Cobb County...Expect the Best!

INTERNAL AUDIT DEPARTMENT

Report Number: 2021-003

FINAL REPORT – Review of Monitoring Controls over Department Purchase Orders within the Purchasing Department

August 23, 2021

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August 23, 2021

MEMORANDUM

TO: Dr. Jackie McMorris, County Manager

FROM: Latona Thomas, CPA, Director

SUBJECT: **FINAL REPORT** – Review of Monitoring Controls over Department Purchase
          Orders within the Purchasing Department

Attached for your review and comments is the final subject audit report. The overall objective of
this review was to determine the effectiveness of the Purchasing Department's monitoring controls
over Departmental Purchase Orders (PDs) that have been issued to user departments[1].

Impact on the Governance of Cobb County

The six recommendations along with the corrective actions taken by Purchasing Department, when
implemented, will strengthen the controls and safeguards over PDs and small dollar purchases.
The County and its stakeholders can be assured that internal controls are strengthened to mitigate
theft or misuse of county funds using PDs. Total countywide spending using PDs for the audit
period, October 1, 2019 to December 31, 2020, was approximately $10.9 million.

Executive Summary

Based on preliminary survey results, we determined that sufficient evidence existed to conclude
on the audit objectives and additional fieldwork procedures would not provide added value. We
determined that the Purchasing Department has control activities in place to ensure that PDs on
hand are secured and PDs used are in compliance with the County's Policy; however, additional
improvements are needed to provide reasonable assurance that effective monitoring controls
exists.

Specifically, we noted the need to establish adequate countywide PDs use and administration
procedure; improved established PDs inventory control practices to safeguard PD inventories at
both the Purchasing Department and user departments; consistent monitoring and reporting of
countywide PDs use and administration; and an evaluation of a more secure alternative purchasing
method the County can use for small dollar purchases.

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[1] For the purposes of this report, 'user departments' is used as a broad term to include agencies, departments, and elected official
offices.

Recommendations

We made six (6) recommendations to strengthen the internal control environment and increase the effectiveness of monitoring controls over the Department Purchase Order within the Purchasing Department. The six recommendations are documented in the 'Results of Review' section of the report, on pages 3-9.

Responses

The Purchasing Director provided a response to our draft report and concurred with all six recommendations. The complete responses to the draft report are included in Appendix VI. We will perform a follow-up on corrective action in one year from the date of this report. A copy of this report will be distributed to those affected by the report recommendations, as reflected by the distribution list in Appendix IV. Please contact me at (770) 528-2559 if you have questions.

Background

Cobb County's (County) procurement procedures include the use of Departmental Purchase Orders (PDs) for the purchase of goods and services costing less than $2,000 without going through the competitive selection process. The County's Policy on Procurement and Contract Management (Policy) states "Department managers and/or authorized representative(s) may select a vendor taking into consideration cost, delivery/pickup time, and convenience to the work site." The Policy describes the responsibility for user departments[1] to assure that all purchases are fair and reasonably priced and prohibits using a source that the user department knows will result in a considerably higher price than other available sources. User departments are also prohibited from splitting orders to circumvent the County's competitive purchasing process.

The diagram to the right shows the County's flow of PD issuance and usage as documented by the Purchasing Department (Purchasing).
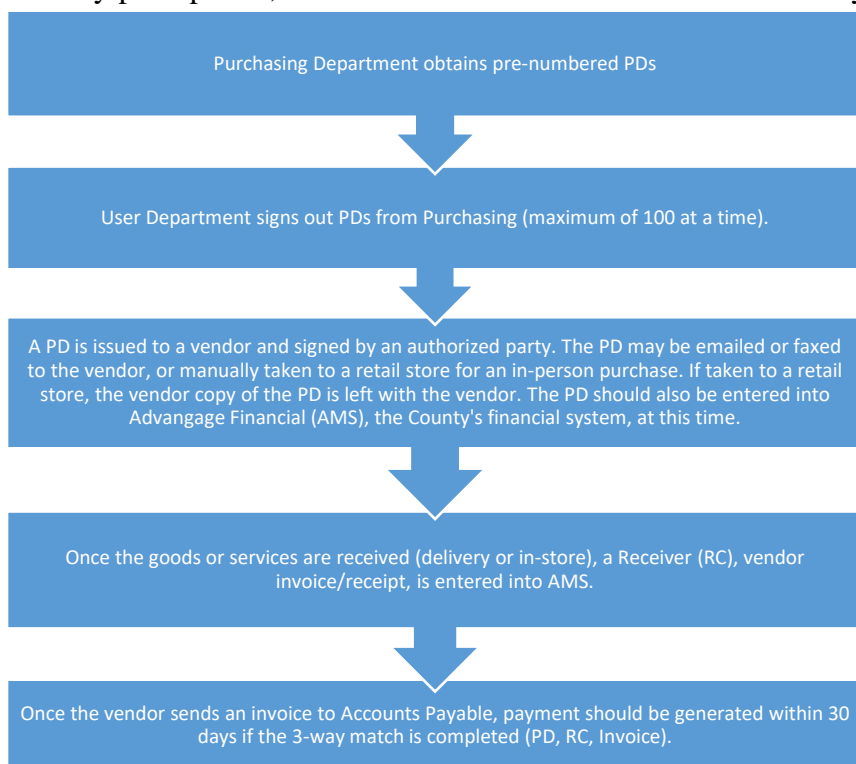
Purchasing Department obtains pre-numbered PDs
User Department signs out PDs from Purchasing (maximum of 100 at a time).
A PD is issued to a vendor and signed by an authorized party. The PD may be emailed or faxed to the vendor, or manually taken to a retail store for an in-person purchase. If taken to a retail store, the vendor copy of the PD is left with the vendor. The PD should also be entered into Advangage Financial (AMS), the County's financial system, at this time.
Once the goods or services are received (delivery or in-store), a Receiver (RC), vendor invoice/receipt, is entered into AMS.
Once the vendor sends an invoice to Accounts Payable, payment should be generated within 30 days if the 3-way match is completed (PD, RC, Invoice).

Diagram 1 – Source: Purchasing Department[2].

Purchasing Department's Responsibilities

Purchasing Department is responsible for the issuance of PDs, PD inventory management, and monitoring of PD usage. Purchasing oversee PDs issuance and ensures compliance with the Policy. User departments are responsible for the appropriate use of PDs and reporting in the County's financial system to facilitate the timely payments to vendors.

Issuance of PDs/Inventory Management

Purchasing obtains prenumbered prints of PDs in batches of 15,000 PDs per print order from an outside vendor. The PDs are stored in a secured location within Purchasing awaiting issuance to user departments. User departments are issued 100 PDs initially and then can obtain up to 100 PDs to replenish PDs on hand, when they have used at least 50% of previously issued PDs.

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[1] For the purposes of this report, 'user departments' is used as a broad term to include agencies, departments, and elected official offices.

[2] The PDs issuance and usage process flow diagram were created by Purchasing, with minor edits by the Internal Audit Department.

The use of PDs was originally designed to increase efficiency by enabling departments to make necessary small dollar purchases quicker, also reducing the volume of requisitions and Purchase Orders for overall County efficiency. During the period October 1, 2019 through December 31, 2020, Purchasing Department issued 12,900 PDs to various user departments.

Monitoring of PD Usage

To monitor contractor selections and PD use, the Policy requires Purchasing to prepare a monthly report of PDs used and distribute to all department managers. The monthly report is intended to give a recap of PD usage including pertinent information such as the contactor/vendor name, amount of purchase, purchase order number, date of purchase, total dollars of purchase(s) from that contractor, and total dollars spent for the month. During the audit period, October 1, 2019 to December 31, 2020, 16,931 PDs were used to purchase goods and services from vendors and the total countywide spending using PDs was $10,922,687. The table below provides details of countywide PD spending/usage, along with a breakdown of spending for the stated period.

Total Countywide PDs spending/usage October 1, 2019 - December 31, 2020			
Spending range by user departments	Number of user departments	Number of PDs used	Total Spending
$1- < $49,000	22	755	$369,247
$49,000 - < $100,000	5	747	$387,563
$100,000 - <$250,000	5	1,191	$783,507
$250,000 - < $1M	4	4,908	$2,668,631
$1M - < $3.3M	3	9,330	$6,713,739
Total		16,931	$10,922,687

Table 2 – Source: County's financial system[3].

The scope of our review period covered the monitoring of PDs issued from October 1, 2019 through December 31, 2020, except where otherwise indicated. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix III.

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[3] Summarized by Internal Audit based on data provided by the Information Services Department. Presented for informational purposes only, as we did not validate the spending report and provide no assurance thereon.

Results of Review

The overall objective of the review was to determine the effectiveness of Purchasing's monitoring controls over PDs that have been issued. The control objectives assessed included whether the countywide PD policy and procedures are properly documented; Purchasing maintains a record of PDs printed, issued to user departments, and on hand; Purchasing monitors countywide PDs usage and the monthly report of PDs used are distributed to all user department managers; and Purchasing has a procedure in place for the authorized user departments to request additional PDs, to include validating the authenticity of the request and confirming receipt of the PDs. We performed our preliminary survey procedures which included, but was not limited to, conducting interviews with key personnel within Purchasing; performing an independent walkthrough of the PD inventory; observing Purchasing's process of issuing PDs to user departments; and analyzing various issuance and usage activity reports.

Based on preliminary survey results, we determined that sufficient evidence existed to conclude on the audit objectives and noted that additional fieldwork procedures would not provide added value. Our preliminary review of Purchasing Department's monitoring controls over PDs indicated that the Purchasing Department implemented several controls including documenting PDs issued to user departments and keeping PDs on hand at a secured location at Purchasing Department. However, we noted that control weaknesses over PDs administration and safeguards are present and further improvements need to be made. In the accompanying pages are recommendations to address the additional guidance and improvements needed.

We are also aware of Purchasing Department's Procurement Modernization Initiative designed to increase efficiencies, overall effectiveness, and to align with industry best practices. This planned initiative is in concurrence with our recommendations to explore a more secure means of payment for small dollar purchases and other improvements.

Control Activities over Countywide PDs Needs to be Improved

During this review, we identified weaknesses in the control environment over the monitoring of PDs within the Purchasing Department. Specific control activities include adequate countywide PDs use and administration guidance; improved PD inventory control practices to safeguard PD inventories; established monitoring and reporting of countywide PDs use and administration; and an exploration of a more secure and efficient alternative means to make small dollar purchases. These improvements will strengthen the internal control environment and minimize the risk of theft, misuse or fraud. These areas of necessary improvements are detailed below:

Additional Countywide PD Administration Guidance is Needed

We noted that there were no countywide procedures providing user departments with guidance on proper use and administration of PDs. The only written requirements were an email communication sent to departments, by the Purchasing Department, regarding the number of PDs to be reissued and the requirement to enter at least 50% of PDs issued prior to obtaining additional PDs. Also, although the Purchasing Department provides training during its 'purchasing basic' course, currently there is no additional training designed to educating user departments on their responsibilities for appropriate use and safeguarding of PDs.

Current and detailed written procedures are necessary to provide employees with clarity on their roles and responsibilities. Well documented procedures will help guide employees within the respective user departments in their decision-making process to comply with County policies and procedures when using PDs to purchase goods and services.

Without current and adequate procedures, implementation of strong controls within user departments will not be achieved to mitigate inefficiency, misuse and theft using PDs. Additionally, a lack of well documented procedures negatively impacts business continuity in the event key employees, with knowledge of such procedures, departs the County or is unavailable.

Recommendation

The Purchasing Director or designee should:

Recommendation 1: Revise written procedures to include adequate controls to mitigate the improper use of PDs and facilitate the timely processing of PDs issued to vendors. The written procedures should include, but not limited to, the following key controls:

- A requirement for user departments to designate an authorized PD custodian and backup who is responsible for the proper administration of PDs within the respective department and document the transfer of custody between the two as deemed necessary.
- A requirement for the designated PDs custodian and backup to attend a PDs administration training, provided by the Purchasing Department, and an electronic acknowledgement of their understanding of the PD use and administration procedure and their responsibilities.
- A requirement for the designated PD custodian to request additional PD in writing and confirm the receipt of PDs, including documenting the PD numbers received. The request should be automated (completion of a form online), which will require the authorized person's signature and allow the Purchasing Department to schedule pickup. This process will allow the Purchasing Department time to validate 50% of previously issued PDs are used prior to issuing additional PDs.
- The creation of a list of individuals approved by the respective user department leaders or PD custodian authorized to pick up additional PDs and require user departments to notify the Purchasing Department when there is change in staff.
- The establishment of a reasonable time frame to enter PDs issued to facilitate the timely payment to vendors.
- A requirement for user departments to track PDs distribution to department staff authorized to purchase goods and services on behalf of the department and County. User department tracking should include a log of PDs distributed to employees, issued to vendor and entered to the County's financial system, any voided or canceled PDs, and PDs on hand and available.
- A requirement for PDs custodians to safeguard PDs on hand, store PDs in a secure locked location and to limit access as needed.
- A prohibition of the use of PDs for personal use or non-County business.
- A requirement for user departments to ensure transfer of custody of PDs on hand at the department, when an employee with PDs custody terminates employment or transfers to a different department within the County.

There is opportunity for additional written procedures and guidelines regarding PDs and the controls in place for those PDs. In this light, the Purchasing Department will create written procedures/guidelines incorporating the policy and other procedures and guidance previously communicated as well, including other current procedures mentioned in this draft report, such as authorized custodians for each department, requests for PDs in writing, storage of PDs, distribution of PDs, transfer of PDs, etc. to the extent the Purchasing Department should dictate a decentralized process. The Purchasing Department currently requires a physical signature in the PD log when PDs are picked up and prefers to keep this process in place instead of transitioning to an automated form online where the signature is not authentic. Implementation will be completed by January 31, 2022 by the Deputy Purchasing Director and Purchasing Director.

> *Additional Auditor Comment:* The continuation of requiring physical signatures is deemed acceptable.

Additional Inventory Control over PDs are Needed

The Purchasing Department maintains a log of PDs issued to user departments with date, number of PDs issued, name and phone number of staff picking up PDs for the user department. However, the inventory control procedure performed for PDs kept at the Purchasing Department needs improvement.

Controls over PDs on Hand

Although the Purchasing Department has a log of PDs printed by PD number and box number, the log is currently missing some important information such as the transaction date of the log and initials of employee recording in the log. The Purchasing Department had, approximately 14,000 PDs on hand during our visit on March 17, 2021, and each PD can be used to purchase goods and services costing up to $2,000.

Good business practice dictates the maintenance of accurate and reliable records of department purchase orders, to ensure timely detection of missing or stolen PDs. If accurate and reliable records of PDs on hand at the Purchasing Department is not maintained, theft or misuse of PDs may go undetected.

In addition, the Purchasing Department issues up to 100 PDs at a time to a user department. Therefore, it is important to ensure the safe transfer of PDs from the Purchasing Department to user departments by authenticating the departmental staff member authorized to pick up the PDs and subsequent confirmation receipt of PDs issued.

Internal Transfer Control

The Purchasing Department transfers custody of PDs between staff from the secure storage location to front desk staff for issuance to user departments. We observed that the front desk staff kept the PDs to be issued to user departments in a secure location at the front desk. During our March 17, 2021 observation, we counted 950 PDs stored at the front desk for distribution to user departments.

Two Purchasing Department staff serve as backup to the front desk staff and issue PDs to user departments in her absence. However, there was no documented transfer of custody of PDs between the three Purchasing Department staff. Documenting transfer of PDs custody between Purchasing Department employees' places responsibility and accountability on specific employee in event of theft or misuse.

Recommendation

The Purchasing Director or designee should:

Recommendation 2: Establish adequate inventory control procedures for PDs stored in Purchasing Department to ensure proper tracking and safeguard of PDs on hand. The inventory control procedures should include, but not limited to, the following:

- Record PDs printed, including PD numbers and date received from the printer along with a validation of PDs printed.
- Document PD numbers transferred to the backup staff and/or front desk for issuance to user departments, including the date, name of the person transferring custody and the person receiving custody. This step will also update the number of PDs kept in the secure location.
- Perform a periodic inventory and reconciliation of PDs printed, PDs on hand and PDs issued to user departments. The reconciliation should be performed by someone independent of the PDs issuance and custody process.

*Auditee Response***:** *Concur*

The Purchasing Department currently records and verifies the new shipment of PDs when received from the vendor in the PD Log; however, the log will be modified to include the receipt date and the signature of who received them. This same record is utilized for transferring the PDs from locked storage to the front desk and includes the date, the PD numbers and the name/signature of the person transferring custody. It will be modified to include the name/signature of the person receiving custody. This modified log will also be used to transfer custody to any staff member performing backup duties at the front desk in the event of a planned absence. The Purchasing Department will have a staff member, independent of the PD process, perform an inventory and reconciliation of PDs printed, PDs on hand and PDs issued to user departments every six (6) months. This has been implemented.

External Transfer Control

During our initial preliminary survey interview, we were informed that the Purchasing Department did not maintain a list of user department staff authorized to sign out PDs; however, subsequent to our inquiry, the Purchasing Department established a list of user department staff authorized to sign-out PDs. Upon review of the newly created list, we observed that the list did not include a complete list of user department personnel authorized to sign out PDs for some County divisions/units and did not contain critical employee data fields (i.e. title, phone number, email, etc.) and PD administrator/custodian for the respective user department. Specifically, the PD sign-out list included 35% (24 of the 68[4]) County divisions/units utilizing PDs.

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[4] Due to the decentralized nature of PD use, multiple divisions/units within a user department obtain and manage PDs.

Industry best business practice is to transfer PDs to authorized employees to ensure PDs are delivered to the user department safely. Without pre-authorizing and authentication of employees prior to issuance, PDs maybe issued to unauthorized personnel and fraud may not be detected by the user department in a timely manner.

Recommendation

The Purchasing Director or designee should:

Recommendation 3: Update the list of authorized persons to pick up PDs for their respective user department. This list should be verified by the Purchasing Department's front desk personnel before PDs are signed out. The list should be updated annually, in collaboration with user departments, or whenever there is a change in authorized personnel, and include critical data fields as discussed.

Auditee Response: *Concur*

The Purchasing Department currently maintains an electronic list of persons authorized to pick up PDs, for each department currently utilizing PDs and the list is checked whenever a request to pick up PDs is made. Purchasing will continue to maintain this list and reach out to all departments to verify or obtain the authorized person for that department. The list will also be reviewed, verified, and updated annually. It will be implemented by September 30th, 2021 by Administrative Specialist II and Buyer (trainer).

Monitoring and Reporting Controls Need Improvement

Monitoring and reporting are key controls to ensure compliance with PDs policy and proper use and administration of PDs by Purchasing Department and user department managers.

Monitoring Control

The Purchasing Department does not document the results of monitoring procedures performed to ensure user departments do not split orders for the purposes of circumventing competitive purchasing process. The monthly monitoring procedure is performed by the Purchasing Deputy Director to ensure user departments are not splitting orders to circumvent the County's competitive purchasing process. We observed that monthly reports of PDs used were generated for each user department, but the analysis of purchases, non-compliance identified, and corrective action taken were not documented. Documented procedures performed enables the Purchasing Department to evaluate any repeat user department noncompliance and patterns that needs to be addressed to ensure the efficient and effective use of PDs.

Recommendation

The Purchasing Director or designee should:

Recommendation 4: Document monthly monitoring of PDs used by user departments, the procedures followed, results obtained, any communication with user department relating non-compliance and corrective actions taken. Repeat issues with non-compliance should result in a determination of the user department's continued use of PD purchasing process.

The monthly PD report is currently created and reviewed by staff to note any potential violations. The report is then reviewed by the Deputy Purchasing Director to determine if any actual violations occurred and if any follow-up communication is needed, by phone or email. An additional folder will be created on the shared drive to serve as a repository for all such communication including notes of phone conversations, copies of emails, etc. To be implemented by August 31, 2021 (when next monthly PD report is reviewed and sent out) by Deputy Purchasing Director.

Reporting Control

We noted that the monthly report of PDs used was not provided to user department managers as required by the Policy on Procurement and Contract Management. Cobb County's Policy on Procurement and Contract Management requires the Purchasing Department to provide monthly report of PDs used to user department managers. The monthly report was required to assist user department managers monitor contractor selections and PDs usage for their department. Subsequent to our inquiry, the Purchasing Department resumed their monthly report distribution of PDs used and will continue providing the report to user departments monthly, as required.

Without proper monitoring controls by both Purchasing Department and user departments, any non-compliance, misuse of PDs or irregularities may not be identified in timely manner, increasing the risk of fraud going undetected and non-compliance not being addressed.

Recommendation

The Purchasing Director or designee should:

Recommendation 5: Continue to provide the monthly report of PDs used to each user department manager, as required by Policy on Procurement and Contract Management. Also, consider requiring user departments to submit a list of PDs used, since the last sign out, to determine they meet the usage requirement and facilitate the timely recording of PDs issued to vendors into the County's financial system, inclusive of voided and canceled PDs. If PDs issued to vendors and recorded in the County's financial system does not meet the established 50% minimum, user departments should provide an explanation as to why they need additional PDs.

***Auditee Response*:** *Concur*

The Purchasing Department will continue to send out the monthly PD report to each department head as required by policy. Currently, the Purchasing Department locates the last sequence of numbers signed out by the department in the PD Log and verifies that the established 50% minimum has been met in the Advantage Financial System (AMS) and prefers to continue to do so. The information entered into AMS is hard factual data, and in real time, as opposed to relying on a list created by the department which may or may not be accurate or up to date. Implementation will be completed by August 31, 2021 by Administrative Coordinator.

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A secure means of payment for small dollar item purchases is needed

The use of PD for purchasing goods and services costing less than $2,000 does provide for an efficient and timely purchase of goods and services by the County's user departments. However, allowing each user department and multiple divisions within some user departments to hold an inventory of up to 100 PDs, a possible spending of approximately $200,000, does expose the County to risk of theft, misuse and fraud. In addition, the tracking, monitoring, and reporting process can be manually intensive resulting in an inefficient use of human capital and increases the risk of error.

Recommendation

The Purchasing Director or designee should:

Recommendation 6: Explore alternative means of efficient and more secured ways for County departments to purchase small dollar items; and evaluate the possibility of issuing fewer PDs to user departments to minimize the dollar amount at risk of possible loss or misuse.

Auditee Response**:** *Concur*

The Purchasing Department is currently exploring the use of Procurement Cards (P-Cards) and is in discussions with the Support Services Agency Director and the County Manager in hopes of bringing something before the Board of Commissioners later on this year. Implementation will be completed by October 30th, 2022 by Purchasing Director.

Detailed Objectives, Scope, and Methodology

We conducted this audit in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. Our overall objective was to determine the effectiveness of the Purchasing Department's monitoring over Departmental Purchase Orders (PDs) that have been issued to user departments. The limited scoped project covered the monitoring of PDs issued from October 1, 2019 through December 31, 2020.

To accomplish our objective, we performed the following steps:

- Interviewed key personnel within the Purchasing Department.
- Performed an independent walkthrough of the PD inventory at the Purchasing Department.
- Observed the Purchasing Department's process of issuing PDs to user departments.
- Analyzed various PD issuance and usage activity reports.
- Reviewed countywide reports of vendor invoices without receiver (receipts) to assess delay in payment to vendors.

Abbreviations and Glossary

PD	Departmental Purchase Order
Purchasing	Cobb County Purchasing Department
Policy	The County's Policy on Procurement and Contract Management
RC	Receiver, receipt from vendors
AMS	Advantage Financial, the County's Financial System
User Departments	In the report, user department is used as a broad term to include agencies, departments, and elected official offices.

Major Contributors to This Report

Latona Thomas, CPA, Internal Audit Director
Tenaye Francois-Arneson, CFE, CIA, Senior Internal Auditor (Auditor-in-Charge)
Erica Brooks-Peters, CPA, Senior Internal Auditor
David Murry, Internal Auditor II [6]

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[6] Former employee.

Final Report Distribution List

Jimmy Gisi, Deputy County Manager
Roger Ball, Purchasing Director
Sharon Stanley, Support Services Agency Director
Stephanie Brice, Deputy Director, Purchasing Department
Bill Volckmann, Finance Director/Comptroller
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Department Managers
Internal Audit Department File

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective action(s) will have on County governance. These benefits will be incorporated into our annual report to the Board of Commissioners, Audit Committee, and County Manager.

Type and Value of Outcome Measure:

- Increased Safeguards over County Assets – Actual; Recommendations, when implemented, will provide strong controls within user departments to mitigate inefficiency, misuse and theft using PDs. (See Pages 7 - 8).

- Increased Safeguard over County Assets – Actual; Recommendations, when implemented, will provide assurance of the proper tracking and safeguard of PDs on hand at Purchasing Department and user departments.   (See Pages 5 - 7).

- Compliance with County Policy – Actual; Recommendation, when implemented, will provide assurance that user departments are not circumventing the County's policy prohibiting splitting of purchases and user department managers have the tools to monitor departmental purchases on timely manner. (See Pages 3 - 5).

- Efficient Use of County Resources – Actual; Recommendation, when implemented will ensure efficient and more secured way of purchasing small dollar items. (See Page 9).

Methodology Used to Measure the Reported Benefit:

During the audit period, October 1, 2019 – December 31, 2020, 16,931 PDs were used to purchase goods and services from vendors, and the total countywide spending was $10,922,687. In addition, 12,900 PDs were issued to user departments for the same period.

Auditee's Response

This memo is in response to the subject report dated July 14, 2021. The report identified opportunities to strengthen controls over the tracking, reporting and monitoring of the Departmental Purchase Order (PD) process and to assess compliance with Cobb County's Policy on Procurement and Contract Management. Please see below for my response to the recommendations made in the report.

Recommendations

The Purchasing Director or designee should:

Recommendation 1: Revise written procedures to include adequate controls to mitigate the improper use of PDs and facilitate the timely processing of PDs issued to vendors. The written procedures should include, but not limited to, the following key controls:

- A requirement for user departments to designate an authorized PD custodian and backup who is responsible for the proper administration of PDs within the respective department and document the transfer of custody between the two as deemed necessary.
- A requirement for the designated PDs custodian and backup to attend a PDs administration training, provided by the Purchasing Department, and an electronic acknowledgement of their understanding of the PD use and administration procedure and their responsibilities.
- A requirement for the designated PD custodian to request additional PD in writing and confirm the receipt of PDs, including documenting the PD numbers received. The request should be automated (completion of a form online), which will require the authorized person's signature and allow the Purchasing Department to schedule pickup. This process will allow the Purchasing Department time to validate 50% of previously issued PDs are used prior to issuing additional PDs.
- The creation of a list of individuals approved by the respective user department leaders or PD custodian authorized to pick up additional PDs and require user departments to notify the Purchasing Department when there is change in staff.
- The establishment of a reasonable time frame to enter PDs issued to facilitate the timely payment to vendors.
- A requirement for user departments to track PDs distribution to department staff authorized to purchase goods and services on behalf of the department and County. User department tracking should include a log of PDs distributed to employees, issued to vendor and entered to the County's financial system, any voided or canceled PDs, and PDs on hand and available.
- A requirement for PDs custodians to safeguard PDs on hand, store PDs in a secure locked location and to limit access as needed.
- A prohibition of the use of PDs for personal use or non-County business.
- A requirement for user departments to ensure transfer of custody of PDs on hand at the department, when an employee with PDs custody terminates employment or transfers to a different department within the County.

Response: Concur

There is opportunity for additional written procedures and guidelines regarding PDs and the controls in place for those PDs. In this light, the Purchasing Department will create written procedures/guidelines incorporating the policy and other procedures and guidance previously communicated as well, including other current procedures mentioned in this draft report, such as authorized custodians for each department, requests for PDs in writing, storage of PDs, distribution of PDs, transfer of PDs, etc. to the extent the Purchasing Department should dictate a decentralized process. The Purchasing Department currently requires a physical signature in the PD log when PDs are picked up and prefers to keep this process in place instead of transitioning to an automated form online where the signature is not authentic.

Implementation Date/Responsible Party: January 2022/Deputy Purchasing Director and Purchasing Director

Recommendation 2: Establish adequate inventory control procedures for PDs stored in Purchasing Department to ensure proper tracking and safeguard of PDs on hand. The inventory control procedures should include, but not limited to, the following:

- Record PDs printed, including PD numbers and date received from the printer along with a validation of PDs printed.
- Document PD numbers transferred to the backup staff and/or front desk for issuance to user departments, including the date, name of the person transferring custody and the person receiving custody. This step will also update the number of PDs kept in the secure location.
- Perform a periodic inventory and reconciliation of PDs printed, PDs on hand and PDs issued to user departments. The reconciliation should be performed by someone independent of the PDs issuance and custody process.

Response: Concur

The Purchasing Department currently records and verifies the new shipment of PDs when received from the vendor in the PD Log; however, the log will be modified to include the receipt date and the signature of who received them. This same record is utilized for transferring the PDs from locked storage to the front desk and includes the date, the PD numbers and the name/signature of the person transferring custody. It will be modified to include the name/signature of the person receiving custody. This modified log will also be used to transfer custody to any staff member performing backup duties at the front desk in the event of a planned absence. The Purchasing Department will have a staff member, independent of the PD process, perform an inventory and reconciliation of PDs printed, PDs on hand and PDs issued to user departments every six (6) months.

Implementation Date/Responsible Party: August 2021 (already completed)/Administrative Specialist II

<u>Recommendation 3:</u> Update the list of authorized persons to pick up PDs for their respective user department. This list should be verified by the Purchasing Department's front desk personnel before PDs are signed out. The list should be updated annually, in collaboration with user departments, or whenever there is a change in authorized personnel, and include critical data fields as discussed.

Response: Concur

The Purchasing Department currently maintains an electronic list of persons authorized to pick up PDs, for each department currently utilizing PDs and the list is checked whenever a request to pick up PDs is made. Purchasing will continue to maintain this list and reach out to all departments to verify or obtain the authorized person for that department. The list will also be reviewed, verified, and updated annually.

Implementation Date/Responsible Party: September 2021/Administrative Specialist II and Buyer (trainer)

<u>Recommendation 4:</u> Document monthly monitoring of PDs used by user departments, the procedures followed, results obtained, any communication with user department relating non-compliance and corrective actions taken. Repeat issues with non-compliance should result in a determination of the user department's continued use of PD purchasing process.

Response: Concur

The monthly PD report is currently created and reviewed by staff to note any potential violations. The report is then reviewed by the Deputy Purchasing Director to determine if any actual violations occurred and if any follow-up communication is needed, by phone or email. An additional folder will be created on the shared drive to serve as a repository for all such communication including notes of phone conversations, copies of emails, etc.

Implementation Date/Responsible Party: August 2021 (when next monthly PD report is reviewed and sent out)/Deputy Purchasing Director

Recommendation 5:   Continue to provide the monthly report of PDs used to each user department manager, as required by Policy on Procurement and Contract Management. Also, consider requiring user departments to submit a list of PDs used, since the last sign out, to determine they meet the usage requirement and facilitate the timely recording of PDs issued to vendors into the County's financial system, inclusive of voided and canceled PDs. If PDs issued to vendors and recorded in the County's financial system does not meet the established 50% minimum, user departments should provide an explanation as to why they need additional PDs.

Response: *Concur*

The Purchasing Department will continue to send out the monthly PD report to each department head as required by policy. Currently, the Purchasing Department locates the last sequence of numbers signed out by the department in the PD Log and verifies that the established 50% minimum has been met in the Advantage Financial System (AMS) and prefers to continue to do so. The information entered into AMS is hard factual data, and in real time, as opposed to relying on a list created by the department which may or may not be accurate or up to date.

Implementation Date/Responsible Party: August 2021 (continuing practice already in place)/Administrative Specialist II and Administrative Coordinator (on behalf of Purchasing Director)

Recommendation 6:   Explore alternative means of efficient and more secured ways for County departments to purchase small dollar items; and evaluate the possibility of issuing fewer PDs to user departments to minimize the dollar amount at risk of possible loss or misuse.

Response: *Concur*

The Purchasing Department is currently exploring the use of Procurement Cards (P-Cards) and is in discussions with the Support Services Agency Director and the County Manager in hopes of bringing something before the Board of Commissioners later on this year.

Implementation Date/Responsible Party: October 2022/Purchasing Director