



Procurement

Internal Audit

December 2019

# Bernalillo County Internal Audit Procurement

## Executive Summary

### SUMMARY OF PROCEDURES

REDW performed internal audit procedures over purchases made by the County. Our internal audit focused on evaluating the timeliness of the process, the types of procurement made, IT purchases, and contracts.

We performed the following procedures:

- Tested Request for Bids (RFB) and Request for Proposals (RFP) to ensure all required terms and conditions are in the contract, bid forms were submitted by the bidders, a notice about the ethical requirements, and the PO was processed timely in accordance with internal benchmarks.
- Tested quarterly performance reports to determine if goals were met.
- Tested monetary thresholds in the SAP system to ensure they appeared proper and SAP was properly updated.
- Tested requests for proposals to determine if all requirements from the County Ordinance 2018-11 Sec 2-365 were met.
- Tested Sole Source purchases to determine if the purchase met sole source requirements defined in County Ordinance 2018-11 Sec 2-369 (a).
- Tested to determine if contracts contained the appropriate clause, were processed timely, and had proper approval.
- Tested emergency procurements to ensure they properly followed the County Ordinance 2018-11 Sec 2-370.
- Evaluated IT purchases to determine if they acquired proper IT approval.

## SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

As a result of our testing, the following moderate risk observations were identified:

### *1) Performance Monitoring*

Instances were identified where the type of procurement method selected in the shopping cart was not accurate which impacted the accuracy of the Spend Analysis report. The Central Purchasing Office should add a step to their internal checklist to verify and correct the procurement type prior to processing.

### *2) Noncompliance of IT Purchases*

IT related purchases were not properly routed in the SAP system to obtain the required approval from IT. A review of the system exception list should be performed at least annually to ensure all relevant product codes are included. In addition, the Central Purchasing Office should ensure it is rejecting purchases that are not coded properly to ensure they receive the proper approvals.

\* \* \* \* \*

Further detail of our purpose, objectives, scope, and procedures are included in the internal audit report.

We received excellent cooperation and assistance from the Central Purchasing Office during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico  
February 14, 2020

# Bernalillo County Internal Audit Procurement

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# **Bernalillo County Internal Audit Procurement Report**

## **INTRODUCTION**

We performed the internal audit services described below solely to assist the Purchasing Department at Bernalillo County in evaluating the processes and related controls over the procurement process. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants and the terms of our Professional Services Contract agreement for internal audit services. Since our procedures were applied to samples of 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.

An entrance conference was held on December 6, 2019, and fieldwork began December 9, 2019. An exit conference was held on January 31, 2020.

## **PURPOSE AND OBJECTIVES**

Our internal audit focused on evaluating the workflows of the SAP system, types of procurements and their requirements, the timeliness of the process, the contract requirements, and IT related purchases to determine if these processes were in compliance with department policies and procedures, County Ordinance 2018-11 and applicable laws and regulations.

## **SCOPE AND PROCEDURES PERFORMED**

**In order to gain an understanding of the processes and laws/regulations, we interviewed the following personnel:**

- Dinah Esquivel, Director
- Natara Landrau, Purchasing Manager

**In order to gain an understanding of the processes we read relevant portions of:**

- Bernalillo County Ordinance 2018-11

**We performed the following test work:**

***Timeliness of the Process:*** We obtained the September 2019 quarterly report of performance metrics and accompanying email submission. We analyzed the report to gain an understanding of the typical amount of days it takes to process a purchase, how the department tracks timeliness for all purchase orders and how often this information is communicated to relevant parties.

***Purchasing Approval Thresholds:*** We obtained a listing of each monetary approval threshold and department assignment for each employee of the Central Purchasing Office. We tested to ensure:

- The monetary approval threshold appeared proper based on position;
- The SAP system agreed to the approved listing.

***Procurement of Request for Bids (RFB):*** We obtained the procurement listing of RFBs for July 1, 2018 through October 31, 2019. We selected a sample of six from a total population of 23 and tested to ensure each bid contained the following:

- The specifications for the tangible personal property, services, or construction to be procured;
- All contract terms and conditions applicable to the procurement;
- Bid forms to be submitted by bidders;
- The location where bids are to be received;
- Date, time, and place of the bid opening;
- The requirements for complying with any applicable preference provisions as required under State Statute and the County Ordinance;
- A notice that states that the County Ordinance imposes civil and criminal penalties for its violation in addition to the penalties for illegal bribes, Gratuities, kickbacks or other criminal activities that are prohibited by the New Mexico Criminal Code;
- The notice of the RFB was not published before the completion or approval of Request for Bids by the Central Purchasing Office; and
- The departmental checklist was complete and all documents were included.

***Procurement of Request for Proposals (RFP):*** We obtained the procurement listing of RFPs for July 1, 2018 through October 31, 2019. We selected a sample of 11 from a total population of 39 and tested to ensure each proposal contained the following, in accordance with the County Ordinance 2018-11:

- The specifications for the tangible personal property, services, or construction to be procured;
- All contract terms and conditions applicable to the procurement;
- Instructions and information to Offerors, including the date, time, and place where proposals are to be received and reviewed;

- All evaluation factors, including the relative weight to be given to each factor, including price, when applicable;
- Date, time, and place of the bid opening;
- A statement that discussions may be conducted with Offerors who submit proposals, but that proposals may be accepted without such discussions;
- A notice that states that the County Ordinance imposes civil and criminal penalties for its violation in addition to the penalties for illegal bribes, gratuities, kickbacks or other criminal activities that are prohibited by the New Mexico Criminal Code;
- The requirements for complying with any applicable preference provisions as required under state statute and Ordinance 2018-11; and
- The departmental checklist was complete and all documents were included.

***Procurement of Small Purchases:*** We obtained the procurement listings of small purchases made between July 1, 2018 and October 31, 2019. From a total population of 443 we selected a sample of 29 and tested to ensure the following in accordance with County Ordinance 2018-11:

- The procurement type was properly coded in the system;
- The purchase was for goods or non-professional services with a total value less than \$100,000;
- If the purchase was for a non-professional service or good with a total value between \$20,000 through \$100,000:
  - At least three businesses were contacted to get a written quote and all written quotes were placed in the procurement file;
  - If three written requests cannot be obtained there was documentation in the procurement file explaining.
- The award was made to the business offering the lowest acceptable quote or if the lowest quote was not selected, written justification was included in the procurement file;
- If the purchase was for professional services having a total value less than \$80,000, the best obtainable price was used;
- The approver in the Central Processing Office was accurate based on monetary thresholds and type of procurement; and
- The PO was processed in five-days or less for fiscal year 2019 and three-days or less for fiscal year 2020 in accordance with internal benchmarks.

***Procurement of Sole Source:*** We obtained the procurement listings of sole source procurements from July 1, 2018 through October 31, 2019. From a total population of 102, we selected a sample of 12 to ensure the following:

- The purchase met the sole source requirements as defined in Section 2-369 (a) of Ordinance 2018-11;
- The Central Purchasing Office conducted appropriate negotiations as to price, delivery, and quantity in order to obtain the price most advantageous to the County;

- At least 15 days before the contract was awarded, the Central Purchasing Office posted notice of the intent to award a Sole Source Contract on its website and the noticed contained:
  - The contractor's name and address
  - The estimated amount of the contract
  - A listing of the tangible personal property, services, or construction procured under the contract
  - The reason for the procurement method
- The procurement was made public record via the transparency portal;
- Ethical Conduct language as described in Section 2-390 of Ordinance 2018-11 was included in the contract or solicitation;
- The procurement type was properly coded in the system.

***Procurement of Emergency Purchases:*** We obtained the procurement listings for emergency purchases made between July 1, 2018 and October 31, 2019. From a total population of four, we selected one to ensure:

- Emergency conditions were met based County Ordinance 2018-11;
- The purchase was not for heavy road equipment;
- The determination for the basis of the emergency procurement was included in the procurement file and was attached to the shopping car within 72-hours of the emergency;
- Within three days the Central Purchasing Office posted the purchase on the transparency portal including:
  - The contractor's name and address
  - The amount and term of the contract
  - A listing of tangible personal property, services, or construction procured under the contract
  - The justification for the procurement method
- Ethical Conduct language as described in Section 2-390 of Ordinance 2018-11 was included in the contract or solicitation.

***Contracts:*** We selected the same sample of projects from the RFP and RFB tested above and obtained the contract to ensure that:

- The County Manager or designee approved the contract;
- The Contract included the appropriate clauses based on the County Ordinance;
- The County included a clause in the contract imposing late payment charges against the County in the amount and under the conditions stated in County Ordinance 2018-11;
- Multi-year Contracts were in the best interest of the County, did not exceed 10-years for goods, professional, and non-professional services;
- Contracts were processed within 50-days for RFBs and 80 days for RFPs;

- Multiple Source Awards contained the information needed according to the County Ordinance.

**IT Purchases:** We obtained the listing of all purchases made by the County between July 1, 2018 and October 31, 2019. We searched for IT keywords (such as “computer” “software” etc.) We selected a sample of 27 from a population of 1,919 and tested to ensure:

- The item was shopping cart was coded correctly;
- The shopping cart was properly routed to IT;
- IT approved the shopping cart before it was sent to the procurement office.

## **OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

As a result of our testing, REDW identified the following observations:

### ***1) Expenditure Monitoring***

The Central Purchasing Office generates a Spend Analysis report which breaks down County dollars spent by procurement type. This information is compiled from the purchasing data in SAP. There is not a process to verify the procurement method prior to processing the shopping cart. Our testing determined 11 of 29 instances where the type of procurement method selected in the shopping cart was not accurate which is impacting the accuracy of the Spend Analysis report.

**Potential Risk: Moderate**—Failure for reports to contain accurate information could result in metrics being skewed. In addition, since this information is provided to other County personnel outside of the Central Purchasing Office, it is critical the information is accurate thus elevating the risk to moderate.

**Recommendation:** The Central Purchasing Office should add a step to their internal checklist to verify and correct the procurement type prior to processing.

**Management’s Response:** Management agrees when procurement staff of the Central Purchasing Office is reviewing a shopping cart, the procurement type (“method of procurement”) selected by the requisitioner must be validated and changed if incorrect, prior to issuance of a purchase order. The intent of identifying the “method of procurement” enables the Central Purchasing Office, when necessary, the ability to generate a report that provides total expenditures based on the procurement type. The accuracy of the report is wholly contingent upon the proper selection of the procurement type. The Central Purchasing Office currently has a document, “Matrix of Items and Documents Necessary for Issuance of a PO” (Matrix). The Matrix is a general guide and provides a list of items and documents necessary for the issuance of a PO based on the method of procurement. A validation step for the “method of procurement” will be added to the Matrix no later than end of the 4th quarter of FY20.

### ***2) Noncompliance of IT Purchases***

All purchases for IT related items are to be routed to IT for approval before the purchase order is created. This ensures IT is aware of the items being requested and any service requirements that may be needed. Our testing determined four out of 27 IT related purchases were not properly

routed in the SAP system to obtain the required approval from IT. This was due to either improper item coding from the department or items not being included on the system exception list for IT products.

**Potential Risk: Moderate**—If IT related products are not being included on the system exception list, there is a risk they may not receive IT approval during the purchasing workflow. In addition, if the Central Purchasing Office is not rejecting purchases with improper coding, there is a risk IT related purchases may bypass the correct approval workflow.

**Recommendation:** A review of the system exception list should be performed at least annually to ensure all relevant product codes are included. In addition, the Central Purchasing Office should ensure it is rejecting or updating purchases that are not coded properly to ensure they receive the proper approvals.

**Management's Response:** Management concurs and agrees four out of 27 IT related purchases did not properly workflow to IT for approval. Upon review, it was discovered three of the four were coded with the proper IT related “product category code” (code) in the shopping cart, however the codes are not included on the exception list so therefore did not route to IT.

The Central Purchasing Office will work with IT and ERP to review and update the exception list to ensure proper approval is obtained. This will be completed by the 4<sup>th</sup> quarter of FY21.

### **3) *Small Purchase Timing***

The Central Purchasing Office has internal benchmarks to assist them in monitoring timeliness of the workflow. For small purchases, the benchmarks were a 5 day average processing time for fiscal year 2019 and a three day average for fiscal year 2020. Our testing determined five of 29 small purchases exceeded the benchmark for the fiscal year. Variances ranges between nine and 13-days.

**Potential Risk: Low**—If purchase orders exceed internal benchmarks, departments are left without goods or services needed to continue operations thus potentially delaying projects however, as the date variances found were not considered significant, this lowered the risk from moderate.

**Recommendation:** The Central Purchasing Office should investigate purchases that are falling outside the average processing time and determine if additional processes need to be implemented to reduce the delays identified.

**Management's Response:** Management concurs and agrees five of 29 small purchases exceeded the average processing time for the issuance of a PO. Considering the importance of meeting expectations from our internal customers to receive goods and services on a timely basis, having this benchmark is worthwhile. Since the Central Purchasing Office does not have full control of this process, we will re-assess whether the benchmark should be changed or replaced with another.

### **4) *Timeliness of Postings to the Transparency Portal***

According to County Ordinance 2018-11 Sec 2-369, sole source procurement must be made public record via the transparency portal. Additionally, emergency procurements must be posted by the Central Purchasing Office to the transparency portal within three days of the purchase

being made. For four out of 12 sole source procurements tested, the listing on the transparency portal is listed as “pending” status, however, it was awarded and should be listed as such with the purchase order number attached. For the one emergency procurement tested, the posting in the transparency portal was not posted until 14-days after the emergency was recorded.

**Potential Risk: Low**— If the procurements are not posted properly and timely to the transparency portal, the constituents of the County may not be able to voice any concerns related to the purchase. If sole source purchases are not properly posted, other vendors are not able to appeal the decision to use the vendor the County selected.

**Recommendation:** Processes should be implemented to update the transparency portal when sole source procurement is awarded. Although the exact details of the procurement may not be immediately available, the procurement should be posted to the portal with “TBD” in the sections that are not known to ensure the public is made aware of the purchase.

**Management’s Response:** Management concurs. Staff will be reminded of the importance of updating a sole source from pending status to awarded status and will discuss with IT. the possibility of adding a dropdown that will populate “TBD” as per the recommendation above.

## **PROCESS IMPROVEMENT OPPORTUNITIES**

As a result of our testing, REDW identified the following best practice process improvement opportunities:

### ***1) Small Purchase Monitoring***

The Central Purchasing Office currently monitors the small purchase workflow by compiling data on a quarterly basis and calculating an average number of days it takes for the purchase order to move through the process. We recommend the Central Purchasing Office consider monitoring the small purchase workflow utilizing additional metrics besides averages. Our testing indicated that there was a significant range in the timeliness of purchase orders moving through the workflow with some being approved the same day while others took as long as 34 days. Since the calculation is done on an average, it does not assist the department in finding solutions to ensure all purchases are processed timely. The Central Purchasing Office should consider an alternative approach such as running all purchase orders for the quarter and the working days for each then segregating the outliers and determine if process improvements need to be implemented to ensure the majority of purchases meet the internal benchmarks.

### ***2) Contract Signing***

The Central Purchasing Office currently utilizes a manual process to route contracts for signature to all relevant County personnel. This can cause unnecessary delays and bottlenecks in the process. We recommend the Central Purchasing Office consider implementing an automated contract signing/routing process to ensure contracts are moved timely to all personnel. In addition, we recommend this process be monitored to ensure potential issues with workflow can be addressed timely.

\* \* \* \* \*

This report is intended for the information and use of Central Purchasing Office, the audit committee, members of Bernalillo County Commission and others within the organization.

We discussed and resolved other minor observations with management.

REDW LLC

Albuquerque, New Mexico  
February 14, 2020