AUDIT DEPARTMENT

Audit Report

Finance Department
Decentralized Purchasing

August 2013

Angela M. Darragh, CPA, CISA, CFE
Audit Director

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Angela M. Darragh, CPA, CFE, CISA, Director

August 6, 2013

Mr. Don Burnette
Clark County Manager
500 South Grand Central Parkway, 6th Floor
Las Vegas, Nevada 89106

Dear Mr. Burnette:

In accordance with our annual audit plan, we conducted an audit of the Finance Department Decentralized Purchasing.

Our audit objective was to determine whether procedures at selected departments were operating effectively to provide reasonable assurance that departmental procurements not covered by a contract and under $50,000 are (1) appropriately solicited, receive fair consideration, and (2) are properly documented and forwarded to Purchasing for review.

To meet our objectives, we reviewed Fiscal Directive 6 and the Purchasing and Contracts Division training material presented to County departments in June 2012. In addition, we interviewed selected department heads and appointed liaisons regarding departmental purchasing procedures and policies. We selected six departments to audit because the departments exhibited significant size and frequency of purchase orders in the first quarter of fiscal year 2013 for less than $50,000.

Overall, we found that the controls over purchasing procedures in the six departments are effective to provide reasonable assurance that purchases made off contract for less than $50,000 were made appropriately with respect to Fiscal Directive 6. However, some purchase requisitions sampled were missing quote information or header information detailing attempted disadvantaged vendor solicitation.

A draft report was provided to the Acting Purchase Administrator for comment and her response is included. We appreciate the cooperation and assistance provided by the Purchasing and Contracts Division of the Finance Department.

Sincerely,

/s/ Angela M. Darragh

Angela M. Darragh, CPA
Audit Director

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BACKGROUND

County departments initiate the purchasing process for purchases under $50,000 that are not subject to an already established contract. Once a specific need for the purchase of an item under $50,000 is identified as not covered by a contract, the department making the purchase enters a purchase requisition into SAP. The department making the purchase is responsible for soliciting vendors and choosing the winning bid. Fiscal Directive 6, updated on April 24, 2012, is used as a guide for how many bids are needed for specific dollar purchase amounts.

In addition to presenting the guidelines for number of bids needed for purchases, Fiscal Directive 6 also introduced the inclusion of disadvantaged vendors as part of the solicitation process for purchases that fall within a certain dollar range. Disadvantaged vendors include those local small businesses owned by minorities, women, physically challenged individuals, or veterans.

The department enters the purchase requisition into SAP with all applicable quote information attached as necessary. The purchase requisition is then routed to the department head for approval. After approval, the requisition is reviewed by Finance and the Purchasing Analyst. If all necessary information is correct and included, and all appropriate quotes or relating information is attached, the Purchasing Analyst then creates the purchase order in SAP.

In general, most departments are aware of which vendors to contact during solicitation. If additional vendors are needed, the departments may contact Purchasing for assistance. Likewise, Purchasing may also be contacted for assistance if the department has difficulty locating a disadvantaged vendor that might be able to supply the need.

Purchasing maintains a listing of disadvantaged vendors on the County intranet for departments to utilize. The County also conducts events where potential vendors can register with the County for possible inclusion in future solicitation.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to determine whether procedures at selected departments were operating effectively to provide reasonable assurance that departmental procurements not covered by a contract and under $50,000 are (1) appropriately solicited, receive fair

consideration, and (2) are properly documented and forwarded to Purchasing for review.

In order to determine Purchasing and Departmental responsibilities for procurement solicitation and evaluation, we reviewed Fiscal Directive 6 and the Purchasing and Contracts Division training material presented to County departments in June 2012. In addition, we interviewed selected department heads and appointed liaisons regarding departmental purchasing procedures and policies.

We selected six departments to audit because the departments exhibited significant size and frequency of purchase orders created in the first quarter fiscal year 2013 for less than $50,000 each. These selected departments were:

- Automotive
- Fire Department
- Information Technology
- Parks and Recreation
- Public Works
- Real Property Management

In order to assess the design and effectiveness of departmental internal control, we reviewed department policies and procedures through discussion with department heads and purchasing liaisons. We also sampled 175 purchase order documents created from July 1, 2012, to December 31, 2012, to determine if policies and procedures set forth by Fiscal Directive 6 are working as intended. Additionally, we reviewed vendors with high purchasing activity during July 1, 2012, to December 31, 2012, to determine if the correct amount of quotes were obtained and the proper supporting documentation was included. The last day of fieldwork was March 27, 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS IN BRIEF

Overall, we found that the controls over purchasing procedures in distributed departments are effective to provide reasonable assurance that purchases made off contract for less than $50,000 were made appropriately with respect to Fiscal Directive 6. However, some purchase requisitions sampled were missing quote information or header information detailing attempted disadvantaged vendor solicitation.

DETAILED RESULTS

Purchase Requisition Information Incomplete

For the purchase order to be created by the Purchasing Analyst, the purchase requisition should contain complete quote information and header notes.

During detailed testing we found 40 instances in the total test population of 175 (22.86%) where quote information attached to the purchase requisition was incomplete.

Recommendation

1. Provide follow-up training on Fiscal Directive 6 and purchasing procedures to assist all Clark County Departments in providing the necessary information that should be contained in purchase requisition header notes.

Disadvantaged Vendor Documentation

Throughout testing, we noted that several purchase requisitions that required one or more quotes from a disadvantaged vendor, as required by policy, did not include a disadvantaged vendor quote. Additionally, the header notes did not contain information regarding why quotes from a disadvantaged vendor could not be obtained. We found 23 instances in a population of 155 purchase requisitions and purchase orders (14.84%) where the attempt to contact or obtain appropriate disadvantaged vendor quotes was not documented in the purchase requisition header.

Fiscal Directive 6 requires that disadvantaged businesses are given an opportunity to participate in the Clark County purchase process. Without proper header notes, it cannot be determined if departments are in compliance with County policy. We further contacted departments for additional documentation not included in the

purchase requisition header, but no additional information was available to support compliance with the policy.

Recommendation

1. Provide follow-up training on Fiscal Directive 6 to assist all Clark County Departments to provide the necessary information in the header notes to document disadvantaged business contact.

2. Require that documentation of quotes be maintained in accordance with County record retention guidelines.

Quote Process Separation of Duties

Quotes are being solicited and awarded by the same individual or group of individuals. A policy does not exist stating that there should be a separation of duties between the solicitation for quotes and selection of the winning quote. Additionally, the current policy does not require that all vendors solicited are documented in the purchase requisition.

Recommendation

1. Update purchasing policies and procedures to include procedures that will separate the solicitation and awarding of the bid to different individuals within the department.

APPENDICES
Appendix A: Management Response

Department of Finance
Purchasing and Contracts

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George W. Stevens, Chief Financial Officer
Adleen B. Stidhum, Acting Purchasing Administrator

July 26, 2013

Angela M. Darragh, Audit Director
Clark County Audit Department

Subject: Decentralized Purchasing Audit

Below is Purchasing's response to the Decentralized Purchasing Audit.

FINDING (Ref 1) - Purchase Requisition Information Complete

For the purchase order to be created by the Purchasing Analyst, the purchase requisition should contain complete quote information and header notes. During detail testing we found 40 instances in the total test population of 175 (22.85%) where quote information attached to the purchase requisition was incomplete.

RECOMMENDATION:

Audit recommends that Purchasing provides follow-up training on Fiscal Directive 6 and purchasing procedures to assist all Clark County Departments in providing the necessary information that should be contained in purchase requisition header notes.

CORRECTIVE ACTION:

The Purchasing Analysts will follow up with departments to ensure all documentation is attached to the PR in SAP. PRs will not be converted to POs until all the documentation has been received.

FINDING (Ref 2) – Disadvantaged Vendor Documentation:

Throughout testing, we noted that several purchase requisitions that required one or more quotes from a disadvantaged vendor, as required by policy, did not include a disadvantaged vendor quote. Additionally, the header notes did not contain information regarding why quotes from a disadvantaged vendor could not be obtained. We found 23 instances in a population of 155 purchase requisitions/purchase orders (14.84%) where the attempt to contact or obtain appropriate disadvantaged vendor quotes was not documented in the purchase requisition header. Fiscal Directive 6 requires that disadvantaged businesses are given an opportunity to participate in the Clark County purchase process. Without proper header notes, it cannot be determined if departments are in compliance with County policy. We further contacted departments for additional documentation not included in the purchase requisition header, but no additional information was available to support compliance with the policy.

RECOMMENDATION:

Audit recommends that Purchasing provides follow-up training on Fiscal Directive 6 to assist all Clark County Departments to provide the necessary information in the header notes to document

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DONALD G. BURNETTE, County Manager

disadvantaged business contact. Additionally, Audit recommends that Purchasing requires that documentation of quotes be maintained in accordance with County record retention guidelines.

CORRECTIVE ACTION:

Training will be conducted annually for the Clark County Department's employees who are new or reassigned to obtain quotes. The Department Managers may require employees who previously attended the class to attend as a refresher. During the training, a quote process manual is provided that includes the revised Fiscal Directive No. 6 with adjusted dollar thresholds and the disadvantaged business quote requirements. The manual also includes a variety of quote form examples based on the goods and services or professional services needs and header note examples to use as a guide for how to enter information in the Purchase Requisition header explaining why quotes could not be obtained by a disadvantaged business. A signed agreement is required by all staff authorized to obtain quotes for their department agreeing to follow the quote process. These agreements must be signed by the Department Head and copies shall be maintained by the Department and Purchasing. Copies of the quote documentation will be scanned to the Purchase Requisition by the Departments and maintain in accordance with County record retention guidelines.

FINDING (Ref 3) – Quote Process Separation of Duties:

Quotes are being solicited and awarded by the same individual or group of individuals. A policy does not exist stating that there should be a separation of duties between the solicitation for quotes and selection of the winning quote. Additionally, the current policy does not require that all vendors solicited are documented in the purchase requisition.

RECOMMENDATION:

Update purchasing policies and procedures to include procedures that will separate the solicitation and awarding of the bid to different individuals within the department.

CORRECTIVE ACTION:

The Purchasing Analysts/Specialists will receive, review and act as the final award authority of the quotes provided by the Departments. Should there be any discrepancies with the quotes submitted by the Departments; the Purchasing Analyst will work with the Department to obtain accurate quotes prior to final award and generation of a Purchase Order.

Please feel free to contact me should you need additional information or clarification.

Sincerely,

Adleen B. Stidhum

Adleen B. Stidhum
Acting Purchasing Administrator

cc: Paul McPhee
Cynthia Birney