts Payable functional group (A/P) reviews each P-Card transaction to ensure proper documentation is attached and that, within reason, the purchase is for a legitimate business purpose and appropriately coded. This level of review is already occurring at the supervisor level with each department. As such, the additional review by A/P could likely be eliminated. In lieu of a 100% review, A/P could select a

² If the contract contemplated change orders and the amount of the change order does not exceed the amount of the contract, the contract does not need to return to Council. The problem is that the City is adopting contracts by Council that do not contemplate changes in price...therefore the changes are actually amendments to the contract and, unless the Council delegates authority in the contract or elsewhere, no other party can amend a contract entered into by the Council.

³ This issue exists in other departments as well.



sample of P-Card transactions each month for compliance testing. Any noted compliance deficiencies can be communicated back to the departments.

In accordance with the City's municipal charter and code of ordinances, Chapter XI, section 11-13 (adoption of the City's procurement code), "Pursuant to its home-rule authority, and the city charter, the city may adopt rules specific to the city, which depart from state law." Additionally, in accordance with New Mexico Statute § 13-1-98 (2013), part K, "municipalities having adopted home rule charters and having enacted their own purchasing ordinances" are exempt from the procurement code. It is our belief that the City's municipal charter and code of ordinances would allow the adoption of the changes recommended as part of this observation.

Risk:

Inefficient and redundant approval processes create incentives to get around purchasing controls, increasing the risk of improper purchases.

The opportunity cost of Purchasing and A/P conducting 100 percent of purchasing approvals is significant, as both functions have higher priority work, and approvals can occur in different ways.

Recommendation:

- 1.1. The current requirement that Purchasing approve all non P-Card purchases should be transitioned to a tiered approval structure, whereby purchasing is approving the higher dollar purchases requiring formal competitive bidding, while departments are delegated the authority by the Chief Procurement Officer to make their own purchases up to an established limit. While we believe this is the appropriate end goal for the City, additional follow up work resulting from the McHard report should be performed prior to implementation.
- 1.2. The job descriptions for department directors and other individuals tasked with procurement code compliance should include ensuring compliance with the City's procurement code, including obtaining the best value for the City.
- 1.3. The City should develop an approval matrix to clearly communicate who must approve purchases at various levels. While the City could consider the approval matrix as included in the issue above, the ultimate approval thresholds need to consider the City's risk tolerance. The proposed upper limit for City Council approval is consistent with Santa Fe County for Board of County Commissioner approval.
- 1.4. The City should consider embedding the approval matrix into the City's purchase order (PO) system.



- 1.5. The City should authorize Departments to execute change orders within established limits, to better balance project efficiency with purchasing controls for higher dollar projects.
- 1.6. In lieu of reviewing all P-card Transactions, A/P should select a sample of P-Card transactions each month for compliance testing. Any noted compliance deficiencies can be communicated back to the departments.



Management Response:

- 1.1 It appears that stringent approval requirements create procurement inefficiencies; however, given the McHard Accounting Fraud Risk Assessment found that “the City of Santa Fe has an extremely high risks of fraud, due to the almost complete lack of internal controls present in the City’s system of accounting and financial affairs,” the City will not make changes in the stringent approval requirements at this time.

In order to provide strong oversight of purchasing practices, the Purchasing group will continue to review and approve all non P-Card purchases. The supporting documentation, approvals, and related contracts/agreements must comply with the City’s Procurement Code, and the Procurement Manual and approval process. Furthermore, pursuant to NMSA 1978 13-1-95.2 Chief procurement officers; reporting requirement; training; certification. E. only certified chief procurement officers may do the following, except that persons using procurement cards may continue to issue purchase orders and authorize small purchases: (1) make determinations, including determinations regarding exemptions, pursuant to the Procurement Code, (2), issue purchase orders and authorize small purchases pursuant to the Procurement Code; and (3) approve procurement pursuant to the Procurement Code. New Mexico State law requires only Certified Procurement Officer’s (CPO) to issue Purchase Orders regardless of the amount.

Furthermore, the McHard assessment also found the City had extremely high risks of fraud due to very old and ineffective accounting and financial software and outdated or nonexistent policies and procedures. The City recently implemented the new Tyler Munis Financial System, which has the ability to provide checks and balances in our financial system from procurement to payment. Each user in the Munis Financial System has a defined role, which provides the user with authorization for different parts of the purchasing and payment processes. While it may appear stringent and inefficient, having different people involved ensures that the goods and services purchased have been ordered and received correctly, checked, and approved by the appropriate authorities. By spreading these duties among different employees, we help prevent fraud and increase accuracy.

- 1.2 Management agrees with this recommendation and will work with the City Manager, Human Resources, City Attorney’s Office, AFSCME, as well as the Fire and Police Unions to change job descriptions to reflect roles and responsibilities as provided in the State Procurement Code and the City’s Procurement Policies.
- 1.3 Management agrees that the City should develop an approval matrix to clearly communicate who must approve purchases at various levels. Management also agrees that ultimately the approval thresholds need to consider the City’s risk tolerance. Any changes to the thresholds will require Governing Body approval.



The current approval matrix as approved by the Governing Body is reflected in the following table

Purchases totaling:	Must be approved by:
\$0-\$60,000	Chief Procurement Officer and City Manager
>\$60,001	City Council

- 1.4 The current City of Santa Fe approval matrix, provided in the table above, is embedded into the City’s purchase order (PO) system as of July 1, 2019 when the City of Santa Fe implemented the Tyler Munis Financial System.
- 1.5 Allowing City Departments to execute change orders within established limits is prohibited pursuant to the New Mexico State Procurement Code. A change order is a modification to an existing purchase order, contract/agreement (procurement) and should only be processed through the City’s central Procurement Division.

Management requested additional details from CICN about interviews where Departments revealed they are circumventing controls. Any instances of circumventing internal controls is extremely concerning and Management will be looking into these statements.

- 1.6 Management disagrees with this recommendation to replace reviewing all P-card Transactions, with staff selecting a sample of P-Card transactions each month for compliance testing. As the P-card program is currently in its initial implementation stage, it would be prudent to maintain existing processes to continue a stringent review of all transactions and P-cardholder statements.

According to the P-card policy implemented after the McHard Fraud Risk Assessment was released, currently the A/P staff review every P-cardholder statement for attached receipts/memos/documentation to transactions, approvals by both, the cardholder and the department approver and then they approve for payment. Per the P-Card Policy (page 10), any infractions are documented, tracked and may ultimately result in the cancellation of a P-Card account. Infraction categories include: approved cardholder infraction, personal use infraction, missing receipts or missing itemized receipts infraction, statement review procedural infraction, alcohol or tobacco charge infraction, transaction splitting infraction and specific purchase information infraction. Infraction memos are provided to the cardholder and the approver notifying them of the infraction and warning of future disciplinary action as warranted. All infractions are documented in a spreadsheet by A/P.



Responsible Party:

Finance Department- Chief Procurement Officer, Controller, AP Supervisor, Treasury Officer

Completion Date:

12/30/19



2. Purchase order process and invoice approval controls could be strengthened

Issue:

We identified two areas where purchase order and invoice approval controls could be strengthened, and possibly made more efficient.

Purchase Orders: Through staff interviews, we understand there is a pattern of purchase orders are being requested after a purchase has already been made, circumventing the benefits of a purchase order system. Greater use of Purchasing Cards (P-Cards) can reduce circumvention of the purchase order controls, and to create more efficiency in the purchasing process. P-Card use should be encouraged if a vendor accepts P-cards and the transaction is permissible for P-Card use. Training on appropriate P-card use will be a critical component of increased usage, including reinforcing the requirement to obtain competitive documented quotes when required regardless of the form of payment. Increased P-Card use should reduce purchase orders generated after-the-fact. Shifting more transactions to P-Card use will also reduce the burden on city finance staff associated with invoice processing (assuming implementation of departmental P-Card controls as previously recommended).

Invoice Approvals: Current controls over invoice approval rely on institutional knowledge of the City's buyers across all departments. There is no authorized signature matrix or approver list of individuals within each department who are authorized to approve payment of an invoice. The Accounts Payable functional group (A/P) relies on their knowledge of who normally makes the purchases in each department and will question these individuals if an illegible or unknown signature is present on a purchase order to authorize payment on an invoice.

Risk:

The current purchase order process can circumvent built in controls, which increases the risk of improper purchases.

The current invoice approval process runs the risk that new A/P employees will not be familiar with authorized approvers, and that turnover within departments will not be communicated to A/P. This increases the risk of improper purchases.

Recommendation:

- 2.1. As a best practice, the City should continue to encourage P-Card use to reduce circumvention of the purchase order controls, and to create more efficiency in the purchasing process. To ensure competitive bidding requirements are adhered to for P-Card transactions, the City should periodically run reports of P-Card spend by vendor.
- 2.2. The City should increase training on the processes and controls around P-card use, including reinforcing the requirement to obtain competitive documented quotes when required regardless of the form of payment.



Management Response:

2.1 The P-Card program was started by the Treasury Division as an efficient and improved method for processing payments in an increasingly timely manner. The processing controls in place assist with safeguarding the payments as well as the integrity of the vendors' information. The program requires appropriate documentation, in compliance with Procurement, to be attached to the statement, prior to review and payment of the account.

Furthermore, shifting more transactions to P-Card use will shift time and burden into reconciling the P-card statement and away from procurement internal controls and the three-way match process implemented in the Tyler Munis system. P-card reconciliation could actually become more time consuming than using the proper purchasing channels and three-way match process.

2.2. The City has offered five onsite training sessions, required for all P-Cardholders. Additionally, we have provided one-on-one training, PowerPoint presentations providing step-by-step instructions, as well as printed guidelines. The Accounts Payable staff reviews the supporting documentation for all purchases including those which are required by Procurement to provide competitive documented quotes.

Responsible Party:

Christina Keys, Treasury Officer

Completion Date:

12/30/19



3. Automation and additional analysis needed for bidding, contracting, and accounts payable processes

Issue:

Key Procurement processes, including bidding, contracting, and management of vendor payments (Accounts Payable) could be improved through greater automation. In addition, more effective tracking of procurement timeliness, ideally using procurement tracking software, would help identify areas in need of management attention.

Bidding: All bids are required to be submitted in hard copy and are physically delivered to the requesting department by Purchasing. Electronic versions of bids are neither requested nor retained by purchasing. Departments are not permitted to use software to manage the submission of proposals electronically. In addition to the space required to store such documentation, additional time is required to physically deliver proposals and respond to records requests. Consideration should be given to requesting electronic submission of all proposals or, at a minimum, requesting an electronic copy, which can be the sole version retained by Purchasing after an award has been made.

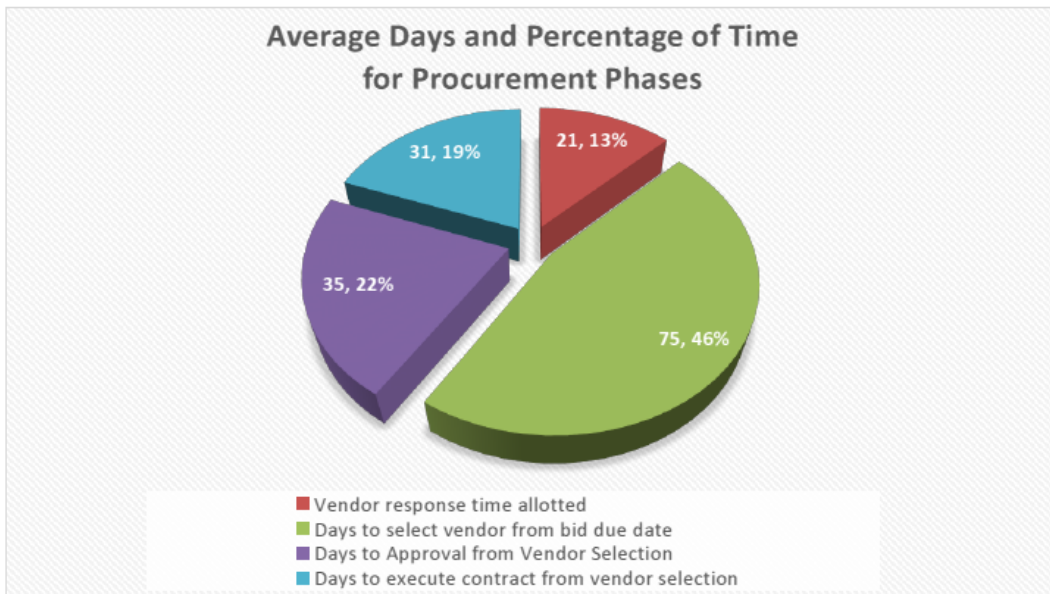
Contracting: Only hard copy contracts are routed for signature; no electronic signatures are used. If a revision must be made during the approval process, the process goes back to square one - revise the contract, print out the copies, route through the City for signatures, and send back to the vendor for signatures. This process could be automated via use of electronic contract routing and signatures.

Accounts Payable: The current Accounts Payable (A/P) process is very manual, requiring a physical copy of the electronic purchase order (PO) to be printed by the receiving department, attached to the invoice, and physically delivered to the group managing the A/P function. Inventory purchases and purchases relating to water meters are electronically received in the system; however, a PO is still physically printed, signed indicating receipt, and forwarded to the A/P group. This could be automated by having the receiving department request electronic invoices be submitted by the vendor whenever possible, scan hard copy invoices into the JD Edwards system, and electronically route the invoice for approval. Automating this process would eliminate non-value-added work and improve payment times to vendors, especially for departments not physically located in the County Administration building.

Procurement Timeliness Analysis: Procurement tracking software would assist in setting acceptable time frames for each phase of the procurement process and would provide alerts when any given phase is behind schedule. This would assist in determining the root cause of delays in real time, which would help to identify recurring issues that cause delays.



Based on what we were able to assess, the vendor evaluation and selection phase contributes the most significant amount of time to the procurement process. With an average of 75 days, it contributes 46% of the overall process time. However, it should be noted that the actual time to complete this phase has a wide range. Two of the samples we reviewed took over four months and one sample took over seven months to complete this phase. On the other end of the spectrum, one sample only took 6 days. The second longest phase is the lapse of time between vendor selection and City Council approval. Given that City Council meetings are held on specific dates, there may be an opportunity to schedule each phase of the procurement process to minimize the amount of time between when the vendor is selected and when City Council meets. Generally, City Council approved the purchases as part of the consent calendar with no delays. Additionally, we were unable to obtain information on the timeframe between the date the need for goods and services is identified and the date a competitive bidding solicitation is issued. The chart below illustrates the average number of day and percentage of time each for each phase of the procurement process.



Source: CICN analysis of City Procurement data



Risk:

Paper-driven processes are manual and inefficient, and often include redundancies. An inefficient and redundant process to complete a contract creates a negative reputation for the City in the vendor community. Better automation allows the use of automated internal controls to better manage the procurement process, and records of activity in the system (audit trails) for management analysis. Better automation should also help manage procurement steps within their appropriate timeframes. Finally, inefficient and redundant processes can depress staff morale.

The manual A/P process slows down the City's payment of bills. During our interviews, we noted some city departments were not paying bills timely, and when this occurs, the vendor will disallow purchases from other city departments. Failure to pay bills timely could also result in interest and late charges.

Recommendation:

- 3.1. The City should undertake an automation of the procurement processes of bidding, contracting, and Accounts Payable.
- 3.2. The City should use procurement tracking software to set acceptable time frames for each phase of the procurement process, and to provide management alerts when any given phase is behind schedule. This should include the time between the date the need for goods and services is identified and the date a competitive bidding solicitation is issued.

Management Response:

3.1 and 3.2. Management agrees with an automation of the procurement process for bids and RFPs and Accounts Payable. In order to implement the automated process for bids and RFP's we will seek budget approval and issue an RFP for software (contingent upon budget approval.) The automation of the procurement to payment process was addressed in the July 1, 2019 implementation of the Tyler Munis Financial system.

Responsible Party:

Fran Dunaway, Chief Procurement Officer

Completion Date:

7/1/20



4. Improved documentation would better support competitive procurement evaluation

Issue:

Generally, all proposal evaluations are scored without written explanation as to why certain vendors are receiving higher scores than others. Four of the A/P samples selected for testing did not document why a particular vendor was selected. For each of these samples, scoring sheets were provided, but there was no written summary explaining why the vendor was selected so we were not able to verify that vendors were selected for objective reasons. Departments have since been trained to properly complete the summary evaluation sheet, and a copy of a blank evaluation sheet was provided to us. It would be helpful for reviewers to include positive and negative attributes for each of the prospective vendors to support their rankings. It would also be helpful to have the cost component of the bid summarized as this is usually an objective component and typically a major factor.

Risk:

With only numerical rankings and no explanation of the pros and cons of each proposal, especially if the City is not choosing the lowest cost vendor, it would be easy to remain with vendors the City simply "likes" rather than selecting a vendor that may provide better value.

Recommendation:

- 4.1. The City should ensure that the bid evaluations:
 - Have scoring accompanied by written assessments of positive and negative attributes for each of the prospective vendors; and
 - Have the cost component of the bid summarized.

Management Response:

- 4.1 Management agrees with a including a written explanation as to how each proposal was evaluated and why a particular vendor was selected. A summary report and memo have been implemented to articulate the expectations of a vendor selection committee. These documents include, among other things, the requirement to provide both objective rankings and subjective commentary in support of such rankings as part of the evaluation packet. Cost components will also be required to be summarized in an easy-to-review fashion, so as to easily compare the financial component of vendors' RFPs. Departmental trainings on these documents were provided on April 9 and April 11. Key staff from each department were required to attend these training sessions.

Responsible Party:

Shirley Rodriguez, Chief Procurement Officer

Completion Date:

4/11/19



5. Broadening the City's reach in bid postings

Issue:

Opportunities for bids are currently posted on the City's web site and in local newspapers. While this emphasizes the City's "buy local" preference, the City is missing out on other vendors who may be able to provide the requested goods or services at a more competitive price or to otherwise provide more value to the City. Most governmental agencies are using bidding web sites to broadcast their bidding opportunities to a wider net of potential vendors. Such web sites are usually free to the governmental agency and may produce a more competitive bidding environment.

In order to pay for the local newspaper advertising fees a requisition must be created and approved, and a purchase order must be generated. Charges from newspapers for advertising fees could likely be paid with a P-Card, eliminating the additional process involved with purchase order generation.

The City currently advertises its intent to sole source in the same manner as requests for bids and proposals. Similar to advertising proposals for competitive bids, sole source notifications are reaching a relatively small segment of the vendor population. Expanding sole source publications to bid web sites would increase the chance that another vendor may be able to offer the same product or service at a more competitive price.

Risk:

Under the current posting process for competitive RFPs, Requests for Qualifications, and sole source, the City is missing out on other vendors who may be able to provide the requested goods or services at a more competitive price or otherwise provide more value to the City.

Recommendation:

- 5.1. The City should identify websites that can advertise competitive procurement opportunities at a regional, statewide, or national level to expand the opportunities to increase vendor competition. The City should also use these websites to expand its search for sole source vendor competition.
- 5.2. The City should begin allowing bid advertising fees to be paid for using P-cards.

Management Response:

- 5.1. Management agrees with utilizing other web sites for publications of solicitations. Online solicitation broadens and enhances the reach of a certain company and a huge pool of audience and a better competitive bid process to allow cost savings. Management will post all bids on-line once a on-line solicitation posting provider has been selected.



5.2 Management agrees with this recommendation, and will allow P-Card use for solicitation advertising, effective immediately.

Responsible Party:
Fran Dunaway, Chief Procurement Officer

Completion Date:
6/30/21



6. Director level P-Card purchases approved by subordinates

Issue:

The City has designated the Fiscal Administrator for each department as the approver for all P-Card statements within that department. This arrangement works fine for most cardholders; however, the Fiscal Administrator is also tasked with approving the P-Card statement of the Department Director to whom they directly or indirectly report. For example, three of the eight P-Card transactions selected for testing were approved by subordinates of the individual making the purchase. Department Directors all report up to a higher authority, who could approve P-card purchases without real or perceived pressure to approve expenditures.

One of the eight P-Card transactions selected for testing was not reviewed by the card holder or designee to ensure goods/services were received, all charges were accurate, and charges coded to the correct business unit and G/L account. Although a 100% review of P-card transactions by Accounts Payable (A/P) would be a higher level of control than is necessary, other, quicker assessments are available to test whether the P-card approval process is generally working as intended. For example, A/P could run a monthly report for all P-Card statements to determine if any are missing either a review or approval. (Also see Issue #1 for additional discussion of A/P review of P-card purchases.)

Risk:

Individuals may feel uncomfortable questioning the expenditures of their supervisor or top individual within their department and may not do so. As such, there is a risk that inappropriate transactions made by department directors will not be addressed.

Absent an effective approval process, management can miss warning signs of improper purchases.

Recommendation:

- 6.1. The City should ensure that P-Card statements at the department director level, including police and fire chiefs, be approved by the City Manager to which they report. A secondary individual can be assigned to ensure appropriate account coding to each of the expenses.
- 6.2. The City should implement assessments designed to test whether the P-card approval process is working as intended. For example, A/P could run a monthly report for all P-Card statements to determine if any are missing either a review or approval.



Management Response:

- 6.1 Management agrees with this recommendation and will require City Manager approval of P-Cards for Department Directors.

- 6.2 This practice has already been implemented and is outlined in the P-Card Policy. The A/P group runs a monthly report for all P-Card statements, reviews for any exceptions and investigates further. If there are any infractions on the part of the P-Cardholder or the Approver, an infraction notice is sent. If three or more infractions are accumulated by a user, the P-Card may be suspended for a period of time or cancelled and removed from their possession, dependent upon the severity of the infraction.

We believe the exception noted in the audit to be one of simple human error/oversight, rather than an indicator of the operating effectiveness of this control. We will bring this to the attention of the A/P group tasked with executing this control, which we believe will resolve this issue.

Responsible Party:

Christina Keys, Treasury Officer

Completion Date:

6/30/20



7. Opportunities to develop bulk purchasing contracts and improve cross-departmental purchasing

Issue:

There are many areas where the City could develop price agreements for goods and services purchased by multiple departments. Currently, the city has price agreements in place for office supplies, plumbing, hardware, and furniture, among a few others. However, there are no means (such as an intranet site) for a Department to view existing purchasing agreements to determine if one may suit their needs.

The City could do analytics on the types of goods purchased frequently by multiple departments, and go out for bid on those items. This would alleviate multiple contracts and multiple quotes, and generally promote efficiency. Analytics would also help for determining total spend for certain types of items at specific vendors.

Risk:

The lack of effective communication about price agreements could result in departments paying more than necessary for goods and services that are common across departments.

The lack of analytics deprives management of information useful in reducing procurement costs, and in identifying potentially fraudulent activity.

Recommendation:

- 7.1. The City should provide a convenient location for departments to view existing price agreements to determine if one may suit their needs.
- 7.2. The City should improve the use of analytics on purchasing activities, including the types of goods purchased frequently by multiple departments and total spend for certain types of items at specific vendors.

Management Response:

- 7.1 Management agrees with the recommendation and has placed existing agreements on the City's intranet (including agreements for office supplies, toner, furniture, plumbing, hardware, on-call design services, and on-call trails and roadways). The procurement team will continue upload all City agreements for goods and service to the City's Intranet for City staff to view and access.
- 7.2 Management agrees with the recommendation and will research and design analytics for purchasing activities. This will allow effective communication for all City departments. The procurement team will meet with departments to analyze past and projected procurement expenditures or spend for goods or services. The procurement staff will work with Information Technology Team to run reports by



vendor for purchase of goods and service so more solicitations are processed and agreements are available to departments.

Responsible Party:

Fran Dunaway, Chief Procurement Officer

Completion Date:

6/30/20



8. Duplicate Vendor and Employee Vendor Analysis

Issue:

Testing for duplicate vendors or employee vendors in a purchasing system is a basic test that can be performed to identify possible avenues for improper payments. CICN performed an assessment of vendor information to test for duplicate vendors or employee vendors. Based on the results, we identified numerous duplicate vendors: 74 exact matches and 28 potential matches. In addition, we found 19 potential matches between the Active Vendor file and the list of employee addresses. Fourteen of these indicate the need for further review to determine whether any related transactions were appropriate.

Risk:

The existence of duplicate vendors in a purchasing system increases the likelihood of improper payments, including double payments or fraudulent payments. Similarly, employee vendors, while potentially legitimate, are an avenue through which improper payments can be directed.

Recommendation:

The City should follow up on the duplicate and employee vendors identified by CICN to determine if any improper payments have been made.

Management Response:

Management agrees with the recommendation and the City will follow up on the duplicate and employee vendors identified by CICN to determine if any improper payments have been made.

Responsible Party:

Debra Harris-Garmendia, Controller

Completion Date:

6/30/20



9. Proposed procurement manual and associated training

Issue:

The proposed procurement manual would be more effective with enhancements in key areas.

First, the manual does not reflect current practices. As an example, the manual states that purchases for all professional services less than \$60,000, regardless of the amount, must have three written offers and be secured with a written contract. In practice, Purchasing requires three written offers and a contract only when professional services are procured for amounts ranging from \$20,000 to \$60,000.

Second, the proposed manual is missing key tools, such as decision trees, checklists, updated forms. Missing key tools contributes to the manual being difficult to understand and implement. Third, the manual is not easy to navigate. Based on independent review and interviews, users have to read sections three or four times, or refer back to earlier sections or future sections to understand the process, and even then it may not be clear.

There is no training program to instruct buyers on how to navigate the procurement process as well as the different purchasing options available. A training program would supplement the manual to help buyers implement the procurement program effectively and consistently. A training program could also help procurement provide more effective internal support for other City departments.

In addition to procurement policy training, some city staff expressed confusion over the City's JD Edwards E1 system as it pertains to purchasing and budgeting. In one case, a staff person is maintaining a separate spreadsheet so they can be confident of where their budget stands. JD Edwards should be the City's official system of record and appropriate training should be incorporated into the overall purchasing training.

Risk:

Without a clearly understood procurement manual containing key tools, and effective training on how to navigate the procurement process, the City faces risk that the procurement process will be implemented in an inefficient and inconsistent way. This would result in lost time and reduced staff morale, and increases the likelihood that prospective vendors will decide not to do business with the City.



Recommendations:

- 9.1. The City should update its proposed procurement manual to include:
 - Current practices;
 - Key tools, such as decision trees, checklists, and updated forms; and
 - Easier navigation through the manual

- 9.2. The City should create a training program to instruct buyers on how to navigate the procurement process as well as the different purchasing options available. This training should include topics such as:
 - How to write an effective Request for Proposal or Invitation for Bid, as well as the process and timelines associated with these processes.
 - Which purchases require contracts, along with the expectations around contract generation and timeline.
 - Acceptable P-Card use and how transactions should be reviewed and approved.
 - Responsibilities for contract administration and monitoring.

Management Response:

- 9.1 Management agrees with the recommendation and the City is in the process of finalizing the procurement manual to include the above recommended points.

- 9.2 Management agrees with the recommendation. The City procurement staff will be conducting procurement training for City staff involved in procurement after the updated Procurement Manual is adopted by the Governing Body. Additionally, New Mexico Edge will be conducting trainings in regards to RFP/ITB specifications, scope of service and contract writing. Other topics may include application of the State Use Act, how to use other government price agreements when the City's use of the agreement was not originally contemplated, cooperative procurement, change orders, what it means to artificially create small contracts such that the RFP trigger is not reached, and contract drafting.

Responsible Party:

Fran Dunaway, Chief Procurement Officer

Completion Date:

6/30/20