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CITY OF CORAL GABLES, FLORIDA

Internal Audit of Procurement Services

February 2019

Distribution:
Mayor and City
Commissioners



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EXECUTIVE SUMMARY

Overview

Crowe LLP (“Crowe” or “we”) performed internal audit procedures related to The City of Coral Gable’s Procurement processes. The objectives of the audit were to determine the existence and adequacy of internal controls; identify opportunities for operating efficiencies; verify compliance with established policies and procedures; and recommend improvements where needed.

Summary of Results

The following is a summary of our observations as a result of our procedures. We listed the opportunity for improvement and corresponding risk rating. Supplemental information can be found on page 7 of this report.

Process	Observation #	Audit Finding	Risk Rating**
Purchasing card	1	There is a lack of segregation of duties between card holders and the designated transaction approver. Purchasing card transactions were initiated and approved by the same individual.	High

**For explanation of *Risk Rating* determination, refer to page 3.

INTRODUCTION

Background

The Procurement Division is committed to providing best value results to the City and the public, through professionalism, effective procurement services of the highest ethical standards, and technological and strategic advancements to ensure open and fair competition, in accordance with Federal, State, County and Municipal laws.

The following thresholds are set out in the City's Procurement Code:

- Purchases of commodities and contractual services valued less than \$1,000 dollars may be made with a purchasing card.
- Purchases between \$1,001 and \$9,999 require a minimum of three (3) informal quotes.
- Purchases between \$10,000 and \$24,999 may be made after a minimum of three (3) different sources of supply have been solicited to provide formal written quotations.
- Purchases up to \$100,000 for supplies and services and up to \$25,000 in construction require City Manager Award, Invitation for Bid or Request for Proposal.
- Purchases with costs exceeding \$100,000 for supplies and services and exceeding \$25,000 for construction require City Commission Award, Invitation for Bid or Request for Proposal.

Scope

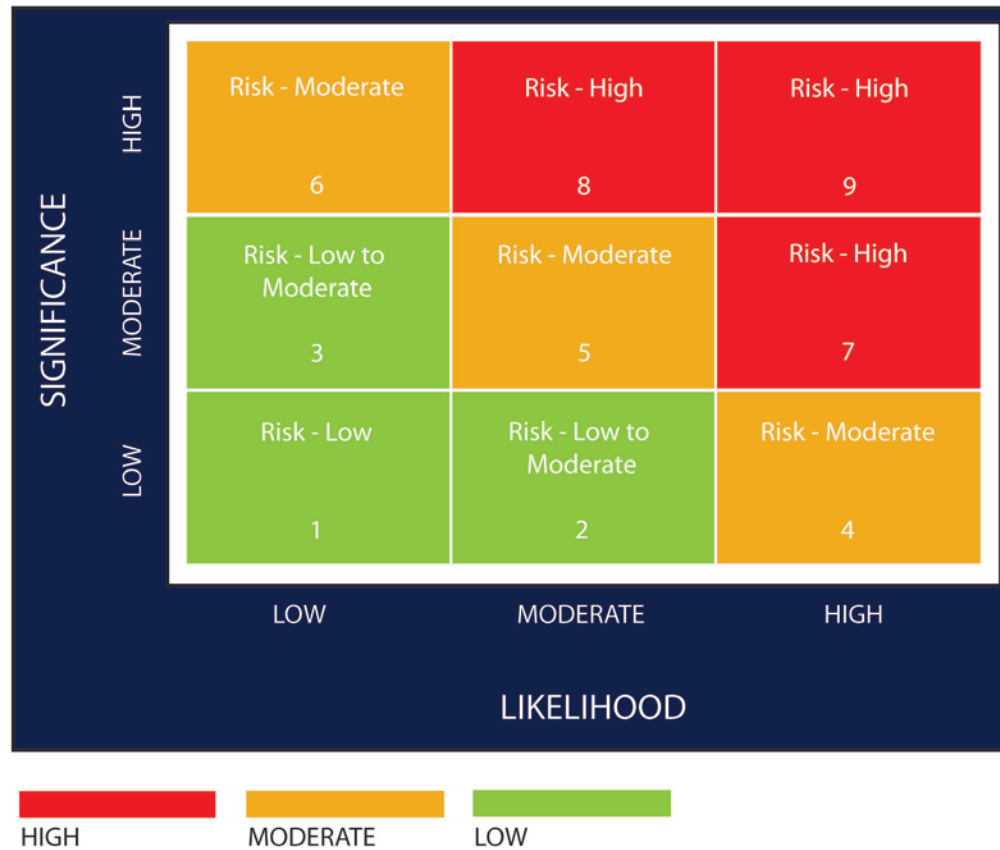
The scope of this audit included the following:

- Review of the controls over Purchasing and Procurement, with concentration on the following:
 - Requisition approval procedures
 - Purchase order procedures
 - Approval limits policy
 - Bidding policies and procedures
 - Purchase card procedures and reconciliations
- Evaluation of the effectiveness and efficiency of the work flow of requisitions, vouchers, and check request processes.
- Selection and testing of a sample of requisitions, vouchers, check requests, and contracts for compliance with applicable policies and procedures.
- Determining if IRS forms (i.e. Form 1099) are filed accurately and in a timely manner.
- Review of policies and procedures and other supporting documentation provided by the City.

RISK MANAGEMENT

Risk Management

Risks are evaluated based on its “significance” to management’s strategy and its “likelihood” to occur. This will result in a risk profile of the highest risks to the organization as presented below:



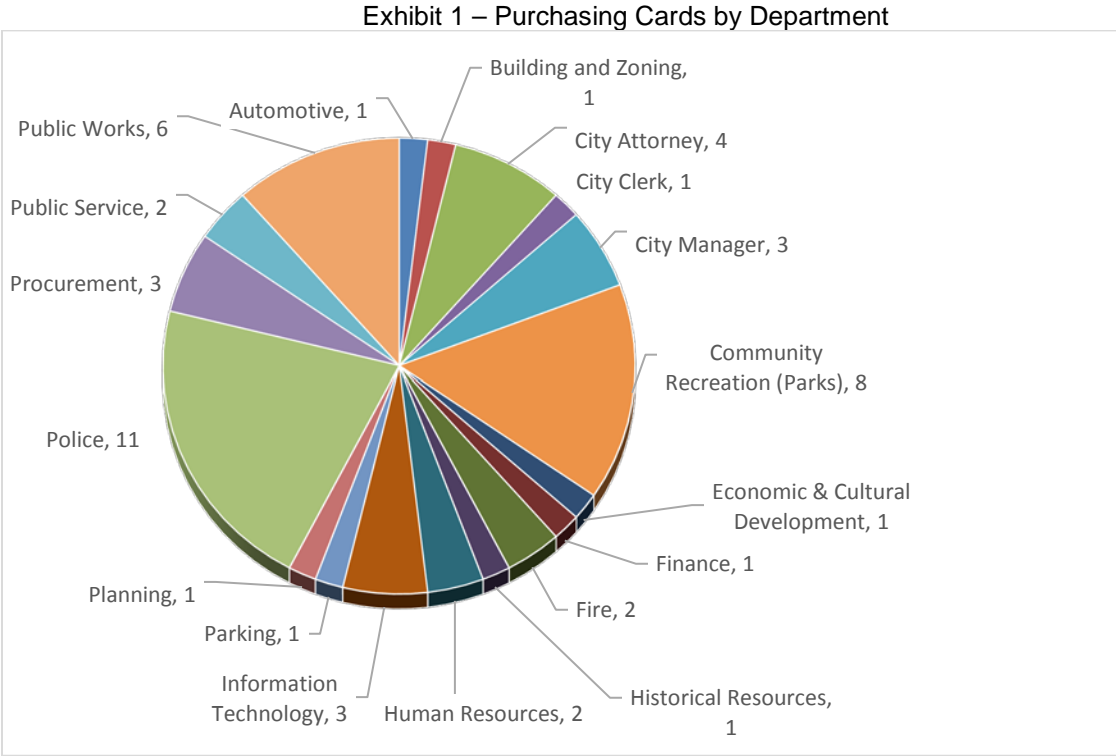
ADDITIONAL ANALYSIS

Analysis of P-Card Users and Limits

The City allows approved employees to carry a Purchasing Card (“P-card”) which acts like a credit card through a City SunTrust operating account. Employees request P-cards to be able to purchase goods needed for day-to-day operations as well as special occasions or emergencies. The individual cards are given single-purchase and monthly-purchase transaction cost limits for security reasons. The operating account also has a total credit line, which it cannot exceed. During our procedures, we analyzed various aspects of the P-card system.

At the time of the audit, the City had 52 active P-cards signed out to City employees. Four (4) departments represented more than 50% of the total population of active P-card holders: Police, Community Recreation (Parks), Public Works and City Attorney. See ‘Exhibit 1’ below for reference.

The majority of employees were given monthly-purchase limits of \$15,000. There were no individuals noted with limits above this threshold.



PROCEDURES PERFORMED

PROCEDURES PERFORMED	RESULTS
1) Gain an understanding of the internal controls over purchasing, procurement, and accounts payable processes through interview of key personnel.	<p>Crowe performed interviews and discussions over the course of the audit with the City. Additionally, we obtained and reviewed the most recent Procurement Code.</p> <p>Our understanding of policies and procedures were reviewed and tested throughout all aspects of the audit.</p>
2) Obtain and review the City's Purchasing and Procurement Policy and identify areas of internal controls related to the purchasing, procurement, and accounts payable process. Identify internal control testing procedures.	<p>Crowe obtained and reviewed the City's most recent Procurement Code and tested appropriate internal controls during purchasing, procurement, and accounts payable testing procedures.</p>
3) Select a sample of purchase orders for the fiscal year ending September 30, 2017 and test for operating effectiveness of controls.	<p>Crowe selected a sample of 20 purchase orders to test the operating effectiveness of internal controls. The sample included purchase orders from various departments and covered each of the procurement thresholds (refer to page 2).</p> <p>Crowe noted no control exceptions during the testing.</p>
4) Select a sample of bids for the fiscal year ending September 30, 2017 and test for compliance with bid requirement policies.	<p>Crowe selected a sample of 9 out of 15 bids to test the operating effectiveness of internal controls and compliance with bid requirement policies.</p> <p>Crowe noted no control exceptions during the testing.</p>
5) Select a sample of awarded contracts for the fiscal year ending September 30, 2017 and test for operating effectiveness of controls for cash disbursement procedures and approval.	<p>Crowe selected a sample of 23 contract payments to test accounts payable disbursement controls. Selections were made from each of the Procurement's thresholds (refer to page 2).</p> <p>Crowe noted no exceptions in the execution of disbursements or the related internal controls.</p>

PROCEDURES PERFORMED

PROCEDURES PERFORMED	RESULTS
6) Select a sample of independent contractor payments for the calendar year ended December 31, 2017 and test the compliance with federal regulation related to the filing of IRS Form 1099.	<p>Crowe selected a sample of 15 independent contractor payments greater than \$600, the threshold at which independent contractors must file IRS Form 1099.</p> <p>Crowe noted 4 exceptions in the testing of compliance with IRS guidelines. The City provided additional information that cleared the 4 exceptions. To address the original exceptions, the City will conduct an audit of all vendors activated prior to the procedure to make sure all eligible contractors are correctly flagged.</p>
7) Obtain an understanding of any emergency purchases procedures and determine if there are any areas for improved efficiencies.	<p>Crowe reviewed the Procurement procedures related to emergency contract purchases.</p> <p>At times, the City may be required to make emergency and time-sensitive purchases when there exists an immediate threat to public health, welfare, or safety or to prevent or minimize serious disruption of government services.</p> <p>We selected a sample of 25 emergency purchases and tested emergency procurement controls.</p> <p>Crowe found the City's emergency purchases for the fiscal year 2017 to be in compliance with the Procurement Code.</p>
8) Obtain an understanding of procurement card ("P-card") utilization, including requisition, approval, and reconciliation, and perform testing procedures.	<p>Crowe obtained an understanding of the procurement card procedures through interviews with the Procurement Division and review of transactions and controls.</p> <p>Crowe obtained a detail of all purchasing card holders and their respective designated approvers.</p> <p>Crowe performed an analysis of purchasing card users and noted that there is a lack of segregation of duties between card holders and their designated transaction approver.</p> <p>Crowe selected a sample of 20 procurement-card purchases and tested authorization and utilization controls as well as statement reconciliation controls.</p> <p>Crowe noted 4 instances where purchasing card transactions were initiated and approved by the same individual.</p>

Observations and Recommendations

1. **OPPORTUNITY FOR IMPROVEMENT – Segregation of duties over purchase card holders and designated transaction approver. HIGH RISK**

During our review of the purchase card holders listing provided by the City and purchasing card transactions, we noted the following:

1. Six instances in which the Purchasing Card holder was both the user of the card and the approver of the transactions. This means that these individuals have the ability to approve any transactions made with the purchasing card in their possession.
2. Four instances where a purchasing card transaction was initiated and subsequently approved by the same individual. Due to the lack of segregation of duties noted above, certain individuals approved their own purchasing card transactions.

Recommendation: Crowe recommends that the department review authorized approvers of transactions for all eligible Purchasing Card users and assign an independent transaction approver to each individual authorized to make transactions.

Management Response / Action Plan:

The City's p-card program permits Department Directors to have cards personally assigned to them for business use as well as act as the "Designated Approver" to review all purchases for compliance for their respective departments. This approval authority also includes the ability to validate and approve their individual transactions. To address the audit findings, a change will be made to the policy to require the review/validation of the Director's purchases by the Department's assigned Deputy or Assistant Director to ensure a transparent segregation of duties.