

Audit Report

Clark County Water Reclamation District Tools and Small Equipment Expenditures

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

Audit Department
Clark County, Nevada





Audit Department

500 S Grand Central Pkwy Ste 5006 • PO Box 551120 • Las Vegas NV 89155-1120
(702) 455-3269 • Fax (702) 455-3893

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



August 5, 2011

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

Dear Mr. Burnette:

As requested by Clark County Water Reclamation District (District), we conducted an audit of small tools and equipment purchases at the District. The audit objectives were to determine if internal and management controls over the purchasing of tools, small equipment, and materials are appropriate, controls are in place to provide proper use of corporate credit cards and vendor charge accounts, and purchases were company related and properly recorded in the general ledger. Our procedures covered the period January 1, 2009, through December 31, 2010. These procedures included performing a preliminary survey, analyses, and test of transactions on a sample basis.

Controls over the purchase of tools, small equipment, and materials are not adequate to protect District assets. Employees are allowed to purchase and pick up merchandise using a corporate credit card or a company issued purchase card. These purchases are not receipted through the material control warehouse, resulting in an increased risk that purchases are not business related. The purchase approval process for corporate credit cards and vendor charge accounts is done after the purchase is made. Therefore, it is difficult to ensure that purchased items are in accordance with policy and for the benefit of the District and not the employee. Lastly, purchased goods and materials are not being properly recorded in the general ledger.

A draft report was provided to the District for comment and their response is included. We appreciate the cooperation and assistance provided by the Water Reclamation District.

Sincerely,

/s/ Angela M. Darragh

Angela M. Darragh, CPA
Acting Audit Director

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BACKGROUND The operation of the Clark County Water Reclamation District (District) treatment facility consists of many different divisions. One of those divisions is Centralized Maintenance Services. This division is comprised of five departments: Material Controls, Facilities and Electrical, Fleet Maintenance, Instrumentation & Control Systems, and Plant/Lift Station Maintenance. These departments provide general and specific maintenance to plant facilities and plant automotive vehicles.

Material Control provides a central warehouse for the receipt and storage of materials. In order to provide the necessary maintenance, these departments require tools, parts, and materials to make repairs to existing equipment, to maintain existing buildings, or to complete remodeling projects. Within these five departments are SIP's (selected input person designated by the Business Center Manager) who enter purchase requisitions into Maximo, the District's procurement system.

The purchase requisition is an authorized document identifying the materials and or services needed to support District operations. Within Maximo, purchase requisitions are approved electronically based on the District's signature authority.

Maximo is interfaced with the Oracle system which is the District's Financial/accounting system. The approved purchase requisitions are sent to Oracle and converted into purchase orders by the buyer, an individual in the Purchasing and Contracts Division who has been delegated specific authority to issue purchase orders for materials and/or services on behalf of the District.

**OBJECTIVES, SCOPE, AND
METHODOLOGY**

The objectives of our audit are to determine if:

- Internal and management controls over the purchasing of tools, small equipment, and materials are appropriate.
- Controls are in place for proper use of corporate credit cards and vendor charge accounts.
- Employees are complying with current controls and purchases are company related.
- Purchases are properly recorded in the general ledger.

To achieve our objectives, interviews were conducted with various individuals to gain a general understanding of the District's procurement process and Maximo system. Additionally, we reviewed purchasing policies and procedures along with applicable Nevada Revised Statutes. Interviews were conducted to determine how corporate credit cards and vendor charge accounts are used. We obtained purchase requisition information from Maximo for calendar year 2009 and 2010. Using Maximo purchase requisition information

and vendor invoices, we selected a sample of tool purchases and performed an observation to locate the tools. We examined purchase requisitions to determine if approvals are in accordance with District signature authority and if purchases were properly recorded in the general ledger. Lastly, purchase card transactions were reviewed to determine if they followed District purchase card policy.

Our procedures covered the period January 1, 2009, to December 31, 2010, and our last day of fieldwork was March 18, 2011.

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

Controls over the purchase of tools, small equipment, and materials are not adequate to protect District assets. Employees can purchase and pick up merchandise using a corporate credit card or a company issued purchase card. These purchases were not receipted through the material control warehouse, resulting in an increased risk that purchases are not business related. The purchase approval process for corporate credit cards and vendor charge accounts is performed after the purchase is made. Therefore, it is difficult to ensure that purchased items are in accordance with policy and for the benefit of the District and not the employee. The workflow approval process in Maximo should include additional levels of review to provide assurance that District purchases are necessary and proper. Lastly, purchased goods and materials are not being properly recorded in the general ledger. Additional details of the findings are disclosed in the following sections of the report.

DETAILED RESULTS

Corporate Credit Cards and Vendor Charge Accounts

Listing of Corporate Credit Cards Not Maintained

The District maintains a listing of corporate credit cards for Bank of America cards issued to employees. However, no such listing was maintained for Home Depot charge cards. The District has had a Home Depot corporate credit account since May 21, 1998, when two corporate credit cards were issued. This initial account has been closed. A second active account was subsequently established with a credit line of \$12,700. An employee listing of issued cards could not

be provided, as the District did not maintain such a listing. Our examination of the cards disclosed that the cards are embossed with the employee name and are issued to employees that work in Purchasing (one employee), Centralized Maintenance (five employees), Plant Operations (two employees), and Laughlin (one employee). One card is embossed with the name of "Purchase Order", basically a generic card. Two cards, 00004 and 00014, were not included in the collected cards. It is unclear if these cards were issued or lost. Without a current listing, the accounts payable clerk is unable to verify the Home Depot purchases are made by an approved District employee.

Recommendation We recommend that for any future accounts, cards are assigned to specific individuals and a listing is maintained of these individuals and their assigned card number. Purchases can then be attributed to specific individuals to prevent misuse.

Insufficient Controls Over Home Depot Credit Cards We found that controls over the use of the Home Depot credit card are insufficient to protect against inappropriate use. On September 1, 2009, a Board of Trustee agenda item was presented and approved for the General Manager to utilize the County of Maricopa, Arizona U.S. Communities Master Agreement with HD supply Facilities Maintenance, and Home Depot Supply Wholesale for the purchase of maintenance, repairs, and operating supplies. Even though a contract existed and established procurement procedures are in place, i.e. purchase orders, employees were allowed to make and pick up purchases at Home Depot using the credit card. Upon purchase, the employee receives a special services customer invoice that is given to the SIP (selected input person) to begin the purchase requisition process and workflow approvals in Maximo. However, the approval for the purchase is performed after the purchase is made; the merchandise is not received through the warehouse, and the merchandise is not tagged or inventoried. This process does not provide any control that the purchased merchandise from Home Depot is strictly for business purposes and not being used for personal benefit.

Recommendation We recommend that all Home Depot purchases are preformed through the established purchase requisition/purchase order process and receipted through the warehouse.

Home Depot Multiple Trips, Splitting of Transactions During our review of four months of Home Depot invoices, we found fourteen days in which employees made multiple same day trips to Home Depot. Generally, a trip was made in the morning and the afternoon. Additionally, on two of the trips, it appears that transactions were split to avoid the need of the assistant manager's approval. Multiple trips decrease the employee's productivity;

increases fuel costs, and indicate a lack of project planning. Split transactions bypasses the approval process, so purchases can be made that might otherwise not be approved.

Recommendation We recommend that the Finance Business Center Manager collect all Home Depot cards and close the credit card account. Employees should not be allowed to pick up merchandise from the store. Additionally, all future Home Depot purchases should be completed using the established purchase requisition/purchase order process and all Home Depot and other vendor purchases should be receipted through the warehouse.

Unnecessary Lowes Corporate Credit Card We also noted a Lowe's credit card with a credit line of \$24,000 in the name of the Clark County Water Reclamation issued to a Purchasing Technician II employee. The actual card is in the custody of the Finance Business Center Manager. We could not determine how long this account has been open, how many cards may have been issued on the account, or even how the account was established. However, we reviewed several Lowe's statements and found that each purchase had a purchase order number attached to the purchase. It appears that all Lowes purchases were done using establish procurement procedures. There is no business reason to have a Lowe's credit card.

Recommendation We recommend that the Finance Business Center Manager close the Lowe's account. Additionally, we recommend that management consider obtaining a company credit history report to determine what credit has been issued in the District's name and what credit risks may exist for the District.

Purchase Card Policy Not Followed District employees are not following policy for the use of Bank of America Purchase Cards. Policy states that the purchase cards are assigned to employees and will be used for emergency purchases, for District approved travel, and for Internet purchases. Also, it states that the purchase card must not be used for contracted commodities, contracted services, or personal use and the card cannot be used to avoid or bypass the District's established purchasing process. Our review of vendor purchases for fiscal year 2010 disclosed that policy is not being followed. We noted the following:

- Purchases made from Best Buy, Michaels, Wal-Mart, and Sam's Club. These would not be considered emergency purchases.
- The District has contracts with Grainer, Home Depot, and Staples. However, purchases were made using a purchase card from Grainer (\$6,420), Home Depot (\$1,551), Office Depot (\$2,929), Office Max (\$753), and Staples (\$1,076).
- Sales tax in the amount of \$371 was paid on purchase card

expenditures.

- A cursory review of purchase card activity disclosed that several transactions should have been purchased using a purchase order.

Because non-emergency purchases are not critical to an immediate activity or outcome, there is an opportunity to plan for these purchases and therefore an opportunity to prevent inappropriate purchases. By not following established policy and procedures, the opportunity exists for potential abuse of the purchase cards.

Recommendation We recommend that the District specify and communicate policies and procedures that (1) direct individuals toward appropriate uses of business cards by adding specificity and formalizing acceptable non-emergency purchases, and (2) prevent inappropriate card use by formalizing an approval process prior to the use of a card in non-emergency situations. The current purchase card policy is issued by Financial Services. Current monitoring has been limited, but we suggest that the Bank of America Transaction report be printed and reviewed monthly by the Finance Business Center Manager to determine compliance with policy. Purchase cards should be cancelled for those employees who consistently violate policy.

Tools and Small Equipment Purchases

Tool Purchases Excessive or Could Not Be Located As part of our detailed testing, we selected 70 purchases of tools and small equipment purchases from Home Depot, Grainger, Lowe's and other vendors and performed an observation to locate the purchases in the plant area. The sample selection, based on auditor judgment, was 46% Home Depot, 23% Grainger, 10% Lowe's, and 21% other vendors. The Home Depot purchases were made using corporate credit as described above. The other vendor purchases were completed using a purchase order. We noted the following:

- A refrigerator in the amount of \$1,719 was purchased for a lunch room. Previous purchases of refrigerators were in the price range of \$500 to \$600 for other lunch rooms. The model purchased appears to be excessive.
- Funds in the amount of \$3,710 were spent for tools and small equipment that have not been used. For example, a pressure washer (\$399), a 15" planer (\$1,400), and a Router Table System (\$449).
- Ten tools purchased could not be located in the plant or maintenance shop area. This represents a 4% error rate and a dollar value of \$4,670.

- An inventory listing of tools and small equipment is not maintained for the maintenance shop area, employees that are assigned tools, or tools located on District trucks.
- None of the purchased items are tagged as property of the Clark County Water Reclamation District.

Without the proper accountability and oversight, the District is not fulfilling its responsibility to safeguard and protect assets.

Recommendation We recommend that Purchasing and Contracts enforce the District policy requiring that all District purchases, except for emergencies, are initiated with a purchase order and receipted through the warehouse. This will assist in management oversight and help prevent employees from making unnecessary or excessive purchases. Tools need to be checked in and out of a secured tool room to assist in accountability of tools. Additionally, an inventory listing should be maintained for tools assigned to employees and tools located on District trucks. Management needs to establish a dollar value in which tool purchases meeting or exceeding this value will be tagged as property of the District.

Duplicate Tool Purchases We examined invoices from Grainer and Home Depot for the period of January 2010 to December 2010, and noted that similar tools were purchased on separate days. The following table provides an example of the duplicate tool purchases.

Item #	Date	Invoice No.	Description	Quantity	Amount
1GED2	09-Aug-10	9338467195	Keyless Impact Chuck, 3/8/ In	2	\$59.26
1GED2	04-Aug-10	9331088659	Keyless Impact Chuck 3/8 In	3	\$88.89
1YBR5	09-Aug-10	9338467195	Tool Tote™, 15 1/2 WX7, 1/2 D, 12 Pocket	2	\$146.00
1YBR5	04-Aug-10	9331088659	Tool Tote™, 15 1/2 WX7, 1/2 D, 12 Pocket	2	\$146.00
2AEX8	09-Aug-10	9338467195	Impact Ready Driver Set, 1/4 IN, 38 PC	2	\$63.22
2AEX8	04-Aug-10	9331088659	Impact Ready Driver Set, 1/4 IN, 38 PC	1	\$31.61
2DEZ4	23-Aug-10	9337566427	Adj Wrench, X-Capacity,6,PL-DIP HNDL	2	\$55.08
2DEZ4	01-Sep-10	9345423223	Adj Wrench, X-Capacity,6,PL-DIP HNDL	2	\$55.08
2DEZ5	23-Aug-10	9337566427	Adj Wrench, X-Capacity,8,PL-DIP HNDL	1	\$22.00
2DEZ5	01-Sep-10	9345423223	Adj Wrench, X-Capacity,8,PL-DIP HNDL	2	\$44.00
3HFW7	09-Aug-10	9338467195	Cordless Combination Kit 18 V, 6 PC	2	\$1,186.20
3HFW7	04-Aug-10	9331088659	Cordless Combination Kit, 18 V 6 PC	1	\$593.10

Total Grainer and Home Depot duplicate purchases were \$5,394 and \$198 respectively. A review of two specific purchase requisitions disclosed that the same supervisor and assistant manager approved the requisition. It is possible that the purchases were reasonable and necessary. However, it appears that District funds may have been spent on tools previously purchased.

Recommendation We recommend that all purchase requisitions are reviewed by department managers to ensure that purchases are appropriate and necessary. The District has implemented a policy to have department managers review all purchase requisitions.

Work Flow Approval Limits Too High The workflow approval process within Maximo is weak and needs improvement. For purchase requisitions of \$2,500 or less, the SIP person will enter the purchase requisition, the supervisor approves the requisition, and the purchasing analyst converts to a purchase order. In some cases, the supervisor is the SIP who enters the purchase requisition and then approves it. Although the purchasing analyst has the ability to review the purchase requisition, that person does not review it for reasonableness. For purchases of \$10,000 or less, one additional approval is required, the assistant manager. It is not until a purchase exceeds \$10,000 that a third level of approval is required. As currently designed, the risk of employees working together is increased since only two approvals are required on purchases up to \$10,000.

Recommendation We recommend that the Information Technology Department under the direction of Purchasing and Contracts make changes to the workflow approval process. Management should consider an approval process that has the assistant general manager of each department reviewing and approving all purchase requisitions regardless of dollar amount.

Assets Expensed Rather Than Capitalized During our detailed testing we found that from a sample size of 40 purchase requisitions, 30 (75%) were not properly capitalized in accordance with District policy. Policy states that purchased or constructed assets with a unit cost of \$5,000 or more and a useful life of longer than one year will be charged to the appropriate capital account. As a result, the department's operational and maintenance budget are used at a faster rate, since items that should be capitalized and depreciated over time are immediately expensed. Additionally, total net asset value is understated and financial statement income is understated since the expenses are overstated.

Recommendation We recommend that all purchase requisitions be reviewed by the assistant general manager and properly capitalized in accordance with District policy. In addition to the assistant general manager reviewing purchase requisitions, a financial or budget analyst is part of workflow approval process. This would help to ensure that those purchases that qualify under District policy are capitalized and that general ledger coding is correct.

**Purchasing Employees
Creating Purchase
Requisitions**

For the audit period, there were 112 purchase requisitions that were created by employees that work in Purchasing and Contracts Division. Additionally, there were 22 purchase requisitions in which the person that created the purchase requisition is also the buyer for that requisition. This is a segregation of duties issue and a weakness in purchasing internal controls. The buyers should not have the ability to create purchase requisitions since this could increase the risk of unauthorized purchases. The functions of authorization, recording, and custody of assets must be performed by different individuals to assist the District in providing proper controls over the purchasing function.

Recommendation We recommend that the buyer's ability to create a purchase requisition be removed by the Information Technology Department. While we understand the Purchasing Division may need to create purchase orders for items such as office supplies or temporary staffing, this should be restricted to an administrative person who does not have other purchasing related duties.

Maximo

*Maximo Approval Limits
Non-Compliant with Policy*

Approval limits set up in Maximo are based on a signature group, i.e. General Manager, Finance, Assistant General Manager, Assistant Manager, Business Center Manager, and Supervisor. The signature approval authority limit in Maximo should be the same as the approval authority for purchase requisitions as established by policy for each of the signature groups. However, we found that the General Manager group (2 employees) was set up with a limit of \$1,000,000,000 and the Finance group (7 employees) was set up with a limit of \$100,000,000. These signature limits are not within the range established by current purchasing policies. Limits should be \$25,000 for the General Manager Group and \$10,000 for the Finance Group per policy. Additionally, we noted one individual that was set up as a Business Center Manager (\$10,000 limit), but is actually a Supervisor (\$2,500 limit) and one individual was listed as a Supervisor but is a Business Center Manager. Having excessive signature limits or limits not in accordance with policy weakens the internal control system by creating a condition where individuals could approve purchases significantly above their actual approval limits.

Recommendation We recommend that the Information Technology Department correct the Maximo approval limits so that they mirror the limits per policy. We also recommend that Maximo purchase requisition approval limits be reviewed by the purchasing and contracts supervisor quarterly. Additionally, if changes are made to the approval limits, the Information Technology Supervisor or Finance Business Center Manager should follow up and ensure that staff is making the required

changes. Documentation should be maintained to provide evidence of the review process.

Maximo Purchase Requisition Gaps For the date range of January 1, 2009, to December 31, 2010, there are 4,759 missing purchase requisition numbers. Within Maximo, there are two ways to create a purchase requisition, pull up an existing purchase requisition and use the software feature of "duplicate with auto number" or use the "new PR with auto number" feature. Under the "duplicate with auto number" feature, if the user cancels the purchase requisition, the system will save the record, i.e. the purchase requisition number, but the status will show cancelled for this record number (purchase requisition number). If the purchase requisition is created using "new PR with auto number" but the user cancels the transaction, the system will not save the record nor will it show a cancel status for the record number. That record number is lost and the next record number will be assigned. This lost record creates the gap within the sequence of numbers. This explanation makes sense for the smaller gaps in the records, but not the larger gaps, i.e. a gap of 1,144 between record number 53873 and 55018. Record gaps causes concern for data integrity. For example, a purchase requisition could be issued, turned into a purchase order, the item obtained and then the purchase requisition and purchase order is deleted to erase any evidence of the item. This is a system weakness since all record numbers cannot be tracked.

Recommendation We recommend that anytime a purchase requisition is cancelled, the status of that purchase requisition number is reflected as cancelled. The District should make inquiries with Maximo to determine if it is possible to show a cancelled status for a purchase requisition created with the auto number feature rather than the purchase requisition number disappearing. Also, the District may consider turning off the "new PR with auto number" feature. At the very least, a monthly report should be generated from Maximo listing all purchase requisition numbers and reviewed by the Finance Business Center Manager to account for any missing numbers.

Maximo Duplicate Requisition Number For the audit period, there are thirteen duplicate purchase requisition numbers. The duplicate numbers are due to the buyer not selecting all line items on the purchase requisition before converting the purchase requisition into a purchase order. Rather than voiding the purchase order, the buyer would go back to the purchase requisition, select the one line item not previously selected, and convert that line item into a purchase order. This will result in a duplicate purchase requisition record and a second purchase order number being assigned to that record. Having duplicate record numbers increases the concerns over the validity of the data and potential duplicate purchases.

Recommendation We recommend that the Purchasing and Contracts Supervisor provide staff with training to remind them to select all line items on the purchase requisition before converting it to a purchase order.

APPENDICES

Appendix A: Management Response Letter



Management's Response Letter

March, 2011 Audit

Clark County Water Reclamation District (District) sincerely appreciates the level of effort required by your department to complete this audit. District staff appreciates your quick response to our audit request. This was a very thorough audit and as such, identified some areas of weakness in our procurement and controls of tools and equipment that we plan to address as outlined in the following responses to identified issues. We would like to thank you and all of your staff that participated in completing this audit and look forward to working with you in the future.

Management Responses to Audit Findings

1.0 Corporate Credit Cards/Vendor Store Credit Cards/Bank Purchase Cards

Issue 1.1 Listing of Corporate Credit Cards Not Maintained

The District does not maintain a listing of employees who have been issued a corporate/vendor credit card.

Recommendation: If any accounts are opened in the future, cards are assigned to specific individuals and a listing is maintained of these individuals and their assigned card number.

Management's Response: The District's purchasing department procured multiple vendor credit cards from Home Depot and one from Lowes for use to staff in the maintenance department. Subsequent to this audit all Home Depot and Lowes cards have been revoked and destroyed by the Finance Business Center Manager. The District's purchasing department may open vendor accounts in the future; however, any vendor credit application and/or vendor credit cards must be approved by the Finance Business Center Manager. All credit card purchases will be monitored by the Finance Business Center Manager monthly to ensure the appropriate procurement process is followed. Any vendor credit cards will be assigned to specific employees to increase a higher level of control and to reduce potential risk. The accounting department supervisor will maintain a listing of all vendor/corporate credit cards issued in the future.

Issue 1.2 Insufficient Controls Over Home Depot Credit Cards

Controls over the use of the Home Depot credit card are insufficient to protect

against inappropriate use. Even though a Home Depot contract existed and established procurement procedures was in place, employees were allowed to make and pick up purchases at Home Depot using the credit card.

Recommendation: All Home Depot purchases are done through the established purchase requisition/purchase order process and receipted through the warehouse.

Management Response: District maintenance staff has been directed to follow the District's procurement process by completing a purchase requisition which will be processed into a purchase order. Upon receipt of the accompanying purchase order the staff member may order the item(s) from Home Depot and the warehouse staff, through an established will-call procedure, will then pick up the ordered supplies, verify against the purchase order and receive each item into the District's procurement receipt process. Unauthorized purchases are prohibited. Purchases made for purposes other than official District business may result in personal liability and disciplinary action [review of this practice is currently being reviewed by District Counsel].

Issue 1.3 Home Depot Multiple Trips, Splitting of Transactions

Multiple same day trips to purchase supplies at Home Depot were found. Multiple trips decrease the employee's productivity; increases fuel costs, and indicate a lack of project planning. Split transactions bypasses the approval process, so purchases can be made that might not otherwise are approved.

Recommendation: The Financial Business Center Manager of the District collects all Home Depot cards and closes the credit card account. Employees should not be allowed to pick up merchandise from the store. All future Home Depot purchases should be completed using the established purchase requisition/purchase order process and all Home Depot and other vendor purchases should be receipted through the warehouse.

Management's Response: All vendor/corporate credit cards have been destroyed by the Finance Business Center Manager. The District has developed and implemented a policy to have department managers approve all departmental purchase requisitions in order to review all purchases prior to the purchase; this includes the supplies that are purchased with any type of credit/purchase card. All supplies purchases will be receipted through the warehouse in accordance with established policies. Unauthorized purchases are prohibited. Purchases made for purposes other than official District business may result in personal liability and disciplinary action [review of this practice is currently being reviewed by District Counsel].

Issue 1.4 Unnecessary Lowes Corporate Card

Lowe's credit card was issued with a credit line of \$24,000 in the name of Clark County Water Reclamation District to a purchasing department technician II employee. Auditor could not determine how long the account had been established, how many cards were issued, or how the account was established; however, the card was in the custody of the Finance Business Center Manager. It was determined through this audit that all Lowes purchases were done using the established procurement procedure, so there appeared to be no reason for the credit card.

Recommendation: The Finance Business Center Manager close the Lowe's account. Additionally, that management consider obtaining a company credit history report to determine what credit has been issued in the District's name and what credit risks may exist for the District.

Management's Response: This card has been revoked and destroyed. As recommended by auditor a credit report is currently being reviewed by the Finance Business Center Manager on a monthly basis. No other credit may be issued without the approval and monitoring by the Finance Business Center Manager. All vendor credit applications must be reviewed and signed by the Finance Business Center Manager. In addition, the Finance Business Center Manager has obtained a credit report from Experian and continues to monitor the District's credit.

Issue 1.5 Purchase Card Policy Not Followed

District employees are not following policy for the use of Bank of America Purchase Cards. Policy states that the purchase cards are assigned to employees and will be used for emergency purchases, for District approved travel, and for Internet purchases (books, IT uploaded software, etc). Purchase cards must not be used for contracted commodities, contracted services, or personal use and the card cannot avoid or bypass the District's established purchasing process. The auditor noted that the District's policy was not always followed.

Recommendation: The District specify and communicate policies and procedures that (1) direct individuals toward the appropriate uses of business cards by adding specificity and formalizing acceptable non-emergency purchases, and (2) prevent inappropriate card use by formalizing an approval process prior to the use of a card in non-emergency situations. The current policy is issued by HR and should originate with Financial Services since compliance will be monitored by this department. Current monitoring has been limited, but suggests the Bank of America transaction report be printed and reviewed monthly by the Finance Business Center Manager to determine compliance with policy. Purchase cards should be cancelled for those employees who consistently violate policy.

Management's Response: All purchases are to be implemented following the District's procurement policies and procedures. Following the recommendations of this audit, monthly purchase card statements are being reviewed and approved in writing by department managers. In addition, the Finance Business Center Manager reviews purchase card statements and receipts on a monthly basis to ensure compliance with policy. The purchase card policy is delivered to all employees when the purchase card is issued. Unauthorized purchases are prohibited. Purchases made for purposes other than official District business may result in personal liability and disciplinary action. This policy is currently under the review of District Counsel. Upon approval the policy will be distributed to all staff that has been issued any type of credit/purchase card. All District policies and fiscal directives are developed by the Finance Business Center Manager and the Human Resources Manager due to compliance that is necessary in each area. The Human Resources Department issues these policies through the District's District Administrative Manual.

2.0 Tools and Small Equipment Purchases

Issue 2.1 Tool Purchases Excessive or Could Not Be Located

Auditor completed testing of 70 purchases of tools and small equipment from various local suppliers. Home Depot items were purchased using corporate/vendor credit cards without following District policy as stated in earlier findings. All other items were purchased following the District's procurement policy and procedures. Auditor noted that purchases were made that potentially could have been purchased at a lower cost; some tools were purchased that have not been used; inventory of tools was not maintained; some tools could not be located; tools were not tagged with District name. Without the proper accountability and oversight, the District is not fulfilling its responsibility to safeguard and protect assets.

Recommendation: Purchasing and Contracts department should enforce the District's policy requiring that all purchases, except for emergencies, be initiated with a purchase order and should be receipted through the warehouse. This will assist in management oversight and help prevent employees from making unnecessary or excessive purchases. Tools should be checked in and out of a secured tool room to assist in accountability of tools. Additionally, an inventory listing should be maintained for tools assigned to employees and tools located on District trucks. Management should establish a dollar value in which tool purchases meeting or exceeding this value should be tagged as property of the District.

Management's Response: District policy states that all procurements are issued through a purchase requisition and purchase order process, and then all goods and supplies are received through the warehouse. Management will ensure this policy is followed by staff. A Standard Operating Procedure is being implemented on July 1, 2011, that will instruct staff of how tools are purchased, received, and issued. There is a secured area in the warehouse that stores tools that can be issued via a work order and returned to the secured area through the use of an electronic scanner system. The District's Information Technology Department is currently developing a tagging (scanning) system for small tools and equipment.

Issue 2.2 Duplicate Tool Purchases

Auditor examined invoices dated in 2010 from vendors Grainger and Home Depot and noted that almost the same tools were purchased on separate days. A review of two specific purchase requisitions disclosed that the same supervisor and assistant manager approved both requisitions. It is possible that the purchases were reasonable and necessary. However, it appears that money may have been spent on tools previously purchased.

Recommendation: All Purchase requisitions are reviewed by department managers to ensure that purchases are appropriate and necessary. The District has implemented a policy to have department managers review all purchase requisitions.

Management's Response: Department managers are now required to review all purchase requisitions within their department(s) which will increase controls in the area of tool purchases.

Issue 2.3 Work Flow Approval Limits Too High

Work flow approval process within Maximo is weak and needs improvement. For purchases of \$2,500 or less there is only one level of approval; the department supervisor may enter the purchase requisition and then approve it. The purchasing analyst reviews the purchase requisition but does not review the purchase requisition for reasonableness. For purchases up to \$10,000 there are two levels of approval needed. For purchases over \$10,000 there are three levels of approval needed. As currently designed, the risk of employees working together is increased since only two approvals are required on purchases up to \$10,000.

Recommendation: All purchase requisitions are reviewed by department managers to ensure that purchases are appropriate and necessary. The District has implemented a policy to have all department managers review all purchase requisitions.

Management's Response: The Maximo work flow approval limits are consistent with the District's Purchasing Policy and Procedures. However, following the audit recommendations, Department Managers must approve all departmental purchases, no matter the cost of the procurement, adding an additional approval level and reducing potential risk in the area of procurement.

3.0 Assets Expensed Rather than Capitalized

Issue 3.1 Assets Expensed Rather than Capitalized

During detailed testing auditor found that some purchased items were not properly capitalized in accordance with District policy. Policy states that purchased or constructed assets with a unit cost of \$5,000 or more and a useful life of longer than one year will be charged to the appropriate capital account. As a result, the District's operational and maintenance budget are used at a faster rate, since items that should be capitalized and depreciated over time are immediately expensed. Additionally, total net asset value is understated and financial statement income is understated since the expenses are overstated.

Recommendation: Auditor recommends that all purchase requisitions be reviewed by the assistant general manager and properly capitalized in accordance with District policy. In addition to the assistant general manager reviewing purchase requisitions, as noted above, a financial or budget analyst should also be part of the work flow approval process. This would help to ensure that those purchases that qualify under District policy are capitalized and that general ledger coding is correct.

Management's Response: District staff account for assets in accordance with District Capitalization Policy (March 2010) Asset Records – General Guidelines, B-4, which states that “asset component replacement items that do not significantly increase the value of the asset or significantly increase the useful life of the asset, at the time of replacement are deemed to be maintenance and will not be included in the District's asset records. Repairs and maintenance retain the value of an asset or avoid shortening the useful life of the asset.” It is believed the industrial pumps and large parts in question, though over the \$5,000 threshold, do not extend or add significant additional value to the larger asset, but only maintain the current life and value of the larger asset. However, following the audit recommendations, all District Managers are required to approve all departmental

purchases, the District's Budget Analyst will now review all procurements of \$5,000 and over; to ensure the District's Capitalization Policy is followed; a Standard Operating Procedure is currently being prepared by the budget analyst. Any additional approvals will occur in accordance with the District's Procurement Policies and Procedures. All purchases identified as an asset will also be approved by the Finance Business Center Manager.

4.0 Purchasing Employees Creating Purchase Requisitions

Issue 4.1 Purchasing Employees Creating Purchase Requisitions

For the audit period, there were 112 purchase requisitions created by employees that work in the Purchasing and Contracts department. Additionally, there were 22 purchase requisitions in which the person that created the purchase requisition is also the buyer for that requisition. This is a segregation of duties issue and a weakness in the purchasing internal controls. The buyers should not have the ability to create purchase requisitions since this could increase the risk of unauthorized purchases. The functions of authorization, recording, and custody of assets must be performed by different individuals to assist the District in providing proper controls over the purchasing function.

Recommendation: Auditor recommends that the buyer's ability to create a purchase requisition is removed by the Information Technology Department. While the auditor understands the Purchasing and Contract Department may need to create purchase orders for items such as office supplies or temporary staffing, this should be restricted to an administrative person who does not have other purchasing related duties.

Management's Response: Management agrees with auditor's finding. The District's Information Technology Department has removed the purchasing departments' buyers' ability to create purchase requisitions. Due to staffing issues, the Purchasing and Contracts Department's purchase requisitions for departmental purchases will be completed by an administrative staff member from another department.

5.0 Maximo Procurement System

Issue 5.1 Maximo Approval Limits

Approval limits set up in Maximo are based on a signature group, i.e. General Manager, Finance, Assistant General Manager, Business Center Manager, Assistant Manager, and Supervisor. The signature limit approval authority in Maximo should be the same as the approval authority for purchase requisitions as established by policy for each of the signature groups. However, the auditor found that the General Manager group (2 employees) was set up with a limit of \$1,000,000.000 and the Finance group (7 employees) were set up with a limit of \$100,000.000. These signature limits are not within the range established by current purchasing policies. Limits should be \$25,000 for the General Manager group and \$10,000 for the Finance group per the District's policy. Additionally, the auditor noted one individual that was set up as a Business Center Manager (\$10,000 limit), but is actually a supervisor (\$2,500 limit) and one individual was listed as a Supervisor but is a Business Center Manager. Having excessive signature limits or limits not in accordance with policy weakens the internal

control system by creating a condition where individuals could approve purchases significantly above their actual approval limits.

Recommendation: Auditor recommends that the Information Technology Department correct the Maximo approval limits so that they mirror the limits per policy. Auditor also recommends that Maximo purchase requisition approval limits be reviewed by the Purchasing and Contracts Administrator quarterly. Additionally, if changes are made to the approval limits, the Information Technology Supervisor or Finance Business Center Manager should follow up and ensure that staff has made the required changes. Documentation should be maintained to provide evidence of the review process.

Management's Response: The District's Information Technology Department (IT) has verified approval limits within Maximo are correct and match the District's Procurement Policies and Procedures. However, in accordance with the audit recommendations, a quarterly report has been developed and will be automatically generated on the first of each fiscal quarter beginning July 1. This report will be reviewed by the Sr. Purchasing Analyst on the first Monday of each quarter in the fiscal year to ensure that changes have not been made without proper authorization. The IT Department will only receive direction in writing from the District's Finance Business Center Manager to change spending limits for any specific staff level. District staff authority changes will be sent to the IT department in writing/email by the appropriate department manager.

Issue 5.2 Maximo Purchase Requisition Gaps

For the date range of January 1, 2009 to December 21, 2010, there were 4,759 purchase requisition numbers. Within Maximo, there are two ways to create a purchase requisition, pull up an existing purchase requisition (PR) and use the software feature of "duplicate with auto number" or use the "new PR with auto number" feature. Under the "duplicate with auto number" feature, if the user cancels the purchase requisition, the system will save the record, i.e. the purchase requisition number, but the status will show cancelled for this record number (PR number). If the PR is created using "new PR with auto number" and if the user cancels the transaction, the system will not save the record nor will it show a cancel status for the record number. That record number is lost and the next record number will be assigned. This lost record creates the gap within the sequence of numbers. This explanation makes sense for the smaller gaps in the records, but not the larger gaps, i.e. a gap of 1,133 between record number 53873 and 55018. Record gaps causes concern for data integrity. For example, a PR could be issued, turned into a purchase order, the item obtained and then the PR and the purchase order (PO) is deleted to erase any evidence of the item. This is a system weakness since all record numbers cannot be tracked.

Recommendation: The auditor recommends that any time a purchase requisition is cancelled, the status of that purchase requisition number is reflected as cancelled. The District should make inquiries with Maximo to determine if it is possible to show a cancelled status for a PR created with the auto number feature rather than the PR number disappearing. Also, the District may consider turning off the "new PR with auto number" feature. At the very least, a monthly report should be generated from Maximo listing all PRs and reviewed by the Finance Business

Center Manager to account for any missing numbers.

Management's Response: If a department PR input person determines a purchase is not needed or if the requisition is not saved, then the PR and its associated number is automatically deleted/cancelled and cannot be used in the future; no purchase order can be initiated from a deleted purchase requisition. Maximo 4.1.1., the District's current procurement system, does not have the ability to track the deleted/cancelled requisition numbers. However, at this time the District is in the process of updating the Maximo Procurement System and Oracle Financial System to more current versions. Staff will explore this opportunity during the system updates and if available will add a report that will allow for tracking for all deleted/cancelled purchase requisitions.

Issue 5.3 Maximo Duplicate Requisition Number Associated with a Purchase Order

For the audit period, there are 13 duplicate PR numbers. The duplicate numbers are due to the buyer not selecting all line items on the PR before converting the PR into a PO in the Oracle Financial software program. Rather than voiding the purchase order, the buyer would go back to the PR select the one line item not previously selected, and convert that line item into a separate PO. This will result in the appearance of a duplicate PR record and a second PO number being assigned to that record. Having duplicate numbers increases the concerns over the validity of the data and potential duplicate purchases.

Recommendation: The auditor recommends that the Purchasing and Contracts Administrator provide staff with training to remind them to select all line items on the PR before converting it to a PO.

Management Response: Staff verified with IBM (Maximo vendor) that Maximo cannot duplicate an automatically generated PR number. However, if a District's buyer creates multiple POs from one PR, there is the appearance of duplicate PR numbers referenced on multiple POs. For example, the buyer is able to create a PO using only one or two line items of the PR and then creating another PO using the rest of the line items from the PR. This may happen if the buyer finds an item with another vendor that meets District needs, but has a lower cost. The buyer does not have the ability to create multiple POs from one PR line item.