

City of Seattle Office of City Auditor

Susan Cohen, City Auditor



To: Ken Bounds, Superintendent of Parks and Recreation

From: Susan Cohen *Susan Cohen*

CC: Carol Metcalf, Connie McClure, Lewis Turner, Linda Huber, John Franklin, Regina LaBelle, Doug Carey, Councilmembers, Rick Thorson

Date: February 10, 2006

Re: Review of Parks Department Purchasing and Accounts Payable

In July 2005 we began an audit of the internal controls for purchasing and accounts payable related to the potential for fraud and loss of assets in the Department of Parks and Recreation. The scope of this review was limited to the controls over the purchasing transaction cycle for Materials and Supplies. This memo documents and completes our work for this review.

The Department of Parks and Recreation provided the attached February 3, 2006 memorandum fully responding to and addressing the findings and recommendations to our review.

Methodology and Standards

Our methodology included interviews with key personnel, review of electronic data, and review of a sample of invoices/packing slips and credit card transaction reports.

In performing audits, our office follows the Government Audit Standards, as prescribed by the Comptroller General of the United States, and the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing.

Findings and Observations

Overall, we found the Department of Parks and Recreation internal controls relative to the purchasing transaction cycle provide reasonable assurance against employee theft or fraud. Policies and procedures provide multiple means of monitoring employee purchases. For example, the two-signature requirement for direct voucher purchases and credit card purchases ensures that a supervisor has the opportunity to scrutinize all staff purchases. Monthly budget reports and warehouse purchase history reports that allow managers and supervisors to monitor all purchase activity (from the warehouse and outside vendors) are other internal controls against employee fraud and theft.

In our review of the purchasing cycle, we observed three areas that could be improved:

1. Packing slip coding blocks are not consistently completed and forwarded to the Accounts Payable division within the required 2 day timeframe.
 - Packing slip coding blocks are not consistently fully completed (“filled out”). Proper documentation of approvals and receiving dates is important to maintain an adequate audit trail. Audit testwork examining 60 direct vouchers indicated the most frequently missing coding block information is a date on which the goods or services were received and/or when the authorizer approved the purchase. Information was missing for 41 out of the 60 direct vouchers reviewed.
 - Packing slips and receiving slips are not forwarded to the Accounts Payable division within the required 2 day timeframe. The department Accounts Payable Manual states that “packing slips or receiving slips must be returned to Accounts Payable within two working days of the receipt of purchases or completion of services. This time frame ensures prompt payment of vendors, and allows Parks Accounting to take advantage of vendor discounts for early payment.” Occurrences of delayed forwarding of packing slips may cause the department to miss a deadline for which it could have received a discount. However, we did not find any cases of missed discounts during this review.
 - Audit testwork examining 35 direct vouchers indicated the average turnaround between receiving goods or services and the packing slip arrival at Accounts Payable was 4.63 business days.
2. A file of authorized signatures is not maintained.
 - According to the Accounts Payable Accounting Manual, two signatures are required on a coding block stamped on a packing slip One signature acknowledges receipt of the goods/services and the other signature approves the requisition. The same individual cannot receive and approve a requisition. Potentially, an employee could bypass the two signature requirement by forging the second signature. To confirm that the receiving and authorizing signatures on the coding blocks are not forged, the signatures of authorizing department personnel should be scanned and stored on file at the Accounts Payable office.
3. There is no definition of fraud or discussion of the consequences of employee fraud in the resource materials related to department purchasing.
 - Proper communication and documentation of the department’s expectations in regards to purchasing and payables serve as internal controls to help prevent potential employee fraud.

Although this was not within the scope of our review, we suggest that the department examine the range of items stocked and offered through the Warehouse, particularly in the recreation and office supplies categories. In interviews, representatives from several Parks site locations expressed that making credit card or direct voucher purchases for some recreation items and

supplies directly from local vendors/retailers is easier and more convenient than ordering through the Parks Westbridge Warehouse for a number of reasons: vendors have longer hours (the warehouse closes at 3:00 PM whereas many community centers stay open until 9:00 PM), vendors have a wider selection of items available (e.g. the Warehouse doesn't stock all models of printer cartridges, blank CDs, etc.) and there is little or no waiting for deliveries. In addition, some items are less expensive direct from a retail source, and several local retailers will deliver directly to the Parks locations without an additional fee. We suggest evaluating whether stocking and delivering the range of items in the recreation and office supplies categories remains and continues to be a value-added and cost-beneficial service to the department.

Recommendations

Though we found no serious internal control weaknesses, purchasing and accounts payable internal controls could be further strengthened by implementation and consideration of the above items.

Conclusion

Overall, we found the Department of Parks and Recreation internal controls relative to the purchasing transaction cycle for Materials and Supplies provide reasonable assurance against employee theft or fraud.

One issue which came up in this review was whether Parks and other City departments are in compliance with the provisions of SMC Chapter 20.60 (Purchasing and Procurement) which mandates competitively bid contracts (such as blanket contracts) given certain spending volumes. We decided not to address this in this current audit. Instead, our office will add this to our work program and address it in the near future.

We would like to acknowledge, and extend our appreciation for the cooperation we received from the staff in the Department of Parks and Recreation in providing their time for interviews, assistance, and comments during our review.

If you have any questions or comments, please contact me at 233-1093.



MEMORANDUM

DATE: February 3, 2006

TO: Susan Cohen, Office of City Auditor

FROM: Carol K. Everson, Parks and Recreation Finance Director

SUBJECT: Response to Parks Department Purchasing and Accounts Payable Audit

This memo is in response to issues raised in the draft audit memorandum for the 2004 audit of Parks Department Purchasing and Accounts Payable. We appreciate the time that you and your staff spent reviewing the Parks Department in regards to this audit as well as your evaluation and recommendations. We have listed below the issues from your memorandum and our responses. Please let us know if you need any additional information.

1. *Packing slip coding blocks are not consistently completed and forwarded to the Accounts Payable division within the required 2 day timeframe.*
 - *Packing slip coding blocks are not consistently fully completed (“filled out”). Proper documentation of approvals and receiving dates is important to maintain an adequate audit trail. Audit test work examining 60 direct vouchers indicated the most frequently missing coding block information is a date on which the goods or services were received and/or when the authorizer approved the purchase. Information was missing for 41 out of the 60 direct vouchers reviewed.*
 - › **Response.** In the past, the Parks Department has not enforced a requirement for the dates when staff sign and approve receiving documents. Our emphasis has been primarily on getting documents promptly processed and forwarded to Accounting. Because parks and park facilities are located throughout the City, operating in a much decentralized manner has worked most efficient for us. Consequently, we have approximately 270 authorized approvers (one per low org plus some alternates) and approximately 1,000 regular staff (plus another 500 intermittent seasonal staff) who may receive goods (all of our staff are authorized to receive goods) and who are located throughout the City. The challenges in training this many staff in purchasing procedures have been, and remain, considerable.

We strictly enforce the two signature rule and proper coding. Since most items received by the Department come from local vendors, the document shipping date is almost always the “received” date. We have not wanted to send invoices back and delay payment because of a missing date. However, we agree with your recommendation and will provide additional training and communication to staff to remind them to include “receiving” and “approval” dates.

- *Packing slips and receiving slips are not forwarded to the Accounts Payable division within the required 2 day timeframe. The department Accounts Payable Manual states that “packing slips or receiving slips must be returned to Accounts Payable within two working days of the receipt of purchases or completion of services. This time frame ensures prompt payment of vendors, and allows Parks Accounting to take advantage of vendor discounts for early payment.” Occurrences of delayed forwarding of packing slips may cause the department to miss a deadline for which it could have received a discount. However, we did not find any cases of missed discounts during this review. Audit test work examining 35 direct vouchers indicated the average turnaround between receiving goods or services and the packing slip arrival at Accounts Payable was 4.63 business days.*

- › **Response.** The 2-day policy was established many years ago by Parks Accounting in order to encourage rapid receiving, approval and forwarding of documents to Accounting. Because Parks purchasing is decentralized to staff throughout the department — approximately 270 staff are authorized to approve purchases and all staff (1,500 or so) are authorized to “receive” goods — and the Department’s interoffice mail service for most facilities does not occur on a daily basis, it currently is not possible for all documents to be received in Accounting within two days from receipt of goods at our facilities — we handle thousands of documents sent from hundreds of facilities located throughout the City.

We therefore will change our policy to “two days for purchasing documents to be coded, approved and *forwarded* to Accounting”, and 5 days for receipt in Accounting. This has been our policy in practice for many years and is one that worked most of the time. Timeliness is extremely important to us and we routinely discuss it with Department staff. We also regularly provide training emphasizing proper receipt, approval and forwarding of purchasing documents. And, we rarely miss discounts.

2. A file of authorized signatures is not maintained.

- *According to the Accounts Payable Accounting Manual, two signatures are required on a coding block stamped on a packing slip. One signature acknowledges receipt of the goods/services and the other signature approves the requisition. The same individual cannot receive and approve a requisition. Potentially, an employee could bypass the two signature requirement by forging the second signature. To confirm that the receiving and authorizing signatures on the coding blocks are not forged, the signatures of authorizing*

department personnel should be scanned and stored on file at the Accounts Payable office.

- › **Response.** Parks Accounting maintains an Excel list (available on-line to Accounting staff) with authorized purchasing approvers (generally one or two staff per low org — approximately 270 staff plus an additional list of names for vacation coverage).

On an annual basis we update signatures on individual “Acknowledgement of Responsibility” forms that are maintained by Central Accounting but not by Parks Accounting.

We agree that verifying signatures as opposed to just names would provide additional control. We will investigate the feasibility of getting signatures of approvers and their names into the same electronic document that could be reviewed by accounts payable staff that process invoices.

Currently, the Department relies on the following accounting controls:

- Accounting staff routinely check approval names against the Department authorized list of approvers.
- Accounting staff check and enforce the two different signature requirements.
- Managers and supervisors (about 250 staff) regularly review monthly financial reports and are held accountable for their purchasing and authorized budgets, thus most of them are watchful and careful with their expenditures.

3. *There is no definition of fraud or discussion of the consequences of employee fraud in the resource materials related to department purchasing.*

- *Proper communication and documentation of the department’s expectations in regards to purchasing and payables serve as internal controls to help prevent potential employee fraud.*

- › **Response.** We agree with this recommendation. We will discuss this issue with our Human Resources unit and develop a policy. The definition and policy are, however, covered in our policies on the use of credit cards, and we discuss it in the training that we provide to credit card users – currently 230 staff hold credit cards. We have attached the agreement that each card holder must sign, and Item Numbers 1 and 9a from our credit card policy.

4. *Although this was not within the scope of our review, we suggest that the department examine the range of items stocked and offered through the Warehouse, particularly in the recreation and office supplies categories. In interviews, representatives from several Parks site locations expressed that making credit card or direct voucher purchases for some recreation items and supplies directly from local vendors/retailers is easier and more convenient than ordering through the Parks Westbridge Warehouse for a number of reasons: vendors have longer hours (the warehouse closes at 3:00 PM whereas many*

community centers stay open until 9:00 PM), vendors have a wider selection of items available (e.g. the Warehouse doesn't stock all models of printer cartridges, blank CDs, etc.) and there is little or no waiting for deliveries. In addition, some items are less expensive direct from a retail source, and several local retailers will deliver directly to the Parks locations without an additional fee. We suggest evaluating whether stocking and delivering the range of items in the recreation and office supplies categories remains and continues to be a value-added and cost-beneficial service to the department.

- › **Response.** Maintenance Services Division welcomes the opportunity to do continuing education for Recreation staff about purchasing options. We will provide training this year. We also encourage the use of credit cards and direct buying by Parks staff when it is cost effective for them to do so.

5. *One issue which came up in this review was whether Parks and other City departments are in compliance with the provisions of SMC Chapter 20.60 (Purchasing and Procurement) which require departments to purchase from blanket contracts when items are available through blanket contracts. We decided not to address this in this current audit. Instead, our office will add this to our work program and address it in the near future.*

- › **Response.** We are unable to locate a specific requirement in the SMC to use blanket contracts. We would appreciate more specific information as to where the requirement is located in the SMC. This issue also recently came up in correspondence from the City's Purchasing Manager concerning draft new direct voucher rules. The Parks Department is preparing a response to the Purchasing Manager because this requirement, which has not been enforced in the past, is one with which the Department has major compliance problems because of our extensive decentralized purchasing: access to computers to look up blanket contracts, the difficulty and time required to find a specific product in blanket contracts, the time to drive to a vendor that is not close to a worksite, the time for deliveries, and our shift from using direct vouchers and blanket contracts to the use of credit cards because of convenience for our decentralized purchasing method, price and time savings (since 2001, direct voucher transactions have *decreased* from 9,752 to 6,996 and credit card transactions have *increased* from 4,044 to 8,112).

Cc: Wilkinson, Woody
Lewis Turner
Linda Hubert

Attachment

**CITY OF SEATTLE
COMMERCIAL CARD ACCEPTANCE AGREEMENT CONFIDENTIAL**

I, _____, hereby acknowledge receipt of a City of Seattle/Bank of America MasterCard Commercial Card. As a City of Seattle Commercial Cardholder, I agree to comply with all of the terms and conditions of this agreement, which include those in the City's Commercial Card Handbook. I acknowledge receipt of said Commercial Card Handbook, version 2.00, and confirm that I have read and understand the terms and conditions.

I agree to use this card in accordance with the policies outlined in the Commercial Card Handbook that I have received and read, and also in accordance with my Department's individual Card usage policies, which I have also received. I agree **not** to use the Commercial Card for personal purchases nor for any of the items set forth in Section 5 of the City's Commercial Card Handbook. I agree to follow all City Travel rules. This card is issued only in my name and may not be used by anyone else. I will not allow any other person to use my card. I understand that the City of Seattle **will** audit the use of this card and investigate any discrepancies.

I further agree that improper use of this Card can be considered misappropriation of City funds and may result in disciplinary action, up to and including termination of employment and legal action. **Initial Here**

Should I fail to use this card properly, I hereby authorize the City of Seattle to withhold from my wages, that amount necessary to reimburse the City for the misuse.

I understand that the City of Seattle may pursue collection of such amounts, even if I am no longer employed by the City of Seattle.

I will maintain the Card with appropriate security whenever and wherever I may use the Card. If the Card is lost or stolen, I agree to immediately notify Bank of America Commercial Card Services at 1-800-300-3084. I also agree to notify ShaQuina Davis of the Accounting/Treasury Services Division (206-615-0542) or Teri Allen (206-684-5226) and my Department's City Commercial Card Administrator using the steps outlined in the Handbook.

I understand that my department Department's City Commercial Card Administrator will receive a detailed monthly statement that will report all of my purchasing activity during the statement period. I will follow all of the reconciliation steps outlined in the City's Commercial Card Handbook and in accordance with my Department's Card usage policies.

I understand that the City of Seattle may cancel my card at any time, for any reason. Commercial Cards are not issued to all employees, but are issued based on management's decision. I agree to return the card to the City of Seattle immediately upon request or upon termination of employment or transfer to another unit or Department within the City.

Cardholder Name: _____

Cardholder Signature: _____

Employee #: _____

Date: _____

Department: _____

Department Policies received: **YES** _____ **NO** _____ DATE: _____

From the City Credit Card Policy:

1. What is the Commercial Card Program

A Commercial Card is a credit card that may be used to make job related purchases in accordance with the policies outlined in this Handbook and in your Department's Commercial Card usage policies. You may not use this card to make personal purchases nor to purchase any of the items set forth on line five (5) of this Handbook. Doing so will constitute misuse of the Commercial Card. This card is to be used in accordance with Washington's RCW 43.09.2855 and City of Seattle Ordinance 119130. See Section 5 for specific card restrictions.

The Commercial Card Program is administered by the Department of Executive Administration, Accounting/Treasury Services Division in conjunction with the City Procurement Group and participating departments. The Department Commercial Card Administrators will coordinate training and will provide a list of key contacts.

9. What controls are in place for this program

The Commercial Card Program has management controls in place to make certain that guidelines are being met and that the program will continue successfully.

A.) Commercial Card Acceptance Agreement (*attachment D*)

- Each cardholder must read, understand and sign a Commercial Card Acceptance Agreement and also attend training before receiving the card. The agreement contains the terms and conditions by which an employee agrees to use the card. Failure to comply with the Commercial Card Program may result in any of the following:
 - **Revocation of Card**
 - **Withholding of Wages**
 - **Disciplinary actions up to and including termination and legal action**