



# FOLLOW-UP REVIEW OF THE PROCUREMENT & CONTRACTING DIVISION

**-Prepared by Audit & Review Division-**

**September 28, 2007**

---

# FOLLOW-UP REVIEW OF THE PROCUREMENT & CONTRACTING DIVISION

## Table of Contents

	Page
<b>Executive Summary</b> .....	i
<b>Introduction</b> .....	1
<b>Background</b> .....	1
<b>Scope of Review</b> .....	2
<b>Status of Observations and Recommendations</b> .....	3
1. <b>Secure Procurement Files</b> .....	3
2. <b>Update Purchasing Procedures Manual</b> .....	3
3. <b>Update Solomon System to Reflect Current Tax Exemption ID Number</b> .....	4
4. <b>Improve Controls over Procurement Credit Card</b> .....	4
5. <b>Improve Controls over Tracking Capital Assets</b> .....	5
6. <b>Reconcile Procurement Fixed Asset Database to General Ledger</b> .....	6
7. <b>Calculate First Year Depreciation of Capital Assets Consistently</b> .....	6
8. <b>Adhere to Procurement Guidelines on Purchases over \$300</b> .....	7
9. <b>Adhere to Procurement Guidelines on Professional Services Contracts</b> .....	7
10. <b>Adhere to Procurement Guidelines on Blanket Order Contracts</b> .....	8

# **FOLLOW-UP REVIEW OF THE PROCUREMENT & CONTRACTING DIVISION**

**September 28, 2007**

## **EXECUTIVE SUMMARY**

The Audit & Review Division conducted a follow-up review of the Procurement & Contracting Division. A report on the original review was issued on October 3, 2006. The overall objectives of the original review were to evaluate the Division's:

- Management of the procurement and contracting function.
- Purchasing Procedures Manual.
- Procurement credit card controls.
- Procurement files documentation.
- Fixed asset controls.
- Compliance with procurement provisions of the RTA Act.

The original review resulted in ten recommendations to improve the overall operational efficiency of the Procurement & Contracting Division. Our follow-up review found that eight of the recommendations have been fully implemented with the remaining two recommendations scheduled for full implementation by no later than October 31, 2007.

Paul G. Neuhauser  
Manager, Audit & Review Division

# **FOLLOW-UP REVIEW OF THE PROCUREMENT & CONTRACTING DIVISION**

## **INTRODUCTION**

Under the direction of the Senior Deputy Executive Director, Finance and Administration, the Procurement & Contracting Division (Procurement) provides strategic direction to the RTA staff for the Agency's procurement and contracting function. Procurement is responsible for the following activities:

- Planning, organizing, and managing the RTA's procurement and contracting activities.
- Directing the development and implementation of policies and procedures related to procurement, office services, space planning, remodeling, and general building services.
- Ensuring that purchasing activities are performed efficiently, effectively, and in accordance with established procedures and ordinances of the RTA.
- Representing the RTA in negotiating contractual arrangements and ensuring that the appropriate contract documents are prepared.

The specific objectives of this review, for which a report was issued on October 3, 2006, were to evaluate the following Procurement activities:

1. Management of the procurement and contracting function.
2. Completeness, adequacy, and ease of use of the Purchasing Procedures Manual.
3. Compliance with the manual as well as procurement provisions outlined in the RTA Act.
4. Adequacy of internal controls on the use of the Procurement credit card.
5. Completeness of the procurement files.
6. Adequacy of controls in place for the recording, disposing, and inventorying of fixed assets.

The review resulted in 10 recommendations to improve the effectiveness and efficiency of Procurement. The purpose of the follow-up review is to determine whether the recommendations have been implemented and are achieving their intended purpose.

## **BACKGROUND**

### **Administration of the Procurement and Contracting Function**

The RTA is guided by the procurement provisions of the RTA Act and must comply with all applicable federal, state, and local laws, rules, and regulations. Procurement is responsible for overseeing the Agency's purchasing function, which is staffed by three individuals: the Procurement Manager, Procurement Specialist, and Procurement Assistant. The Division

provides the RTA staff with instructions for ensuring that purchases are in compliance with RTA purchasing regulations.

Procurement processes approximately 200 requisition requests for goods and services and prepares approximately 175 to 250 purchase orders and contracts during a calendar year. Requisitions are processed utilizing the Solomon system, an accounting, purchasing, and general ledger software package. The software has been designed to generate reports on purchase orders, contracts, blanket orders, maintenance contracts, and Disadvantaged Business Enterprise (DBE) vendor participation. The Division also maintains several databases, consisting of forms, assorted exhibits, vendor bid lists, and fixed assets.

### **Purchasing Process**

Procurement ensures that for all applicable purchases, the public bidding process is followed to comply with the requirements set forth in the RTA Act, which requires that purchases for more than \$10,000 shall be made after public notice and through a public bidding process. In addition, it is the RTA's policy that multiple bids (can be telephonic) are obtained for all purchases of \$1,000 or more up to \$10,000. Furthermore, if the total of the purchase orders and contracts signed with a vendor within the RTA fiscal year exceeds \$50,000, Board approval is required.

### **Fixed Assets**

Procurement is responsible for maintaining a database of all of the fixed assets on hand at the RTA, which are items that cost \$300 or more and have an expected useful life of more than one year. However, under Government Finance Officers Association (GFOA) guidelines, the Controller's Division tracks only those fixed assets in the General Ledger that cost \$5,000 or more.

When an asset is purchased or disposed of, Procurement is required to report that information to the Controller's Division each quarter for the purpose of reconciling with the General Ledger asset account (for those assets costing more than \$5,000). Disposals must be supported by a memorandum prepared by the disposing manager.

Procurement is responsible for taking a physical inventory of all of the Authority's fixed assets as of December 31 each year. Upon completion of the inventory, the fixed asset database should be updated, and a listing of those fixed assets costing more than \$5,000 submitted to the Controller's Division for reconciliation to the General Ledger.

## **SCOPE OF REVIEW**

The scope of the follow-up review was limited to the observations set forth in the original report. The follow-up report is not intended to expand upon the observations of the initial review, but rather to determine the current status of the recommendations included in that report. Within this scope, we interviewed the RTA staff who had the responsibility to implement the recommendations and reviewed pertinent records.

## STATUS OF OBSERVATIONS AND RECOMMENDATIONS

This section summarizes the original observations, recommendations, and responses from our first report, as well as the status of those recommendations.

### 1. Secure Procurement Files

**Previous Observation:** Procurement could not locate 14 of the 40 files originally requested by the Audit & Review Division for testing purposes. Per discussion with the Procurement staff, there is no system in place to track the purchasing files that RTA employees remove from the unlocked Procurement file cabinets.

**Previous Recommendation:** The Division is in the process of developing a scanning system that will enable RTA employees to view procurement related documentation at their computers. This should lessen the need for staff to remove the files from the Procurement file cabinets to review pertinent information. Once the new scanning system is implemented, it was agreed that the Procurement file cabinets be locked and accessed only with the permission of the Procurement staff.

**Previous Response:** The Procurement Manager agrees with the recommendation.

**Status of Previous Recommendation:** This recommendation has been implemented. Procurement is now scanning all contracts beginning with 2007 and will continue to do so going forward. Staff can review these contracts by accessing the 'M' Drive. Procurement has also locked their file cabinets so that RTA employees can not remove the purchasing files without the permission of the Procurement staff.

### 2. Update Purchasing Procedures Manual

**Previous Observation:** The Purchasing Procedures Manual was last updated on November 1, 1996. Since that time there have been a number of changes to the policies and procedures of the purchasing function that should be documented.

**Previous Recommendation:** The Purchasing Procedures Manual should be updated to reflect the current policies and procedures and the documentation to be utilized.

**Previous Response:** The Procurement Manager agrees with the recommendation, and had already begun revising the manual before the review started. The update will be extensive and will include a review of applicable legislative changes to ensure that the RTA is compliant with appropriate federal, state and local laws, rules and regulations. The update will also streamline and simplify RTA procedures wherever possible and expand opportunities to utilize the Internet/Intranet for electronic purchasing activities.

**Status of Previous Recommendation:** This recommendation has been substantially implemented. The Procurement Manager has revised many of the procedures to streamline the procurement process for RTA employees. The procedures are being placed electronically

on the RTA Intranet for easier accessibility with an anticipated completion date of October 31, 2007, which we will review at that time.

### **3. Update Solomon System to Reflect Current Tax Exemption Identification Number**

**Previous Observation:** The Solomon system has not been updated to print the current RTA tax exemption identification number which caused the incorrect tax number to be printed on Purchase Orders issued in 2005 and 2006.

**Previous Recommendation:** Procurement management should ensure that the Solomon system is updated with the correct RTA tax exemption identification number so that the correct information is printed on each Purchase Order.

**Previous Response:** The Procurement Manager agrees with the recommendation.

**Status of Previous Recommendation:** This recommendation has been implemented.

### **4. Improve Controls over Procurement Credit Card**

**Previous Observation:** We reviewed 40 purchases charged to Procurement's credit card over a two month period in 2006 and found errors/omissions which included the RTA being invoiced for sales taxes (RTA is exempt) and missing documentation (receiving reports, purchase requisitions, and purchase orders). It was noted most of the purchases were small (60% were under \$300) such as for the payment for in-house business meals, and most of them were made by Divisions other than Procurement that had access to Procurement's credit card number.

**Previous Recommendation:** Based on discussions with the Procurement staff, it was agreed that the following controls should be implemented concerning usage of the Procurement credit card:

- The current Procurement credit card should be cancelled and reissued with a new number. All future purchases by credit card will have to be supported by the proper paperwork and approved by Procurement.
- A notice should be displayed at the RTA Receiving area, advising delivery personnel to phone specifically identified back-up personnel should the Office Services Support Worker not be available.
- Items delivered to the RTA must be signed by the receiving personnel as well as the requestor who placed the order. Receiving documentation should support each purchase appearing on the monthly credit card statement.

**Previous Response:** The Procurement Manager agrees with the recommendations.

**Status of Previous Recommendation:** This recommendation has been implemented as follows:

- Instead of cancelling the above-mentioned Procurement credit card, its use will be limited to the purchase of in-house business meals with the maximum charge allowable on the credit card reduced to \$300. This will allow office personnel to continue to place such orders with minimal risk to the RTA. In addition, the Procurement Specialist will review the monthly statements for this credit card to ensure that all of the purchases have a business purpose and that the necessary documentation has been submitted to support each purchase.
- A new credit card has been issued to Procurement to pay for all other purchases made by the RTA. Only Procurement will have access to this credit card or its number.
- A notice has been displayed at the RTA Receiving area, which states that packages should not be left in the hallway. The delivery person is to pick up the phone near the RTA Receiving area to request assistance if no one is available to receive the package being delivered. The phone calls are routed to the RTA receptionist.
- During the follow-up review, we reviewed 24 purchases charged to Procurement's credit cards over a two month period in 2007 and noted substantial improvement in the documentation supporting the credit card transactions. However, controls still need to be strengthened to ensure that sales taxes are not paid for RTA purchases and that receiving documentation is signed by receiving personnel and the requestor who placed the order. On a quarterly basis as part of our regular duties, the Audit & Review Division performs a review of credit card transactions and will monitor these situations during that time and provide the necessary feedback to the Procurement Manager.

## 5. Improve Controls over Tracking Capital Assets

**Previous Observation:** We could not locate 13 of the 30 items selected from the Fixed Asset Listing for physical inventory verification. The value of the missing items totaled \$23,746, and consisted, for the most part, of outdated cameras, monitors, computers, and other miscellaneous items. Procurement could offer no explanation why the disposition of these items was not recorded, but believe that the items, which have little or any value at this time, had been legitimately disposed of earlier.

**Previous Recommendation:** A new asset tracking system will be utilized to account for all fixed assets by affixing each asset with an electronic bar code, which will be scanned into the database. Annually, the Procurement staff will take a physical inventory by scanning the bar codes on all assets and reconciling them to the database.

**Previous Response:** The Procurement Manager agrees with the recommendation.

**Status of Previous Recommendation:** This recommendation has been substantially implemented. The new asset tracking system has been installed and all equipment affixed with an electronic bar code. However, additional information is being added to the database (price, location, purchase order number, etc.) to better track and control RTA assets. The asset tracking system should be fully operational by October 15, 2007.

## 6. Reconcile Procurement Fixed Asset Database to General Ledger

**Previous Observation:** During 2005, there were 12 fixed asset acquisitions and 13 dispositions. We noted the following during our review:

- Procurement has not been preparing the required “Inventory Additions” and “Disposals” reports on a quarterly basis.
- Disposal request memos are not being consistently prepared by the managers who have disposed of fixed assets.
- Quarterly reconciliations between the General Ledger and the Procurement fixed asset database are not being performed.

**Previous Recommendation:** Procurement should ensure that they are following the appropriate procedures related to the recording of fixed asset additions and disposals. Furthermore, reconciliations should be performed between the General Ledger and the Procurement fixed asset database each quarter. This will ensure that RTA fixed assets are properly recorded on the financial statements.

**Previous Response:** Both the Controller and the Procurement Manager agree with the recommendation.

**Status of Previous Recommendation:** This recommendation has been implemented. Beginning with the first quarter of 2007, Procurement prepared the required “Inventory Additions” and “Disposals” reports and disposal request memos are being prepared by the managers who have disposed of fixed assets. Furthermore, the quarterly reconciliation between the General Ledger and the Procurement fixed asset database was performed for the first two quarters of 2007, utilizing the information in the old fixed asset database. The reconciliation for the third quarter of 2007 will be performed utilizing the new fixed asset database, which is scheduled to be operational by October 15, 2007.

## **7. Calculate First Year Depreciation of Capital Assets Consistently**

**Previous Observation:** The Controller’s Division has not been consistent in the method used to calculate the depreciation of assets in the initial year of purchase. For leasehold improvements, a full year’s depreciation is recorded in the first year that the leasehold improvement was made. For capital assets, the half-month convention method is employed which calculates depreciation based on the nearest month of when the asset was purchased.

**Previous Recommendation:** The Controller agreed that the RTA should calculate depreciation expense using a uniform method for all assets. He recommended the methodology that is currently utilized to depreciate leasehold improvements can also be used for all capital assets. Therefore, any new capital asset acquired by the RTA should be depreciated taking a full year’s depreciation in the year the asset is purchased.

**Previous Response:** The Controller agrees with the recommendation.

**Status of Previous Recommendation:** This recommendation has been implemented. The methodology used by Controller’s Division to depreciate leasehold improvements is being applied to all capital assets.

## 8. Adhere to Procurement Guidelines on Purchases over \$300

**Previous Observation:** Our review of 18 items that were purchased for \$300 or more disclosed procedural errors in 15 of those purchases ranging from a contract employee approving purchase requisitions (such employees do not have that authority) to documentation not being on file to support the competitive bidding procedures.

**Previous Recommendation:** Procurement management should ensure that:

- The necessary documentation is maintained on file for each purchase and that the documentation is properly completed and approved.
- All competitive bidding procedures are followed or documentation is on file to state why the bidding procedures were waived.

**Previous Response:** The Procurement Manager agrees with the recommendation.

**Status of Previous Recommendation:** This recommendation has been implemented. We reviewed 16 items purchased during the follow-up review and noted just two minor procedural errors.

## 9. Adhere to Procurement Guidelines on Professional Services Contracts

**Previous Observation:** Our review of six purchases for professional services disclosed procedural errors on each of the contracts, ranging from documentation not being on file to support the competitive bidding procedures to employees approving Purchase Requisitions that exceeded their approval limit authority.

**Previous Recommendation:** Procurement management should ensure that:

- The necessary documentation is maintained on file for each purchase and that the documentation is properly completed and approved.
- All competitive bidding procedures are followed or documentation is on file to state why the bidding procedures were waived.
- Expense approval limits are reviewed and raised if necessary.

**Previous Response:** The Procurement Manager agrees with the recommendations, but pointed out that his Division did not become involved in the procurement process for the above six contracts until they were approved. He said the Divisions responsible for these contracts need to have Procurement participate in the procurement process much earlier. In any event, the manager, who was recently appointed to the position, will develop a list to ensure that all pertinent documents are made part of the official Procurement file, regardless of when Procurement enters the process.

**Status of Previous Recommendation:** This recommendation has been implemented. We reviewed eight purchases for professional services during the follow-up review and noted only three procedural errors. Although this is a substantial improvement over the original

review, we would prefer that all errors be eliminated, and we will continue to monitor this activity on quarterly basis as well as the activities in Observations #8 and #10 until that goal is achieved.

As noted above in Status of Previous Recommendation #1, Procurement is scanning contract documents into the system. In connection with this process, a list was prepared to ensure that all pertinent documents are scanned and made part of the official Procurement file.

## **10. Adhere to Procurement Guidelines on Blanket Order Contracts**

**Previous Observation:** Our review of ten blanket purchase orders disclosed procedural errors on each of the contracts ranging from purchase requisitions being approved by a contract employee to documentation not being on file to support the competitive bidding procedures.

**Previous Recommendation:** Procurement management should ensure that the necessary documentation is maintained on file for each blanket purchase order and that the documentation is properly completed and approved. Particular attention should be directed to contract employees signing RTA documentation without the requisite authority to do so.

**Previous Response:** The Procurement Manager agrees with the recommendation, but the circumstances for five of the ten blanket order contracts were the same as explained in manager's response in Observation #9 above. Procurement did not become involved in the process until the blanket order contracts were approved. As pointed out earlier, the Divisions responsible for those contracts need to rely on Procurement to participate in the procurement process at its initial stages. The manager will develop a list to ensure that all pertinent documents are made part of the official Procurement file, regardless of when Procurement enters the process.

**Status of Previous Recommendation:** This recommendation has been implemented. We reviewed four blanket purchase orders during the follow-up review and noted only one minor procedural error. As noted above, a list was prepared to ensure that all pertinent documents are scanned and made part of the official Procurement file.

Paul G. Neuhauser  
Manager, Audit & Review Division  
September 28, 2007