OFFICE OF INSPECTOR GENERAL

CITY OF NEW ORLEANS

For Immediate Release:
May 12, 2011

For Further Information:
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AUDIT FINDS CONTROL WEAKNESSES

The Office of Inspector General today released a report on its audit of the City's internal controls over purchasing and accounts payable.

The audit found that a City employee had authorization to both input and authorize purchases in the City's financial system, and that the system did not identify those making entries. It also found that some contracts were amended without the approval of the procurement office, and that the City did not determine if the vendors were delinquent on taxes or whether their Tax Identification Numbers were accurate. Among other things, the audit observed that the City's Accounting Policies and Procedures Manual was last updated 13 years ago.

This report is the first in a series of internal control audits and will be followed by reviews of Fixed Assets, Payroll and Revenue.

Inspector General Ed Quatrevaux said, "Internal controls are critical to preventing fraud and abuse. This and later reports should help City managers as they develop new systems."

The report is attached to this press release. Other reports issued by the Office of Inspector General can be viewed and downloaded from the website at http://www.nolaoig.org.

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OFFICE OF INSPECTOR GENERAL
CITY OF NEW ORLEANS

ED QUATREVAUX
INSPECTOR GENERAL

May 12, 2011

Rev. Cornelius Tilton, Chair
Ethics Review Board
525 St. Charles St.
New Orleans, LA 70130

Re: City of New Orleans Purchasing and Accounts Payable Internal Control Performance Audit (OIG-A&R-10PAU005)

Dear Rev. Tilton,

As per Section 9 of Article XIII of Chapter 2 of the City Code, "Reporting the Results of the Inspector General Findings," I am today releasing a performance audit titled *City of New Orleans Purchasing and Accounts Payable Internal Control Performance Audit* conducted by the Office of the Inspector General.

The Office of the Inspector General conducted an exit conference on April 20, 2011 to discuss the findings and recommendations with the City before releasing the final report today. The Board's responses and additional evidence were considered in finalizing the report and are included in this report.

Should you have any questions, please contact Eileen Andrus, Deputy Inspector General of Audit and Review, at 504-681-3200.

Sincerely,

E.R. Quatrevaux
Inspector General

cc:
Andrew Kopplin, First Deputy Mayor & CAO
Norman Foster, CFO
Derrick Muse, Finance/ Treasury
Kim DeLarge Sr., Comptroller
Lolita Isom, Accounting Supervisor
Mary Kay Kleinpeter-Zamora, CPO
Jackie Allen, Accounts Payable Manager

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Office of Inspector General
City of New Orleans

City of New Orleans Purchasing and Accounts Payable Internal Control Performance Audit
OIG-A&R-10PAU005

E. R. Quatrevaux
Inspector General

Issued May 12, 2011

Purchasing and Accounts Payable Internal Control Performance Audit
OIG-A&R-10PAU005

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Finding # 2: AFIN did not provide an adequate audit trail to allow the auditor to determine whether purchases were properly approved.

Finding # 3: Controls were not in place to separate the ordering and receiving processes.

Finding # 4: Contracts were amended without prior procurement approval.

Finding # 5: The City did not determine if the vendor payee was delinquent in City taxes prior to disbursing payment.

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EXECUTIVE SUMMARY

The City of New Orleans (City) disbursed over $950 million in vendor payments during 2009. The City's Statement of Net Assets reported accounts payables of approximately $95 million as of December 31, 2009.[1] Due to the volume of payments made by the City on an annual basis, it was critical that purchasing and payables were adequately controlled.

A compliance audit dated May 19, 2010 from the Louisiana Legislative Auditor found instances of payments made for goods that had not been received as well as payments made for invoices that lacked proper documentation. Due to the large amount of money that the City expends each year and the potential for abuse of the purchasing and accounts payable function, the need for adequate controls within the purchasing and accounts payable processes was vital.

The United States General Accounting Office defined internal controls as "an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations."[2]

The Office of Inspector General conducted a performance audit (audit) of the City's purchasing and accounts payable internal controls for the period January 1, 2009 through December 31, 2009. The objective of this audit was to evaluate the adequacy of the City's internal controls related to budgeting, bids, purchasing, contracts, disbursements, and wire transfer processes. The audit also evaluated the adequacy of access controls for each software program used to process purchases and accounts payable.

Our audit revealed that the City's purchasing and accounts payable internal control processes were deficient in certain areas which could create the opportunity for fraudulent purchases and payments.

The recommendations in this audit report, if adopted, should improve the City's accountability and reduce the opportunity for fraud, waste and abuse.

[1] The most recent period audited by the City's external auditors.

[2] Obtained from the United States General Accounting Office *Standards for Internal Control in the Federal Government,* dated November 1999.

I. OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of the audit was to test and evaluate the adequacy of the City's internal controls related to budgeting, bids, purchasing, contracts, disbursements, and wire transfer processes of the City's purchasing and accounts payable functions. The audit covered the period January 1, 2009 through December 31, 2009.

This audit was conducted in accordance with the *Principles and Standards for Offices of Inspector General* (the Green Book) and *Generally Accepted Governmental Auditing Standards* (*GAGAS* or the "Yellow Book").

To accomplish the audit's objectives, the auditors:

1. Conducted interviews with the Louisiana Legislative Auditor;
2. Conducted interviews with the City's independent auditors;
3. Conducted interviews with City employees responsible for the budgeting, purchasing, and accounts payable functions;
4. Reviewed City purchasing policies and procedures (a flowchart of the process is included in Appendix V);
5. Reviewed controls over the budgeting, bids, purchasing, contracts, disbursements, and wire transfer processes;
6. Tested the effectiveness of the controls over the budgeting, bids, purchasing, contracts, disbursements, and wire transfer processes;
7. Researched best practices; and
8. Reviewed City ordinances.

A finding indicates a material or significant[3] weakness in controls or compliance that was not detected or corrected by the City in the normal course of performing its duties. Findings in a performance audit can be any one or a combination of the following:

1. Significant deficiencies in internal control,
2. Fraud and illegal acts,
3. Violations of contract and grant agreements and/or
4. Abuse.[4]

The audit included findings, recommendations and conclusions relating to the internal controls of the Purchasing and Accounts Payable functions.

Computer-processed data was provided and relied on, which detailed information on actual City payables for the period of the audit. Although a formal reliability assessment of the computer-processed data was not performed, the auditors determined that hard copy

[3] Significance is a "judgment call" by the auditor and is usually based upon the frequency and magnitude of the deficiency.
[4] Obtained from the General Accounting Office. (July 2007 Revision). *Government Auditing Standards* (p. 165) United States Government Accountability Office by the Comptroller General of the United States.

documents were reasonable and generally agreed with the information contained in the computer-processed data. No errors were found that would preclude us from using the computer-processed data to meet the audit objectives or that would change the conclusions of this report.

II. ACCOUNTS PAYABLE INTERNAL CONTROL FINDINGS

Finding # 1

Background: AFIN was a DOS-based general ledger system from the 1980s that maintained the financial records for all of the City's grant programs and capital projects. The software did not have the capability to provide audit trails or prevent segregation of duties conflicts.[5]

Condition: The Financial Systems Administrator and Chief Accountant had the ability to both input and authorize purchases within AFIN.

Criteria: With respect to segregation of duties, the United States General Accounting Office states that, "key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."[6]

Cause: The City is not practicing segregation of duties within the AFIN software system.

Effect: The Financial Systems Administrator and Chief Accountant had the ability to initiate a purchase as well as approve that same purchase, thereby creating an opportunity for one person to input and authorize the same transaction.

Recommendation: The City should re-evaluate employees' access levels for all software packages and remove any existing segregation of duties conflicts. Additionally, the City should consider replacing the AFIN system.

City's Comments to Findings #1 and #2: *"These two findings address the limitations inherent in one of the City's two accounting systems, regarding security roles and audit trails for particular approvals. As the report notes, the AFIN system, used for grants and capital spending, dates from the 1980s. Given its age, AFIN has security and user access features typical at that time, and only allows for some limited system segregation of duties, and has insufficient audit trails for all processes. Findings 1 and 2 are key examples of the limitations of this old and nearly obsolete system. The City's auditors have noted similar issues in the past, based on the same outdated system architecture.*

In the 1980s, it was acceptable to supplement system security with paper audit trails to document internal controls. To this day, the City verifies that before any check is printed a paper request with the appropriate signatures is submitted to the Accounts Payable Unit. While not ideal, this paper-based additional verification does serve to improve control over the system-based features alone. The City notes that in no instance did the OIG or any other auditor bring to light any unauthorized transactions due to the two findings.

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[5] Software was available that would prevent users from performing conflicting duties.

[6] Obtained from the United States General Accounting Office *Standards for Internal Control in the Federal Government,* dated November 1999.

The City strongly concurs with the report's recommendations related to these two findings that the City consider replacing the AFIN system. In the 2011 budget, the City Council did provide funding for the Mayor's request to begin the process of replacing the city's financial system infrastructure with a new ERP[7] system. The City will also assess if additional audit verification can be added to the current system's process."

OIG's Response: "*The City notes that in no instance did the OIG or any other auditor bring to light any unauthorized transactions due to the two findings." Controls are put in place to reduce the risk of fraud and abuse—they are preventive. The lack of an audit trail creates an opportunity for unauthorized access and use.*

Finding # 2

Condition: AFIN did not provide an adequate audit trail to allow the auditor to determine whether purchases were properly approved.[8]

Criteria: The purchasing process required approvals by the department head, CAO's office (budgeting), and the Financial Systems Administrator.[9]

Cause: AFIN did not document approvals making it impossible for the City to provide support for the approval process.

Effect: There was no way to determine whether AFIN purchases received approval from the proper levels prior to purchase.

Recommendation: The City should consider replacing the AFIN system or develop an alternate way to document approvals.

City's Comments: *See City's comment located below Finding # 1.*

Finding # 3

Condition: Controls were not in place to separate the ordering and receiving processes.

Criteria: Best practices related to assets required that the person who ordered an asset should not be the same person who documented the receipt of the asset.[10]

Cause: Departments ordered and received their own purchases. The City did not have a receiving department or a requirement that the person placing the order be different from the person receiving the goods.

Effect: Allowing one person to both order and receive a purchase created an opportunity for the same person ordering the goods to verify the receipt of the goods which could potentially lead to theft of the asset.

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[7] An ERP (Enterprise Resource Planning) system integrates information across an entire organization.
[8] The OIG's Fixed Assets Internal Control Performance Audit included this as an observation.
[9] Obtained from discussions with City Personnel and a review of the BuySpeed approval screens.
[10] From Accounting for Manager website: http://www.accounting4manager.com/fixed-asset-controls/.

Recommendation: The City should implement a process to segregate the ordering and receiving processes.

City's Comments: *"The report notes that City departments order and receive their own purchases, and that the effect of allowing one person to both order and receive a purchase creates opportunities for potential loss of control of the City's purchases and assets. The City agrees that this potential could exist if only one person was able to fully accomplish an entire ordering and receiving process. As an internal control to address this potential, the current process that the City uses requires that more than one person within a department participates in both the ordering process and in the payment process through appropriate approval paths. Additionally, before any check is printed a paper request with the appropriate signatures must be submitted to the Accounts Payable Unit. The City will communicate with departments to require that physical receipt of goods should be verified by the final department approver. The new ERP system should include improved levels of security and verification to improve the receipt process even further, especially by incorporating an asset and inventory management approach directly, rather than separately as at present."*

OIG's Response: *The potential for loss exists if the person initiating the order is the same person who receives the order.*

Finding # 4

Condition: Contracts were amended without prior procurement approval. Of the 25 contracts tested out of a population of 958, eight (32% of the sample) were amendments to existing contracts for changes in price, scope, or term (as shown in the table below).

Contract Amendments:

Type of Amendment	Number Amended in Sample	Percentage Amended Without Approval in Sample
Change in price	3	12%
Change in scope	1	4%
Extension of Period	4	16%
Total	**8**	**32%**

Criteria: CAO Policy Memorandum No. 24(R) required the City to procure movables and services by competitive bid.

Cause: The departments forwarded contract amendments and extensions to the Law Department without first giving the Purchasing Department the opportunity to review the contracts and determine if the City would have been better served by rebidding or amending the current contract.

Effect: The City may have paid more for the goods or services provided than necessary. With the amendment in price and/or scope, the winning vendor may not have had the most competitive price.

In the case of contract extensions, the contracted vendor may have had the best price for services at the time the contract was bid and awarded; however, current market conditions may not assure that the current contract was still the most competitive.

Recommendation: The City should implement a procedure where the Purchasing Department reviews contracts before amendments are made to determine if the City would be better served by amending the current contract or rebidding the contract.

City's Comments: *"The report recommends that the Bureau of Purchasing should review amendments to contracts to determine if the City would be better served by continuing the current contract or by procuring the goods or services again. The City agrees with this approach and believes that the Bureau of Purchasing is providing this kind of input but on a more informal, undocumented but not comprehensive basis. The Law department already reviews any scope changes to determine if changes are consistent with the original procurement. The City will more formally incorporate and document additional reviews into the contract amendment decision-making process."*

Finding # 5

Condition: The City did not determine if the vendor payee was delinquent in City taxes prior to disbursing payment.

Criteria: City Code Sec. 2-8 prohibits making any payment to a contractor if that contractor owes delinquent taxes to the City. This law is also spelled out in CAO Policy Memorandum No. 24(R) regarding procurements and purchases.

Cause: The City did not follow either the law or its stated policy.

Effect: The City could have paid vendors that owed the City money for unpaid taxes. Also, there was no incentive for the vendor to continue paying taxes once the contract had been awarded if they still received payment regardless of their tax compliance status.

Recommendation: The City should implement a process to determine if vendors were delinquent in City taxes prior to processing the payment.

City's Comments to Findings #5 and #6: *"The report recommends that the City review tax compliance when a contract is amended and prior to each payment to a vendor. At present, the City checks to determine if a vendor is delinquent at the time of signing a contract as part of the contract review process. The City will extend this review to also take place when contracts are amended and will work towards ongoing compliance with property tax, occupational license and sales tax responsibilities. The challenge with the City's current disconnected and separate systems is that a manual process is required to review delinquency status of each contractor. With the implementation of a new ERP system, the process of matching contract vendor payments and tax delinquency will be streamlined across city government."*

Finding # 6

Condition: Contract amendments did not require the City to verify that vendors were current on their tax payments. Of the 25 contracts sampled out of a population of 958, eight of the

vendor contracts sampled contained contract amendments. None of the eight amendments in the sample (32% of the entire sample and 100% of the contract amendments in the sample) had updated tax compliance certificates available.

Criteria: The CAO Policy Memorandum No. 24(R) stated that the City could not enter into or make payments under a contract with any person, corporation, or entity delinquent in City taxes.

Cause: The City's policy did not consider tax compliance for contract amendments in its Policy Memorandum No. 24(R).

Effect: The City could amend contracts with vendors that owed the City money for unpaid taxes.

Recommendation: The City should obtain current tax compliance certificates for all contracts, including contract amendments.

City's Comments: *See City's comment below Finding # 5.*

Finding # 7

Background: BuySpeed was an internet-based procurement software application. The vendors that did business with the City were required to set up an account in BuySpeed using their Tax Identification (ID) number, which was either their employer identification number (EIN) or their Social Security Number. The vendors also included any relevant commodity codes[11] for their business, a practice, which identified products and services they would offer to the City. BuySpeed was used as the bid processing software for all City bids. It also handled the purchasing approval process for all purchases that did not go through AFIN. Once the purchase was completed and approved by Accounts Payable, it was transferred to Great Plains, a Microsoft general ledger system, for payment processing.

Condition: Vendors that registered with the City did not go through a verification process to determine that they were valid vendors or that their Tax Identification number was a valid number.

Criteria: Best practices recommended that Accounts Payable perform the following:

- Control the master vendor file;
- Require complete, validated data prior to vendor set-up; and
- The person performing vendor set-up should be someone other than the persons performing invoice processing.[12]

Cause: Vendors were required to register themselves in BuySpeed with no subsequent verification by the City.

[11] The system uses National Institute of Governmental Purchasing (NIGP) commodity codes to categorize vendors based on the products and/or services they provide.

[12] Dzamba, Andrew, "Master Vendor File Maintenance, Audit & Control Best Practices," 2006, www.ioma.com/issues/SPCRPT/MasterVendorFile_Final.php.

Effect: Self-registered vendors could have been fraudulent or duplicated within the vendor listing.

Recommendation: The City should create a policy to manage the vendor master file by verifying the entity's existence in the Secretary of State's data base and obtaining documentation of the entity's Federal Identification Number from IRS correspondence provided by the vendor.

City's Comments: *"The report recommends that the city create a policy to better manage the vendor master file in the purchasing system and perform validation against the Secretary of State's list of corporations and national tax registration. At present, the City uses a policy of self-registration of interested parties to promote the widest dissemination of information about bids and RFPs to any person or firm interested in doing business with the City. Thus the self-registration system is really for developing a list of potential vendors. When a potential vendor becomes an actual vendor by entering into a contract, the City's current practice is, as the contract is being processed, for the Law Department to search the Secretary of State's data base to ensure the vendor is in good standing with the State of Louisiana. The City will review whether there are some vendors who are paid without a contract being required (e.g. subscriptions) who could also be verified in this way, and will also assess how verification of federal Tax Identification numbers could be incorporated into the current process."*

OIG's Response: All City vendors and employee requests for reimbursement are registered in this manner regardless of the need for a bid or contract. In fact, employees[13] are using this system with no subsequent verification of their existence by the City.

[13] Employees are required to register as a vendor to obtain reimbursement of expenses.

III. ACCOUNTS PAYABLE INTERNAL CONTROL OBSERVATIONS

Observation # 1

Based on routine fraud inquiries with selected City employees,[14] certain employees stated that the City did not require ongoing ethics training and therefore some employees were not receiving ongoing ethics training.

Recommendation: All City employees should be required to complete the free online ethics program[15] available from the State of Louisiana on an annual basis.[16]

City's Comments: *"The Mayor's office and City Attorney conducted an employee training session in May 2010 for all department heads and a large number of governmental employees. The City is currently developing a plan to comply with the state requirement that all employees complete annual ethics training beginning in 2012."*

OIG's Response: The City could require employees to take this free training in 2011.

Observation # 2

The number of personnel in the Accounting, Purchasing, and Accounts Payable departments was significantly less than the number of pre-Katrina personnel. As a result, the number of employees currently in the departments cited above were insufficient to perform required tasks in a timely manner.

Recommendation: The City should increase the Accounting, Purchasing, and Accounts Payable personnel in order to improve response times.

City's Comments: *"In the 2011 budget the Mayor and Council added additional positions to the Finance Department to improve payment processing times and to ensure control policies are followed. The Finance Department is currently in the process of filling these positions and will complete that process during the early summer of 2011."*

Observation # 3

Background: The City developed the Electronic Contract Routing System (ECRS) package and implemented it in September 2008 to speed up and document the contract approval routing process. The originating department loaded the contract into the system. Each approving body documented their approval of the contract electronically in ECRS. Additionally, all contract documents were maintained electronically within the system after the approval process was completed.

The City discontinued use of the ECRS on October 19, 2010, which reduced the transparency of the contract process and made it more difficult to obtain copies of contracts.[17]

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[14] For all audits performed, the auditors conducted an interview with the key personnel for that department in which they asked routine fraud related questions including how frequently ethics training courses were provided.

[15] The Louisiana Ethics Administration Program has a free one-hour online training program available that can be accessed at http://204.196.0.55/EthicsTraining/login.aspx.

[16] Per La. R.S. 42:1170A(3), all City employees will be required to complete annual ethics training starting January 1, 2012.

Recommendation: The City should resume the use of ECRS or another electronic contract maintenance system in order to maintain access and transparency for contracts and the contract approval process.

City's Comment: *"The City is committed to more transparency in the entire procurement and contracting process, as evidenced by the selection panels for RFPs that have been meeting in public since the summer of 2010, and the posting of all newly signed contracts on the City's web site. The ECRS system was developed to track the previous contract routing process that had a number of flaws in its design. The Chief Administrative Officer has recently issued a memorandum that redesigns the contract routing process to ensure that appropriate and timely policy, financial and legal reviews take place in a more streamlined fashion. That policy requires that within 60 days a new electronic contract routing system will be implemented to parallel the new contract routing process."*

Observation # 4

The "City of New Orleans General Accounting Policies and Procedures Manual and General Accounting User Guide" was last revised in February 1998, thirteen years ago. The manual did not include any documentation for the BuySpeed or Great Plains applications.

Recommendation: The City should update the Accounting Policies and Procedures Manual.

City's Comments: *"The report notes that the City's Policies and Procedures for accounting systems are outdated. The City agrees that current policies and procedures have not been updated in a timely and comprehensive manner. Some updating has taken place. For example, in 2006 the City hired a consultant to document a number of accounting policies and procedures. The outcome of this engagement provided the City with documented procedures and workflows for use with systems such as BuySpeed and Great Plains. The City will work to overhaul all its policies and procedures in a comprehensive manner as part of the implementation of the ERP system over the next few years."*

OIG's Response: *The ERP system will not be implemented for several years. The City should take steps to update the procedures manual in the interim.*

Observation # 5

The City maintained all supporting documentation in paper format. Due to the volume of records the City maintained, the records retrieval process was slow and inefficient.

Recommendation: The OIG recommends that the City, in the interest of efficiency, have a practice of document scanning and electronic storage for ease of retrieval. Additionally, the City should develop a records retention policy as required by state law.[18]

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[17] Contracts that were originally processed in ECRS are still available within the system.

[18] La.R.S. 44:411(A)(1).

City's Comments: *"The report recognizes that the City does not have a electronic storage system for documents and relies more on paper records in different locations that are uncoordinated, making it difficult to assemble all the information about a particular issue in a timely manner. The City agrees that a document management system would greatly improve administrative efficiency, retrieval of documents, ease access to centralized information, and reduce the financial and environmental costs of paper use. At present, funding has not been identified for a comprehensive citywide document management system but the City will assess this need as part of the 2012 budget process. The City is also at present developing records retention policies for City government, and is coordinating these efforts with the State Records Office to ensure compliance with State law requirements."*

IV. CONCLUSION

In 2009, the City did not have adequate controls over the procurement and payment processes, thereby increasing opportunities for waste and/or abuse. The volume of payments processed by the City made it vital that purchases and payables be adequately controlled. Improving the control weaknesses noted in this audit would help to ensure the City does not spend money on unauthorized purchases.

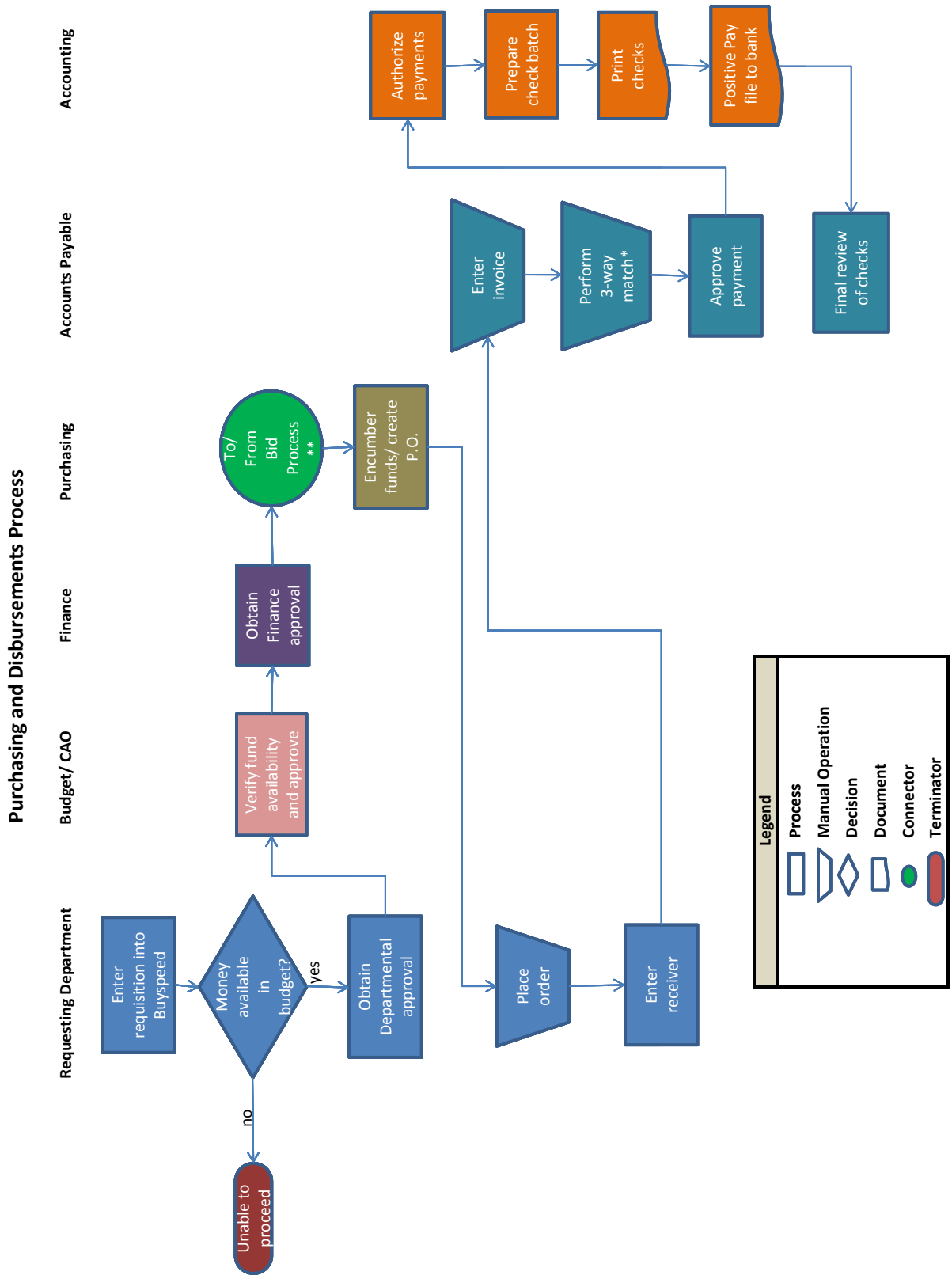
Our audit noted control weaknesses such as segregation of duties between purchasing and receiving and insufficient verification of vendor files. In addition, auditors noted contract amendments were awarded without consideration of the need to rebid the contract or verification of tax compliance and payments were made without the City verifying that the vendor was current with City tax payments.

The audit also noted that AFIN, the City's financial system for grants and capital projects, did not provide proper segregation of duties, thereby allowing a user to perform conflicting duties within the system. Finally, AFIN did not provide an adequate audit trail to be able to determine whether the proper personnel approved purchases and disbursements.

A more detailed procurement policy would improve the controls over purchasing, payables and payments. The policy should implement proper segregation of duties, approvals and maintenance requirements. The City should also consider replacing AFIN or find an alternate way to document the approval process.

Although the City agreed with all seven of our recommendations and all five of our observations, their response did not include a timeline for completion, except for observation #5, of their stated procedures. Based upon discussions with the City, the ERP system will not be implemented for several years. The City should take steps to implement compensating processes where possible in the interim.

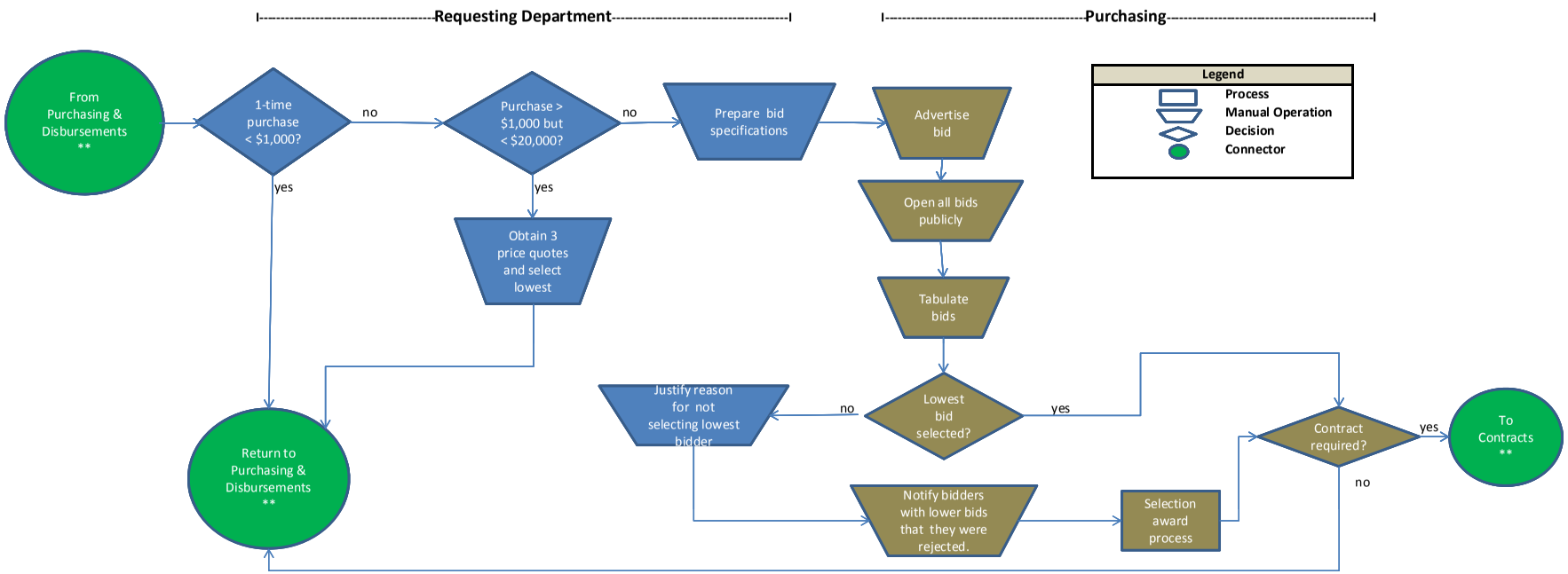
The Office of Inspector General will conduct a follow-up review in one year to determine the status of the findings stated in this report.



* Requisition, purchase order, and invoice must match.

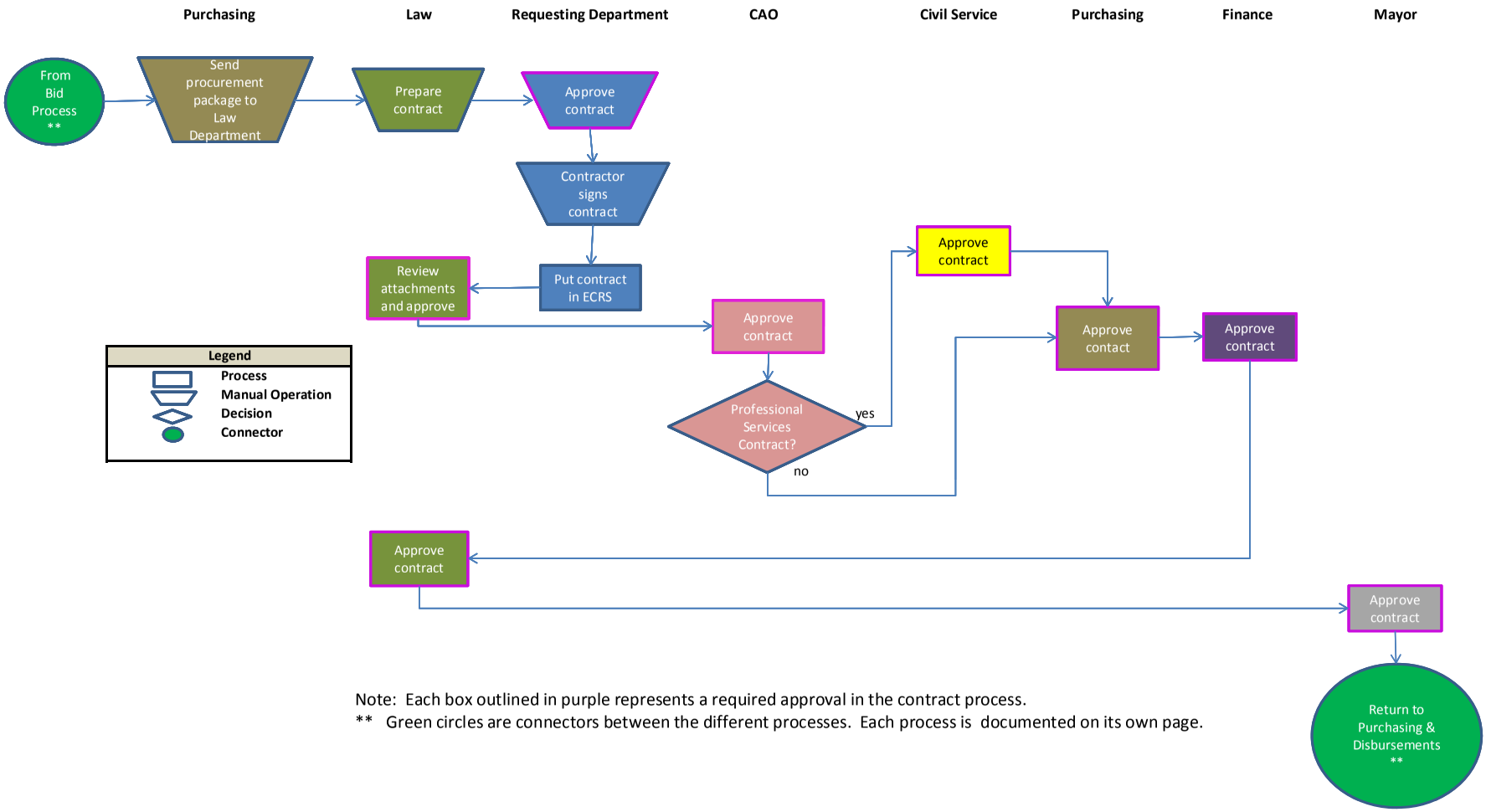
** Green circles are connectors between the different processes. Each process is documented on its own page.

Bid Process



** Green circles are connectors between the different processes. Each process is documented on its own page.

Contracts Process



Note: Each box outlined in purple represents a required approval in the contract process.
** Green circles are connectors between the different processes. Each process is documented on its own page.

VI. OFFICIAL COMMENT FROM THE CITY

City Code Ordinance 2-1120 section (8)(b) "Prior to concluding an audit or evaluation report, which contains findings as to the person or entity which is the subject of the audit or evaluation, the Office of Inspector General shall provide the affected person or entity with an Internal Review Copy of the report. Such person or entity shall have 30 days from the transmittal date of the report to submit a written explanation or rebuttal of the findings before the report is finalized, and such timely submitted written explanation or rebuttal shall be attached to the finalized report."

An Internal Review Copy of this report was distributed on April 7, 2011 to the City to provide an opportunity to comment on the report prior to the public release of this Final Report. The City's comments were due from the City and received by the OIG on May 9, 2011; these comments were included in the body of this report and attached behind Section VI.

CHIEF ADMINISTRATIVE OFFICE
CITY OF NEW ORLEANS

MITCHELL J. LANDRIEU
MAYOR

ANDREW D. KOPPLIN
FIRST DEPUTY MAYOR & CAO

May 9, 2011

Edouard Quatrevaux
Inspector General
City of New Orleans
525 St. Charles Avenue
New Orleans, LA 70130

Dear Mr. Quatrevaux:

The City welcomes the Inspector General's review of accounts payable and internal control as they existed in 2009. We are greatly interested in improving the overall level of financial management and control in the city to eliminate the potential for abuse in any aspect of purchasing and paying for city services with taxpayer dollars. The responses below describe the actions the city has or will take to address the findings and recommendations in the report.

Finding #1 & 2

These two findings address the limitations inherent in one of the City's two accounting systems, regarding security roles and audit trails for particular approvals. As the report notes, the AFIN system, used for grants and capital spending, dates from the 1980s. Given its age, AFIN has security and user access features typical at that time, and only allows for some limited system segregation of duties, and has insufficient audit trails for all processes. Findings 1 and 2 are key examples of the limitations of this old and nearly obsolete system. The City's auditors have noted similar issues in the past, based on the same outdated system architecture.

In the 1980s, it was acceptable to supplement system security with paper audit trails to document internal controls. To this day, the City verifies that before any check is printed a paper request with the appropriate signatures is submitted to the Accounts Payable Unit. While not ideal, this paper-based additional verification does serve to improve control over the system-based features alone. The City notes that in no instance did the OIG or any other auditor bring to light any unauthorized transactions due to the two findings.

The City strongly concurs with the report's recommendations related to these two findings that the City consider replacing the AFIN system. In the 2011 budget, the City Council did provide funding for the Mayor's request to begin the process of replacing the city's financial system infrastructure with a new ERP system. The City will also assess if additional audit verification can be added to the current system's process.

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Finding #3

The report notes that City departments order and receive their own purchases, and that the effect of allowing one person to both order and receive a purchase creates opportunities for potential loss of control of the City's purchases and assets. The City agrees that this potential could exist if only one person was able to fully accomplish an entire ordering and receiving process. As an internal control to address this potential, the current process that the City uses requires that more than one person within a department participates in both the ordering process and in the payment process through appropriate approval paths. Additionally, before any check is printed a paper request with the appropriate signatures must be submitted to the Accounts Payable Unit. The City will communicate with departments to require that physical receipt of goods should be verified by the final department approver. The new ERP system should include improved levels of security and verification to improve the receipt process even further, especially by incorporating an asset and inventory management approach directly, rather than separately as at present.

Finding #4

The report recommends that the Bureau of Purchasing should review amendments to contracts to determine if the City would be better served by continuing the current contract or by procuring the goods or services again. The City agrees with this approach and believes that the Bureau of Purchasing is providing this kind of input but on a more informal, undocumented but not comprehensive basis. The Law department already reviews any scope changes to determine if changes are consistent with the original procurement. The City will more formally incorporate and document additional reviews into the contract amendment decision-making process.

Finding #5 & 6

The report recommends that the City review tax compliance when a contract is amended and prior to each payment to a vendor. At present, the City checks to determine if a vendor is delinquent at the time of signing a contract as part of the contract review process. The City will extend this review to also take place when contracts are amended and will work towards ongoing compliance with property tax, occupational license and sales tax responsibilities. The challenge with the City's current disconnected and separate systems is that a manual process is required to review delinquency status of each contractor. With the implementation of a new ERP system, the process of matching contract vendor payments and tax delinquency will be streamlined across city government.

Finding #7

The report recommends that the city create a policy to better manage the vendor master file in the purchasing system and perform validation against the Secretary of State's list of corporations and national tax registration. At present, the City uses a policy of self registration of interested parties to promote the widest dissemination of information about bids and RFPs to any person or firm interested in doing business with the City. Thus the self-registration system is really for developing a list of potential vendors. When a potential vendor becomes an actual vendor by entering into a contract, the City's current practice is, as the contract is being processed, for the Law Department to search the Secretary of State's data base to ensure the vendor is in good standing with the State of Louisiana. The City will review whether there are some vendors who are paid without a contract being required (e.g. subscriptions) who could also be verified in this way, and will also assess how verification of federal Tax Identification numbers could be incorporated into the current process.

Observation #1

The Mayor's office and City Attorney conducted an employee training session in May 2010 for all department heads and a large number of governmental employees. The City is currently developing a plan to comply with the state requirement that all employees complete annual ethics training beginning in 2012.

Observation #2

In the 2011 budget the Mayor and Council added additional positions to the Finance Department to improve payment processing times and to ensure control policies are followed. The Finance Department is currently in the process of filling these positions and will complete that process during the early summer of 2011.

Observation #3

The City is committed to more transparency in the entire procurement and contracting process, as evidenced by the selection panels for RFPs that have been meeting in public since the summer of 2010, and the posting of all newly signed contracts on the City's web site. The ECRS system was developed to track the previous contract routing process that had a number of flaws in its design. The Chief Administrative Officer has recently issued a memorandum that redesigns the contract routing process to ensure that appropriate and timely policy, financial and legal reviews take place in a more streamlined fashion. That policy requires that within 60 days a new electronic contract routing system will be implemented to parallel the new contract routing process.

Observation #4

The report notes that the City's Policies and Procedures for accounting systems are outdated. The City agrees that current policies and procedures have not been updated in a timely and comprehensive manner. Some updating has taken place. For example, in 2006 the City hired a consultant to document a number of accounting policies and procedures. The outcome of this engagement provided the City with documented procedures and workflows for use with systems such as BuySpeed and Great Plains. The City will work to overhaul all its policies and procedures in a comprehensive manner as part of the implementation of the ERP system over the next few years.

Observation #5

The report recognizes that the City does not have a electronic storage system for documents and relies more on paper records in different locations that are uncoordinated, making it difficult to assemble all the information about a particular issue in a timely manner. The City agrees that a document management system would greatly improve administrative efficiency, retrieval of documents, ease access to centralized information, and reduce the financial and environmental costs of paper use. At present, funding has not been identified for a comprehensive citywide document management system but the City will assess this need as part of the 2012 budget process. The City is also at present developing records retention policies for City government, and is coordinating these efforts with the State Records Office to ensure compliance with State law requirements.

Sincerely,

Andrew D. Kopplin
First Deputy Mayor & Chief Administrative Officer