Office of Inspector General

City of New Orleans

Follow-Up Report: City of New Orleans Purchasing and Accounts Payable Internal Control Performance Audit

AR12FOL004

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Follow-Up Report: City of New Orleans Purchasing and Accounts Payable Internal Control Performance Audit
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Follow-up #1:   The Financial Systems Administrator and Chief Accountant continued to have the ability to both enter and authorize purchases within AFIN.

Follow-up #2:   The City considered implementing an Enterprise Resource Planning (ERP) system as indicated in the City's corrective action to the 2011 Report.

Follow-up #3:   The ordering and receiving processes remained unchanged.

Follow-up #4:   The City added purchasing approval to the contract amendment process as indicated in the City's corrective action to the 2011 report.

Follow-up #5:   The City continued to make no determination of City tax delinquency prior to processing payments.

Follow-up #6:   The City implemented a process of obtaining tax compliance certificates for contract amendments.

Follow-up #7:   The City continued to bypass the verification process for non-contract vendors. Therefore, the corrective action was not implemented.

Follow-up Observation #1:   Ninety-four percent of the City's employees completed the ethics training required by the state.

Follow-up Observation #2:   Nine new positions were added to the Accounting Department since May 2011.

Follow-up Observation #3:   The City implemented the Electronic Contract Management System (ECMS)[1] which corrected some of the flaws that existed in the Electronic Contact Routing System (ECRS)[2].

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[1] The City's old electronic system.
[2] The City's current electronic system.

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Follow-up Observation #4:   The auditors were unable to test the implementation of this corrective action.

Follow-up Observation #5:   The City drafted a records retention policy.

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EXECUTIVE SUMMARY

In May of 2011, the Office of Inspector General (OIG) issued an audit report titled "City of New Orleans Purchasing and Accounts Payable Internal Control Performance Audit" (2011 Report) to evaluate the adequacy of the City of New Orleans' (City) internal controls related to budgeting, bids, purchasing, contracts, disbursements, and wire transfer processes. A follow-up of the 2011 Report was conducted to determine if the City implemented the corrective actions it agreed to implement.

The follow-up report revealed that the City had implemented three of the seven corrective actions noted in the 2011 report. The City changed its processes and contract amendments were approved by the purchasing department and tax compliance certificates were obtained for contract amendments. However, the lack of segregation of duties described in Finding #1 remained unresolved. Further, the City did not implement an Enterprise Resource Planning (ERP) system. Finally, the City neither verified the status of non-contract vendors nor determined if vendors had delinquent taxes before making payments to them.

Three of the five corrective actions promised in response to observations noted in the 2011 report were resolved. Nine accounting positions were added, a records retention policy was drafted, and the Electronic Contract Management System (ECMS) was implemented to track contracts and their approval electronically. Observation #4 could not be tested because the ERP was not purchased. Ninety-four percent of the City's employees completed the ethics training required by state law.

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I. OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of the follow-up report was to determine whether the City implemented the corrective actions promised in response to the 2011 Report.

The scope of this follow-up was limited to the City's responses to the seven findings and five observations in the May 2011 report.

The methodology was developed in accordance with the *Principles and Standards for Offices of Inspector General* (the Green Book)[3], and included the following:

- Conducted interviews with personnel to gain an understanding of the current processes and controls in place; and
- Evaluated the City's responses to the 2011 Report to determine if the responses were adopted and implemented.

Computer-processed data was provided and relied on, which provided information on the City for the period of the follow-up. A formal reliability assessment of the computer-processed data was performed, and the auditors determined that hard copy documents reviewed were reasonable and agreed with the information contained in the computer-processed data. No errors were found that would preclude the auditors from using the computer-processed data to meet the follow-up objectives or that would change the conclusions in this report.

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[3]Association of Inspectors General, 2004.

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II. FOLLOW-UP: "THE CITY OF NEW ORLEANS PURCHASING AND ACCOUNTS PAYABLE INTERNAL CONTROL PERFORMANCE AUDIT" FINDINGS

Finding #1:
Condition: "The Financial Systems Administrator and Chief Accountant had the ability to both input and authorize purchases within AFIN."[4]

Recommendation #1: "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 Response: "…the AFIN system 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…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 strongly concurs with the report's recommendations… 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."

Follow-up #1: The City's responses were not fully implemented. The Financial Systems Administrator and Chief Accountant continued to have the ability to both enter purchases of goods and services and authorize the same purchases within AFIN. The ERP was in the planning stages. A needs assessment was completed and vendor demonstrations were received, but the ERP system was not implemented due to lack of sufficient funding.

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

Recommendation #2: "The City should consider replacing the AFIN system or develop an alternate way to document approvals."

City's Response: "…The City strongly concurs with the report's recommendations… 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…."

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[4] Advantage Financial Information System.

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Follow-up #2: *The corrective action was implemented. The City considered the ERP system as stated in its response; however the system remained in the planning stages. A needs assessment was completed and vendor demonstrations were received, but the ERP system was not purchased due to lack of sufficient funding.*

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

Recommendation #3: "The City should implement a process to segregate the ordering and receiving processes."

City's Response: "….The City agrees that this potential [loss] 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… 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."

Follow-up #3: *This internal control was not functioning as stated by the City. Of the 25 purchases tested, 21 (84%) of the orders were placed and received by the same individual.[5]*

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

Recommendation #4: "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 Response: "….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."

Follow-up #4: *This corrective action was implemented. Contract amendments were approved by the purchasing department for all 25 contracts tested.*

Finding #5:

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[5]The e-mail requiring separate City employees to perform the ordering and receiving functions was not sent out until after the follow-up review began.

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

Recommendation #5: "The City should implement a process to determine if vendors were delinquent in City taxes prior to processing the payment."

City's Response: "…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."

Follow-up #5: This corrective action was not implemented. The City did not make any progress toward determining whether vendors were delinquent in City taxes prior to processing payments. The ERP was in the planning stages, but the ERP system was not implemented due to lack of funding.

Finding #6:
Condition: "Contract amendments did not require the City to verify that vendors were current on their tax payments."

Recommendation #6: "The City should obtain current tax compliance certificates for all contracts, including contract amendments."

City's Response: See the City's comment to #5 above.

Follow-up #6: The City implemented corrective actions, and obtained tax compliance certificates for contract amendments.

Finding #7:
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."

Recommendation #7: "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."

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City's Response: "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."

Follow-up #7: *This recommendation was not implemented. The City did not verify the status of non-contract vendors.*

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III. FOLLOW-UP: OBSERVATIONS

Observation #1: "Based on routine fraud inquiries with selected City employees, certain employees stated that the City did not require ongoing ethics training and therefore some employees were not receiving ongoing ethics training."

Recommendation for Observation #1: "All City employees should be required to complete the free online ethics program available from the State of Louisiana on an annual basis."

City's Response: "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."

Follow-up to Observation #1: *This corrective action was largely implemented. The City developed a plan for all employees to complete the state required ethics training, and 94 percent of the City's employees completed the training.*[6]

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 was insufficient to perform required tasks in a timely manner."

Recommendation for Observation #2: "The City should increase the Accounting, Purchasing, and Accounts Payable personnel in order to improve response times."

City's Response: "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."

Follow-up to Observation #2: *The City implemented this recommendation; nine positions were added to the Accounting Department since May 2011.*

Observation #3: "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."

Recommendation for Observation #3: "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."

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[6] 220 of the 3,807 employees did not complete the training.

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City's Response: "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 website…. 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."

Follow-up to Observation #3: The City's response to Observation #3 was implemented on August 8, 2011. Although Electronic Contract Routing System (ECRS) had some documents that were stored electronically and some documents that were maintained on paper, all documents were stored electronically in ECMS.

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 for Observation #4: "The City should update the Accounting Policies and Procedures Manual."

City's Response: "…The City agrees that current policies and procedures have not been updated in a timely and comprehensive manner. Some updating has taken place…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."

Follow-up to Observation #4: The auditors were unable to test the implementation of the response because the City did not commit to updating the policies and procedures manual until the ERP system was implemented.

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 for Observation #5: "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."

City's Response: "….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."

Follow-up to Observation #5: *The City implemented the corrective action to Observation #5. The records retention policy was developed.[7] However, the electronic records retention management system funding source had not been identified as indicated in the City's response.*

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[7]The document retention policy has not been approved by the City or state. The City does not have a time frame for adoption.

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