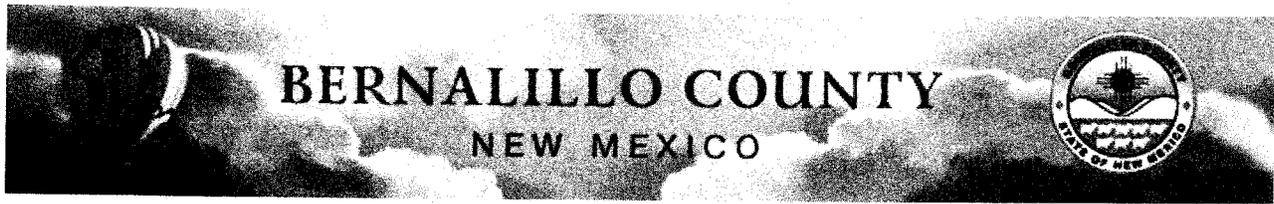


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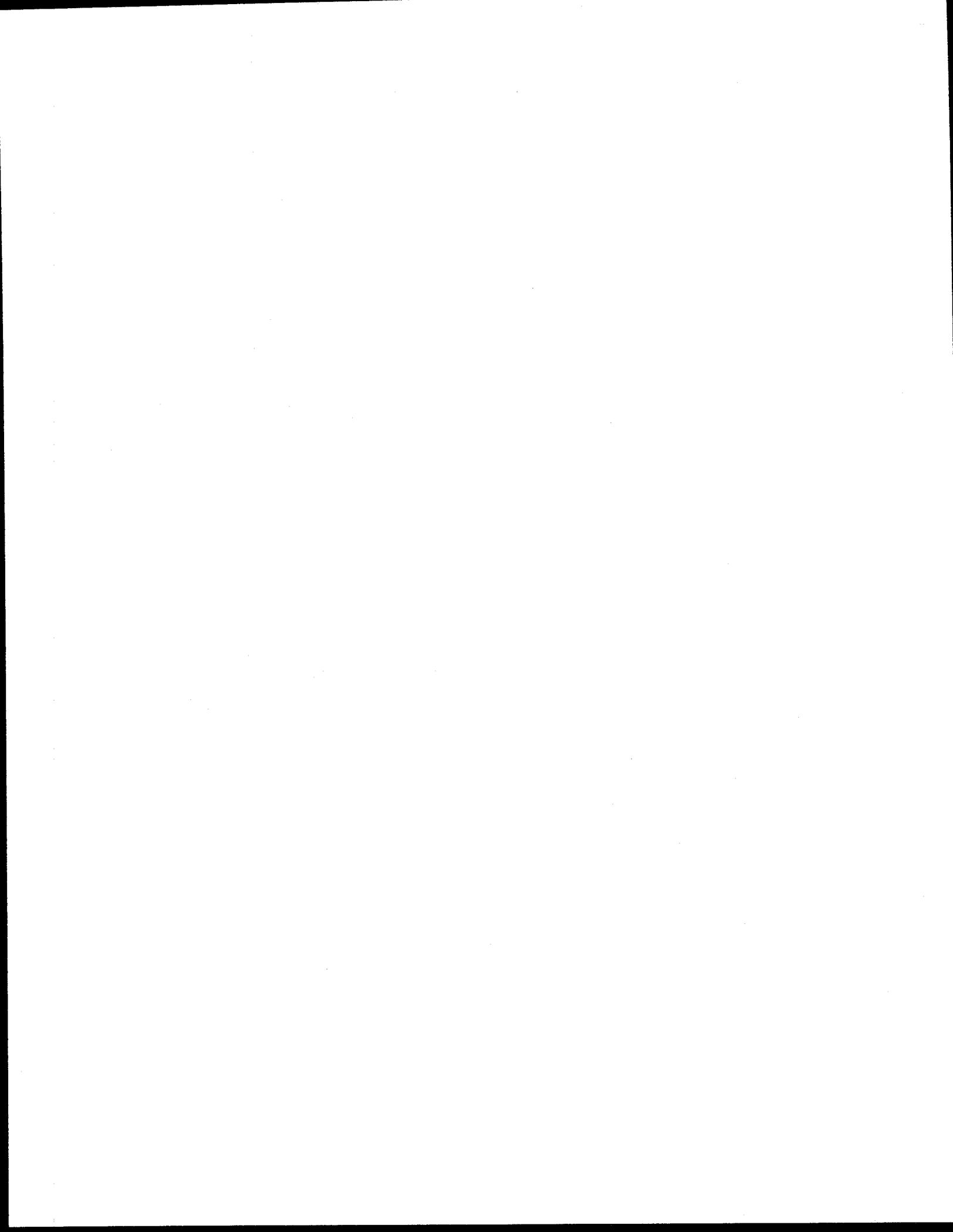
CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS & FINANCIAL ADVISORS



Internal Audit

Purchasing Department

July 2010



Bernalillo County Internal Audit Purchasing Department

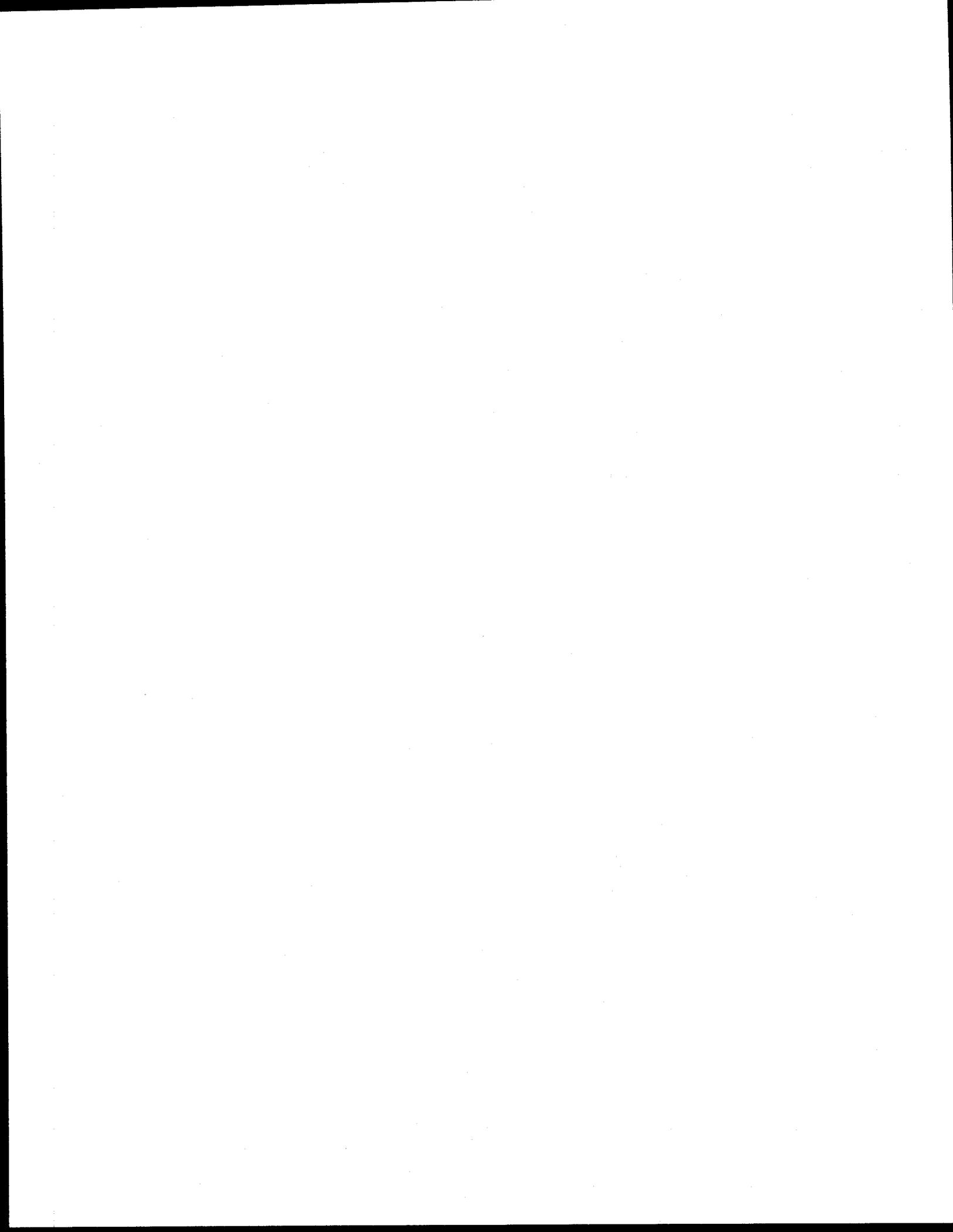
Executive Summary

SUMMARY OF PROCEDURES

REDW performed an internal audit of the Bernalillo County Purchasing Department. The objective of this internal audit was to evaluate procurement policies and procedures to address concerns such as purchasing cards (P-Cards), sole source contracts, emergency purchases, length of contracts, susceptibility to related party transactions (favoritism) and kickbacks, and compliance with laws and regulations.

In order to determine whether policies and procedures are followed and if adequate controls are in place over purchases at the Bernalillo County Purchasing Department, we performed the following:

- Read the policies and procedures for purchasing department revised April 2010;
- Read New Mexico State Statutes Annotated (NMSA) 13 Procurement;
- Interviewed relevant department personnel;
- Observed purchasing orders entered into SAP purchasing system;
- Selected a sample of vendors to test for circumvention of the purchasing methods through the issuance of split purchase orders;
- Performed a Benford's Law analysis on P-Card transactions and purchase orders to identify and investigate significant outlying transactions;
- Selected a sample of procurement card (P-Card) transactions and tested for proper approval, adequate supporting documentation, and compliance with purchase limits;
- Obtained Workflow Authorization Forms for each department and selected a sample to test for proper approval, adequate supporting documentation, and correct data entry in to the accounting system;
- Obtained purchase orders from fiscal year 2009 and selected a statistical sample to test for proper approval and compliance with relevant procurement policies and procedures; and,
- Obtained purchase order violation listing for fiscal years 2009 and 2010 and sorted by department to identify all departments who had more than twenty purchasing violations during the specified duration.



SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

We noted the following:

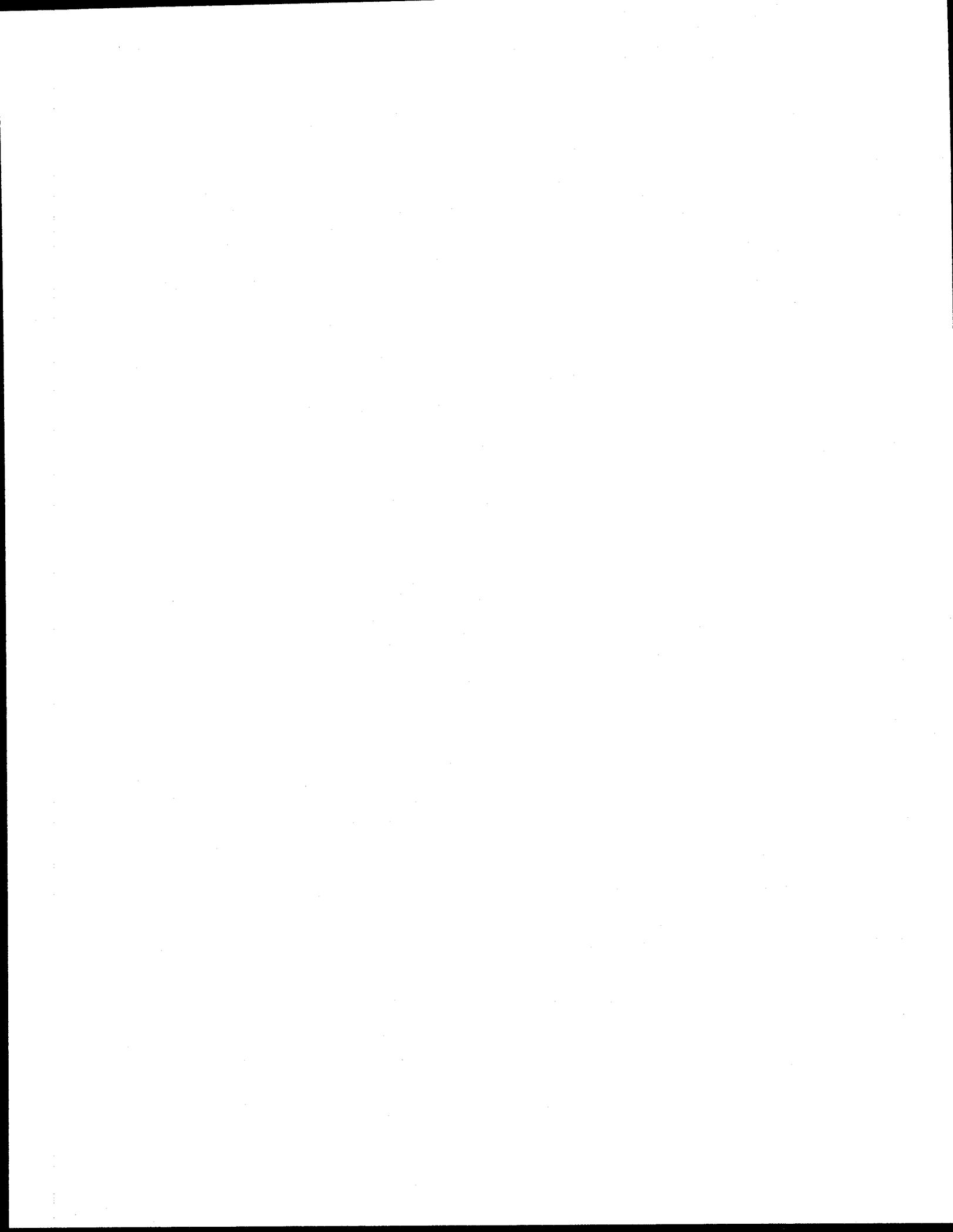
- **Some purchases made prior to obtaining a purchase order**—We noted five out of 78 instances where a purchase was made prior to obtaining a purchase order. The invoice was dated prior to the purchase order date and therefore a purchase was made without gaining proper approval and following procurement guidelines. Through additional testing we identified eleven departments that had more than twenty purchasing violations within the past two years. The County should provide additional training to the various departments to reiterate correct purchasing procedures. Department directors need to be informed of purchasing violations and should monitor and take disciplinary action against the employees who repeatedly violate the policy.
- **Some RFPs not issued and competitive quotes not obtained**—We noted two out of 78 purchase orders tested where a publicly solicited RFP should have been issued. We also noted one out of 18 vendors tested where three competitive quotes should have been attained prior to selection of the vendor for the purchases. The County policies and procedures require employee compliance with the guidelines. We recommend periodic trainings to update and refresh employees about the Procurement and Contracting guidelines and the consequences for noncompliance.
- **Purchasing and receiving segregation of duties not adequate**—The County does not appear to have reasonable segregation of duties surrounding the creation and approval of purchase requisitions and the receipt of goods. Additionally, there does not seem to be reasonable supporting documentation retained for the roles assigned in SAP for the purchasing and receiving functions within each department. The County should segregate the duties of creating and approving of purchase requisitions and the receiving of goods. The County should also create a process that ensures that roles assigned in the SAP system are adequately supported and approved.

* * * * *

Further detail of our purpose, objectives, scope, procedures, observations, and recommendations is included in the internal audit report. In that report, management describes the corrective action being taken for each observation.

REDW LLC

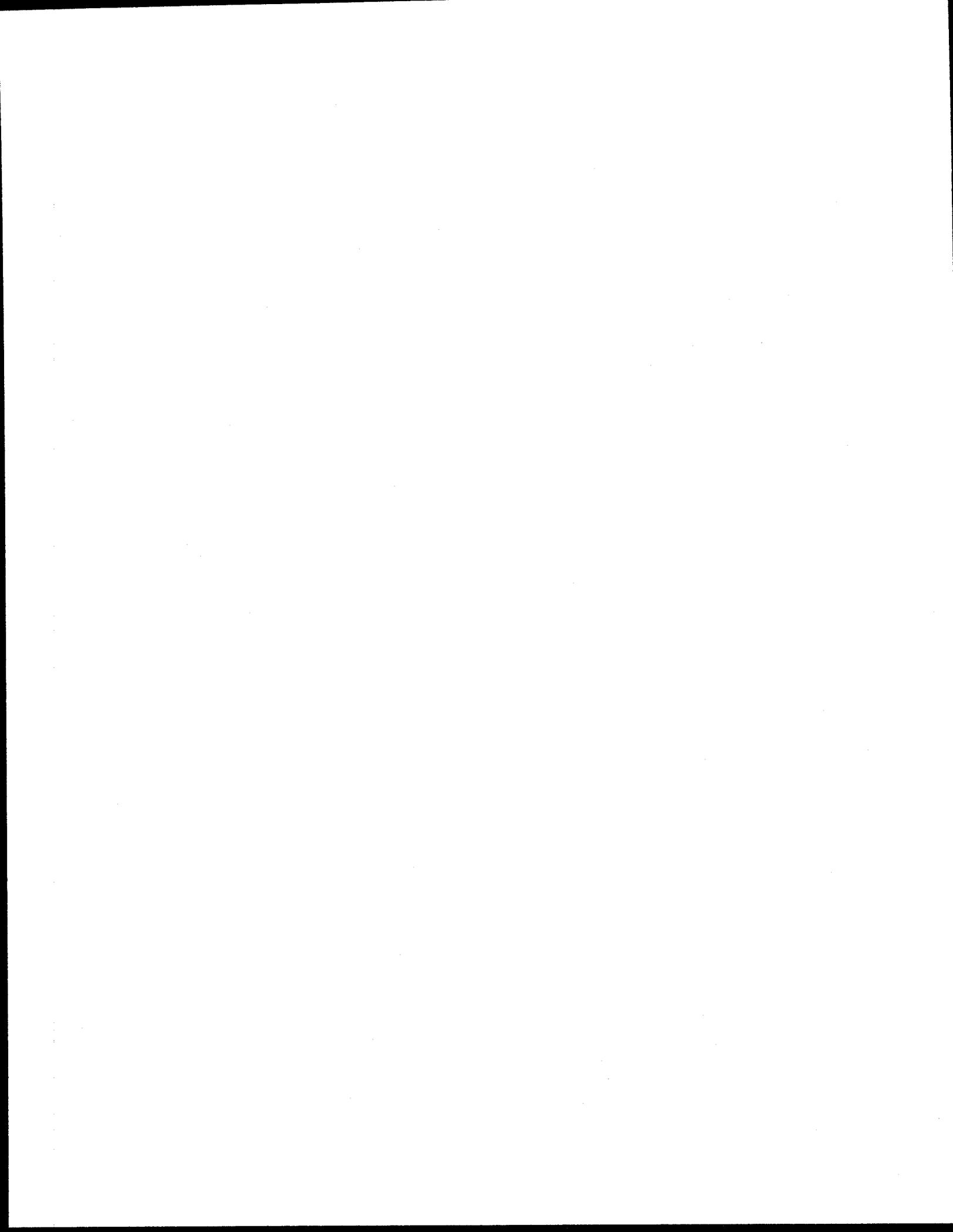
October 13, 2010



Bernalillo County Internal Audit Purchasing Department

Table of Contents

	<u>Page</u>
INTRODUCTION	1
PURPOSE AND OBJECTIVES	1
SCOPE AND PROCEDURES PERFORMED	1
OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES	3



Bernalillo County Internal Audit Purchasing Department Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating the processes and procedures over the Purchasing Department. The mission of the Purchasing Department is to provide the highest level of customer service while ensuring that all purchases are made in accordance with state laws, regulations, and ordinances; are open, fair, and competitive; and are obtained at the best value maximizing the use of public funds. Our services were conducted in accordance with the *Consulting Standards* issued by the American Institute of Certified Public Accountants, generally accepted government auditing standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

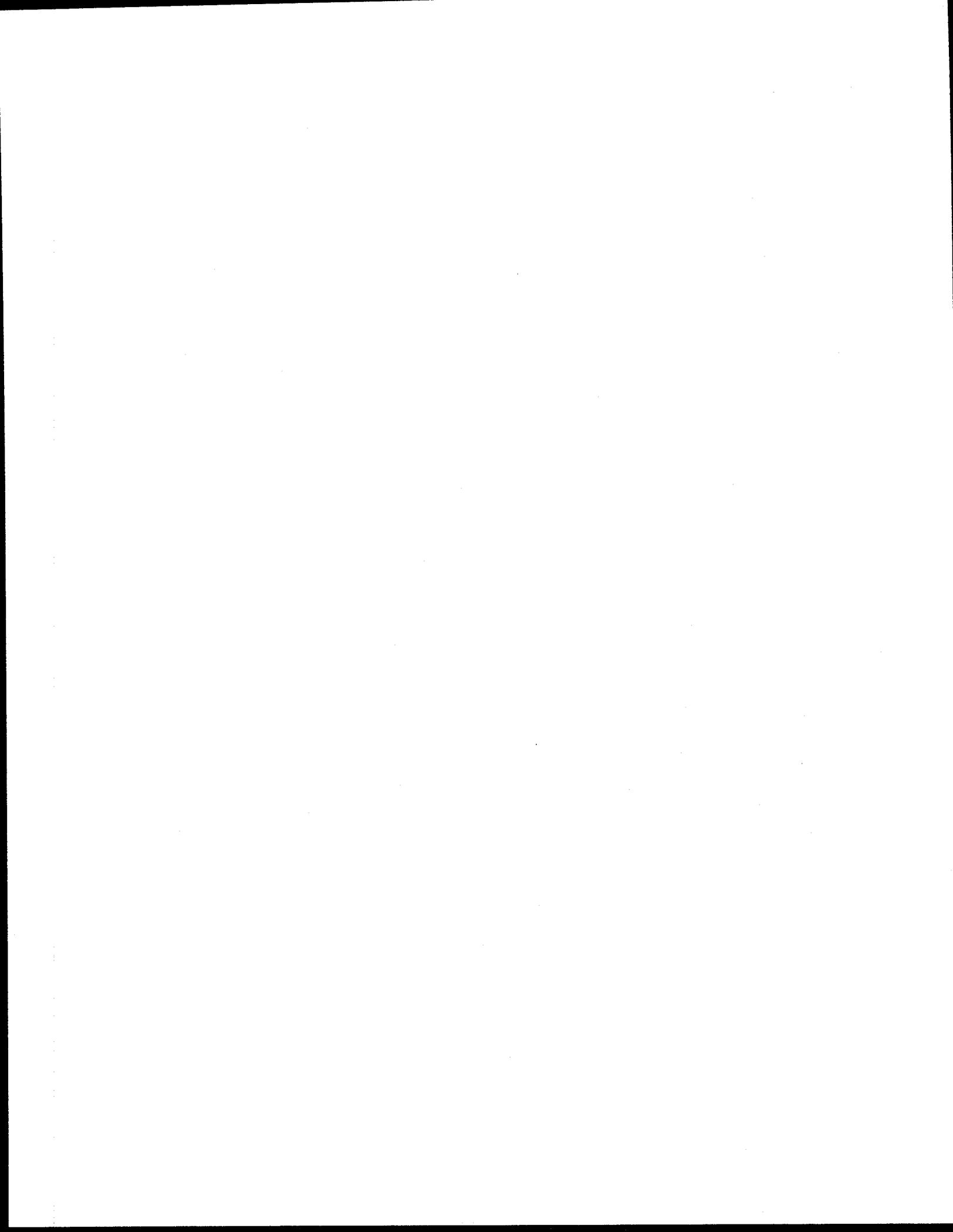
PURPOSE AND OBJECTIVES

Our internal audit focused on evaluating and testing compliance with purchasing policies and procedures to address concerns such as purchasing cards (P-Cards), sole source contracts, emergency purchases, length of contracts, susceptibility to related party transactions (favoritism) and kickbacks, and compliance with laws and regulations. Susceptibility to related party transactions (favoritism) and kickbacks were tested by ensuring the procurement process was followed and proper approvals were obtained and procurement levels were followed.

SCOPE AND PROCEDURES PERFORMED

Interviews: In order to gain an understanding of the procurement processes and controls, we interviewed the following personnel:

- Lisa Sedillo-White, Purchasing Director
- Billie Baca, Senior Buyer
- Dinah Esquivel, Purchasing Manager



- Sharon Toppin, Procurement Card Administrator
- Joann Jim, Business System Analyst IV County ERP department

In order to understand Purchasing Department policies and procedures:

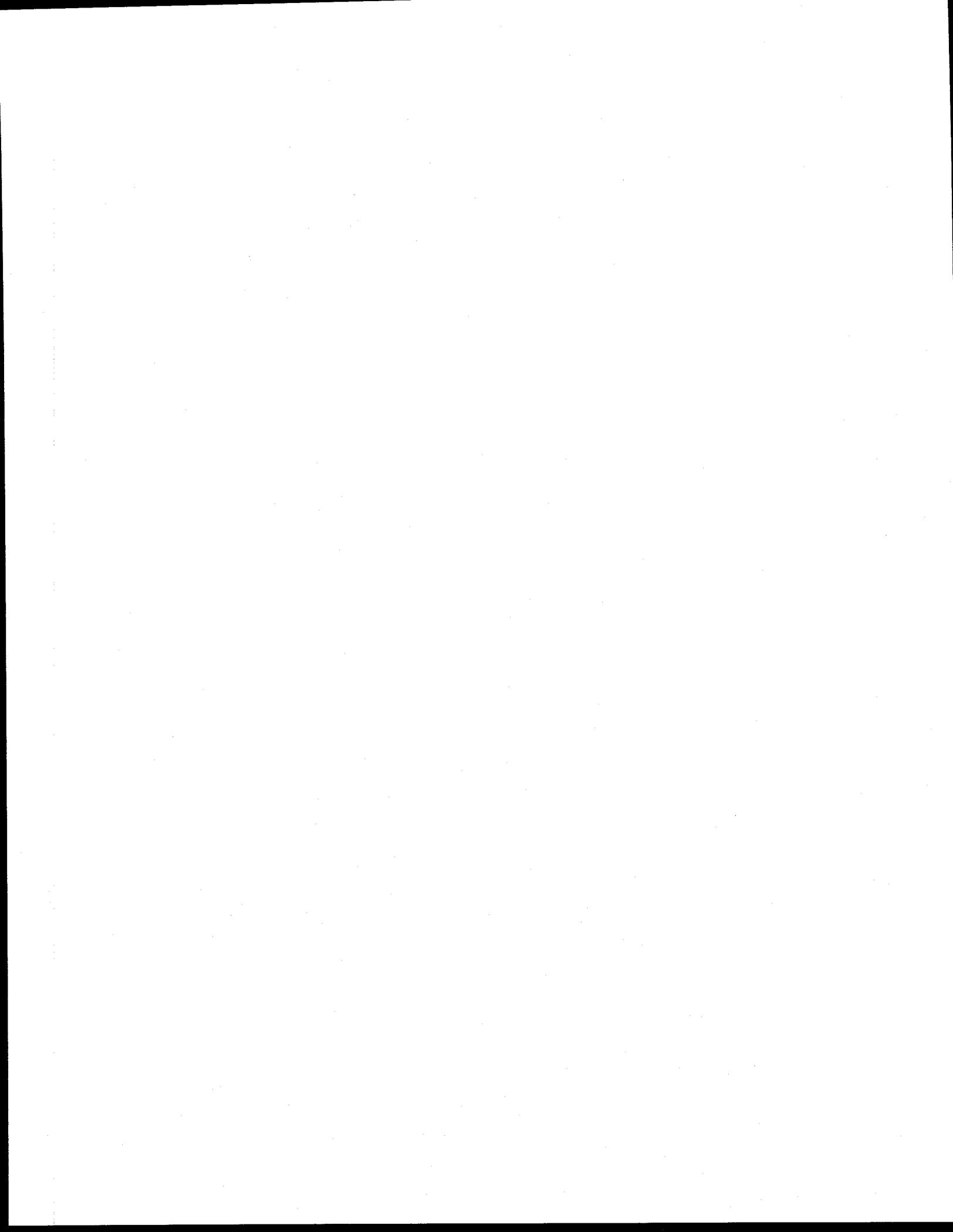
- We read Purchasing Department policies and procedures revised April 2010.

In order to understand State requirements:

- We read New Mexico State Statutes Annotated (NMSA) Section 13 Procurement including
 - (NMSA) 13-1-98 *Exemptions from procurement code*
 - (NMSA) 13-1-117.1 & .2 *Procurement of professional services*
 - (NMSA) 13-1-126 *Sole source procurement*
 - (NMSA) 13-1-127 *Emergency procurement*
 - (NMSA) 13-1-129 *Procurement under existing contracts*
 - (NMSA) 13-1-150 *Multi-term contracts*

We performed the following testwork:

- Selected a sample of 18 vendors to test for circumvention of the purchasing methods through the issuance of split purchase orders.
- Performed Benford's Law analysis on P-Card transactions from fiscal year 2009 and investigated significant outlying transactions. We scanned outlying categories and identified unusual transactions (a total of 31) to test that:
 - The purchase was supported by a receipt and appeared to serve a legitimate County purpose;
 - The purchase was made in accordance with P-Card and purchasing guidelines.
- Performed Benford's Law analysis on purchase orders from fiscal year 2009 and investigated significant outlying transactions. We scanned outlying categories and identified unusual purchase orders (a total of 43) to test that:
 - The vendor was listed as a valid business through the New Mexico Public Regulation Commission;
 - The purchase order was properly approved by Department Manager and Purchasing Department; and,
 - The approved purchase order was not prepared and approved by the same individual.
- Selected the month of May 2010 for Procurement Card (P-Card) purchases (a total of 123 employees) and determined if:
 - The transactions were complete and signed by the cardholder, reconciler, department director and P-Card director;
 - All purchases on the P-Card reconciliation were reasonably supported by receipts and all purchases appeared to serve a legitimate County purpose; and,



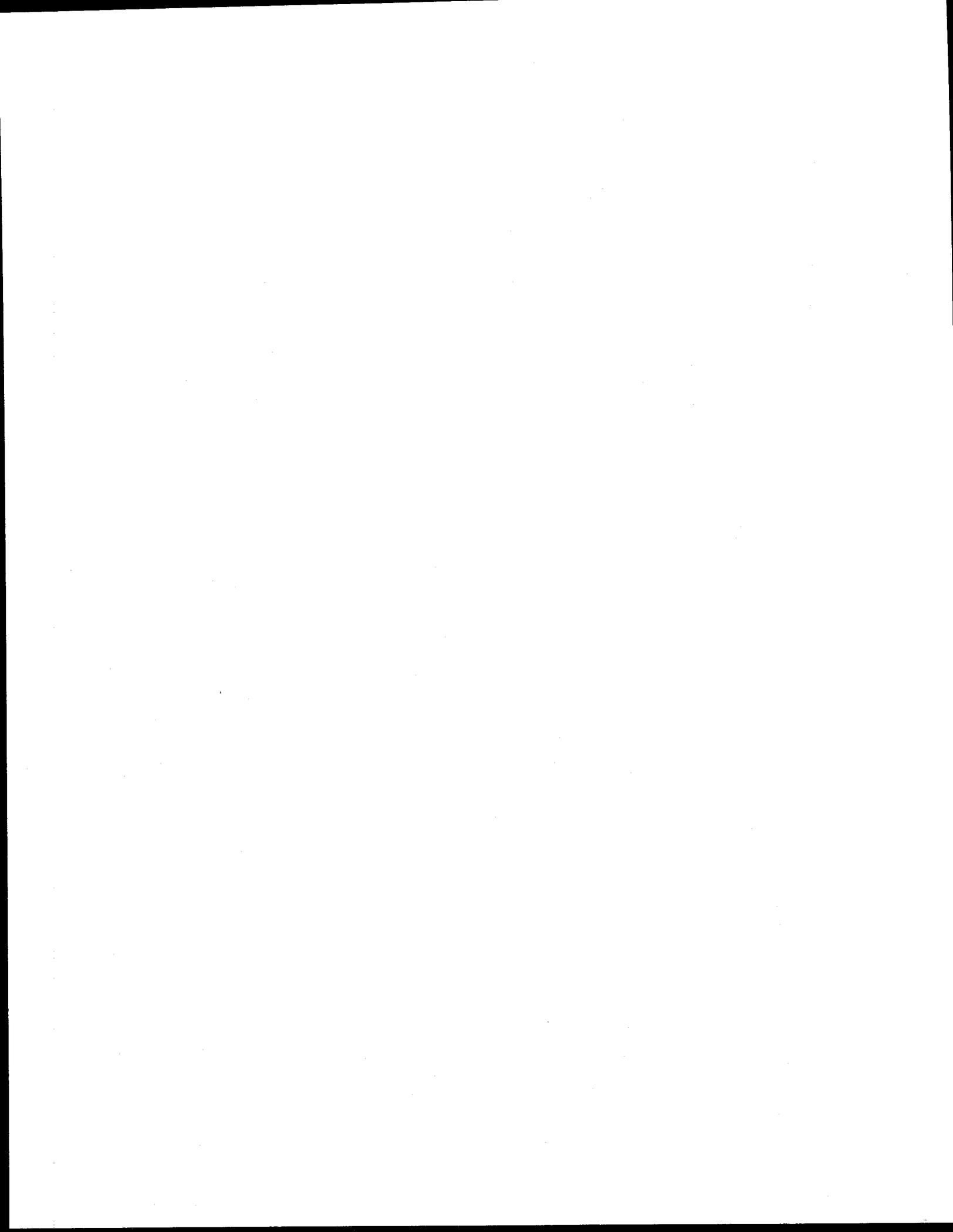
- Any purchase exceeded the \$4,999 single purchase limit and total P-Card purchases for a single cardholder exceeded the monthly \$10,000 limit.
- Obtained Workflow Authorization Forms for each department and selected a sample of 20 departments to determine if;
 - Each form was complete and approved by appropriate purchase requisitioners, managers and directors;
 - The information on each form agreed to the information entered into the SAP system; and,
 - Each form was approved by the Deputy County Manager.
- Obtained purchase orders from fiscal year 2009 and selected a statistical sample of 78 purchase orders using a 90% confidence level with a tolerable deviation of 10% and an expected deviation rate of 5% based on management's identified errors. For each purchase we determined if;
 - The purchase requisition was approved by the Department Director/Manager and the Purchasing Department;
 - The proper method of procurement was used based on the monetary value of the purchase and type of service;
 - All criterion for request for bids and request for proposal transactions were met (i.e. publicly solicited, evaluation sheets and committee selection reports were completed);
 - Sole source and emergency purchases were properly supported by justification forms;
 - Capital purchases were encumbered for in the Capital Budget;
 - The purchase order was made within the effective dates of an existing contract, if applicable;
 - Quarterly vendor performance evaluations were conducted; and,
 - Contract terms were in accordance with New Mexico State Statutes over multi term contracts.
- Obtained the purchase order violation listing for fiscal years 2009 and 2010 and identified all departments that had more than twenty purchasing violations. A total of 11 departments were identified with a total of 343 violations.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

We identified the following weaknesses relating to the Bernalillo County Purchasing Department.

1) Some purchases made prior to obtaining a purchase order

The County is not always obtaining purchase orders before purchasing goods or services. We noted five out of 78 instances where a purchase was made prior to obtaining a purchase order. The invoice was dated prior to the purchase order date, and therefore a purchase was made without proper approval and following procurement guidelines. There is the risk that goods and



services are being purchased by County departments that are not in the budget and/or are unallowable. Through additional testing we indentified eleven departments that had more than twenty purchasing violations within the past two years. The following departments had more than 20 purchasing violations: Housing, County Clerk, DSAP, Emergency Prep, MDC, Sheriff's Department, Fire and Rescue, Fleet Facility, JDYSC, and the Assessor Department.

Recommendation

The County should provided additional training to the various departments to reiterate correct purchasing procedures. Department directors need to be informed of purchasing violations and should monitor the number and type of purchase orders and take disciplinary action against the employees who repeatedly violate the policy.

Management's Response

The Purchasing Department will work in conjunction with senior management to institute a corrective action plan to help deter repeat purchasing violations.

2) *Some RFPs not issued and competitive quotes not obtained*

The County is not always following the Procurement and Contracting guidelines with regards to the method of procurement used for purchases. We noted the following:

- Two instances out of 78 purchase orders tested where a publicly solicited RFP should have been issued, but only three quotes were obtained.
- One instance out of 18 vendors tested where three competitive quotes should have been attained prior to selection of the vendor for the purchases, but only one written quote was obtained.

Recommendation

County policies and procedures require employee compliance with the guidelines. We recommend periodic trainings to update and refresh employees about the Procurement and Contracting guidelines and the consequences for noncompliance.

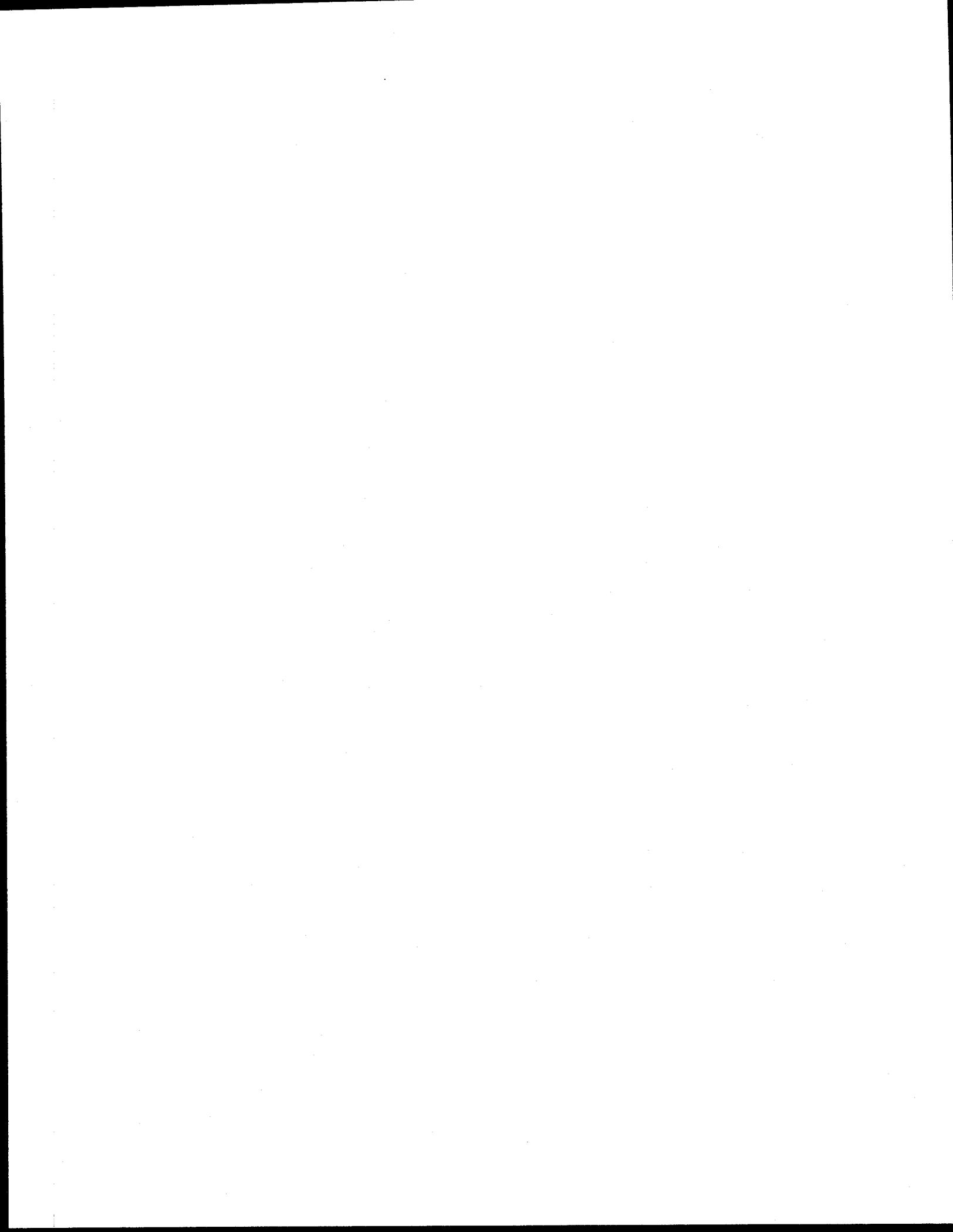
Management's Response

The Purchasing Department will ensure purchasing staff continues to verify contractual amounts prior to approving purchase orders. In addition, purchasing staff will ensure all shopping carts received adhere to the New Mexico Procurement Code, policies and procedures, and all applicable regulations.

3) *Purchasing and receiving segregation of duties not adequate*

The County does not appear to have adequate segregation of duties surrounding the creation and approval of purchase requisitions and the receipt of goods. Additionally, there does not seem to be adequate supporting documentation retained for the roles assigned in SAP for the purchasing and receiving functions within each department. We noted the following:

- Department directors and managers can initiate purchase requisitions, approve purchase requisitions, and receive the related goods.



- Two out of 20 approved purchase requisition forms did not agree to the information in the SAP system, and
- One out of 20 Workflow Authorization forms did not list the authorized purchase requisitioner(s) and manager; therefore, we were unable to verify the information entered into SAP.

Recommendation

Without proper segregation of duties an individual has the capability to order items and steal them upon receipt. Without an approved form supporting users entered into the SAP system there is a possibility that inappropriate access is granted which creates a higher risk for fraud. We recommend the County segregate the duties of creating and approving of purchase requisitions and the receiving of goods. Also, the County should ensure that roles assigned in the SAP system are adequately supported and approved.

Management's Response

The Purchasing Department will work in conjunction with ERP staff to create a new role in the SAP System to prohibit directors from the creation of a shopping cart or receiving an item.

The Purchasing Department has identified the inconsistencies in SAP roles granted in the SAP System versus the roles identified on Workflow Authority Forms and has been working with ERP staff for the last three months to ensure that roles granted in the SAP System match roles identified on Workflow Authority Forms. This initiative is near completion.

4) *Quarterly vendor evaluation forms are not being completed*

Bernalillo County Purchasing Department policies and procedures require a quarterly vendor evaluation form to be completed for each vendor conducting business with Bernalillo County. The County is not completing any quarterly vendor evaluation forms for vendors that have been awarded a County contract as required by the Purchasing and Contracting Guidelines.

Recommendation

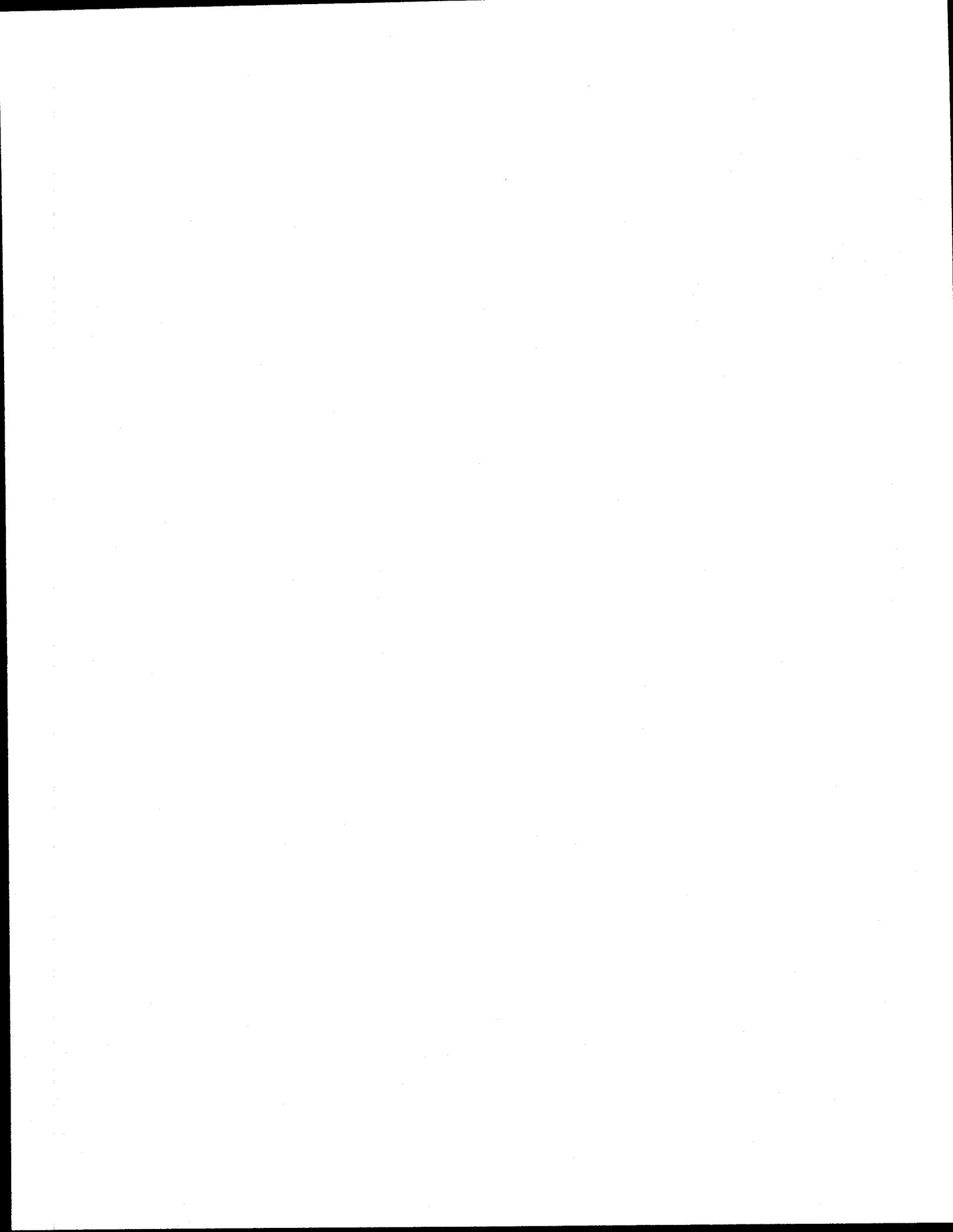
Based on discussions with management this was added to the policies prior to the completion of these evaluations, and this process has not yet been implemented. The County should consider updating the Purchasing and Contracting Guidelines to remove the evaluations until the process has been implemented.

Management's Response

The Purchasing and Contracting Guidelines will be updated to remove the section on quarterly vendor evaluations. The process identified in the Purchasing and Contracting Guidelines was a manual process and would have been time consuming if implemented. The Purchasing Department will work with ERP staff to explore SAP System options for creating an automated vendor evaluation process.

* * * * *

This report is intended for the information and use of Bernalillo County management, the audit committee, members of the board of commissioners of Bernalillo County and others within the



organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

REDW LLC

October 13, 2010

