Opportunities for Ohioans with Disabilities Procurement Audit

Audit Period: July 2013 through October 2014

Results Summary:

Objective	Conclusion*
Requisitioning Processes for Business Operations	**Improvement Needed**
Purchasing Processes for Business Operations	**Improvement Needed**

* Please refer to Appendix A for classification of audit objective conclusions.

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Executive Summary

Background

Opportunities for Ohioans with Disabilities (OOD) provides support to increase employment and independent living outcomes for Ohioans with disabilities through partnerships with business, education and non-profit organizations throughout Ohio. For federal fiscal year 2015, OOD has a budget of approximately $1.35 million for maintenance and equipment purchases to provide administrative support to the programs within OOD.

During the audit, OIA identified opportunities for OOD to strengthen internal controls and improve business operations. OIA conforms to the *International Standards for the Professional Practice of Internal Auditing.* OIA would like to thank OOD staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over the agency's procurement process. Additionally, OIA conducted a consulting review of purchases of goods for Vocational Rehabilitation (VR) consumers. The consulting memo was distributed to agency management and is separate from this report. This work was completed December 2014 through March 2015. The audit period was July 2013 through October 2014.

The scope of this audit included key processes related to:

- Procurement related to requisitioning and purchasing of goods and services for business operations.

OIA performed a payment card review during state fiscal year 2015, and thus payment card purchases have been excluded from the scope of this engagement. Additionally, Ohio Auditor of State performed an audit over contracts related to the Social Security - Disability Insurance (CFDA #96.001) federal program. Therefore, OIA did not perform testing over these contracts.

The following summarizes the objectives of the review:

1. Evaluate the design and effectiveness of controls over the requisitioning processes for goods and services for business operations.

2. Evaluate the design and effectiveness of controls over the purchasing processes of goods and services for business operations.

Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

Observation 1 – Segregation of Duties

Adequate internal controls establish a segregation of duties to prevent asset misappropriation or financial misstatement. Incompatible duties may include: custody of assets; authorization or approval of transactions affecting those assets; and recording or reporting related to those transactions. Procedures should be designed to prevent one employee from being assigned incompatible duties. In a purchasing process, the purchasing and receiving duties should be segregated and a fiscal accounts payable department should receive invoices from vendors. However, after requisitions are approved and purchase orders generated, the purchasers are responsible for receiving goods and vendor invoices and also for submitting invoices to Ohio Shared Services for payment processing.

Failure to segregate purchasing and receiving duties increases the likelihood that purchased goods may be lost, stolen, or misappropriated without timely detection.

Recommendation

Develop and implement processes so that purchasing and receiving duties are appropriately segregated. An ideal process includes purchasing staff placing orders and forwarding purchase orders to fiscal accounts payable and receiving staff members. Receiving staff members accept deliveries and reconcile goods received to purchase orders then forward receiving documents to fiscal accounts payable and purchasing staff.   Accounts payable staff receives invoices and reconciles to items ordered and items received before approving invoices for payment. Design and implement mitigating internal controls for instances in which it is not feasible or is cost prohibitive to appropriately segregate incompatible duties. Document the purchasing process workflow and mitigating controls in written policies and procedures.

Management Response

OOD will reinforce existing policies and procedures to ensure that duties in the purchasing process are properly segregated. Specifically, OOD will assess the roles of purchaser, receiver, and invoice approver within the purchasing process to ensure that at least two separate individuals are performing those duties.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Fiscal Officer 3	September 2015

Observation 2 – Non-Compliance with Procurement Rules and Internal Policies

Every agency should have in place an established process for initiating contracts and purchases. Policies surrounding this process provide safeguards for the agency and help ensure a variety of necessary measures, including proper approval, knowledge of requested assets, verifying necessity of purchases, and appropriate attainment of goods.

The Department of Administrative Services (DAS) State Procurement manual provides requirements surrounding purchasing and contract processes. State agencies may develop additional policies over these processes, but at minimum, are required to adhere to the DAS requirements.

Additionally, the agency's internal Procurement Policy requires employees responsible for purchasing to complete the following prior to making a purchase:

- Give consideration to certain state resources prior to making the purchase from another source;
- Obtain a minimum of three quotes from State Term Schedule (STS) suppliers offering similar or like items. Unless a contract specifically states that its use is optional, agencies are required to use STS contracts before using their direct purchasing authority;
- Obtain pre-approval from OIT for purchases of Information Technology, telecommunications, printed goods, vehicles and multi-functional print devices;
- Obtain two verbal quotes for any purchases under $500 and keep a log of suppliers contacted, the supplies sought, the person contacted and the price quoted;
- Obtain three written quotes for any purchases over $500;
- If not advantageous to select a supplier based on lowest cost, select a supplier using a Request for Proposal;
- Obtain the approval from the Agency Procurement Officer for contracts and purchases greater than $25,000; and
- Obtain Controlling Board approval for purchases of more than $50,000.

Testing of a sample of 25 paid vouchers for business operations during the period July 2013 through October 2014 resulted in the following:

- Thirteen (52%) did not have evidence that the purchaser obtained the necessary bids or quotes, including:

  - Two purchases under $500 did not have evidence that the purchaser attempted to obtain two verbal quotes;
  - Six purchases over $500 did not have evidence that the purchaser attempted to obtain three written quotes; and

- o Five purchases made from STS suppliers did not have evidence that the purchaser attempted to obtain three written quotes.

- Three (12%) non-IT purchases not purchased from an STS vendor did not have evidence that the purchaser obtained a waiver from DAS to use direct purchase authority.

Additionally, zero of five (100%) equipment purchases with an asset account code were recorded in the OAKS Asset Management System.

Finally, the agency's procurement policy does not outline specific procedures for considering and utilizing MBE/EDGE contracts.

A lack of enforcement to hold employees accountable and to ensure compliance with DAS and agency policies and procedures can lead to inconsistent and ineffective administration over procurement and contracting processes, as well as noncompliance with applicable laws and regulations. In addition, noncompliance with state procurement requirements may result in invalid or fraudulent purchases.

Recommendation

Review and update internal procurement policies to comply with DAS purchasing requirements. Consult with DAS to provide the necessary training to ensure all purchasers are aware and understand procurement rules and documentation requirements. Design and implement a checklist (or consider use of the DAS Compliance Procurement Checklist) to document the requisition and purchasing process and ensure all necessary documentation is maintained to evidence the process.

Design and implement controls to detect instances in which procurement policies are not followed, such as periodic monitoring and analysis of non-payroll expenditures. An analysis of the transactions may identify anomalies and unusual activity as well as validate that required documentation is completed and maintained. Examples of analysis criteria may include identifying transactions that have the following:

- OAKS coding errors;
- Incomplete documentation (i.e.; quotes, DAS waivers); and/or
- Incomplete record of purchased equipment in OAKS Asset Management System.

Design and implement controls to ensure that equipment purchases with an asset account code are timely recorded in the OAKS Asset Management System.

Management Response

OOD will review and update internal procurement policies to comply with DAS purchasing requirements, consulting with DAS as needed to obtain training resources or other technical assistance related to the procurement process. Additionally, in order to ensure that the procurement process is consistently followed in central office and all field office locations, OOD will create a new position within Finance dedicated specifically to management of the

procurement process for the agency.

OOD will design and implement tools such as checklists or desk references to guide staff who participate in the procurement process through the requirements at each step.

OOD will design and implement a process to monitor procurement transactions periodically in order to detect instances of non-compliance.

Finally, OOD will update the OAKS Asset Management System to reflect all existing items purchased under an asset account code. OOD will also design and implement a process to ensure that all future asset purchases are properly recorded in the OAKS Asset Management System.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Fiscal Officer 3	September 2015

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.

Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee