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# Opportunities for Ohioans with Disabilities Purchasing Audit

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**Audit Period: July 2017 through April 2018**

## Results Summary:

Objective	Conclusion
<b>Administrative Goods and Services Purchases for the Vocational Rehabilitation and Independent Living Programs</b>	<b>Improvement Needed</b>
<b>Goods and Services Purchases for Vocational Rehabilitation and Independent Living Consumers</b>	<b>Well-Controlled with Improvement Needed</b>
<b>Goods and Services Purchases for OOD's Administrative Operations</b>	<b>Improvement Needed</b>

\* Refer to Appendix A for classification of audit objective conclusions.



## 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. Basic Vocational Rehabilitation services include activities designed to assist individuals with disabilities to engage in gainful employment capitalizing on their strengths, resources and abilities. OOD counselors purchase goods for consumers in the Vocational Rehabilitation (VR) program to help consumers secure or retain employment.

The Independent Living (IL) Program provides services to assist individuals in maximizing independence and productivity and supports the integration of individuals with disabilities into mainstream society. During the period July 2017 through April 2018, OOD spent approximately \$72.2 million on consumer goods and services and \$6.9 million on administrative purchases. During the period February through April 2018, OOD spent approximately \$445,000 on VR and IL administrative goods and services.

During the audit, OIA identified opportunities for OOD to strengthen internal controls and improve business operations. OIA conforms with 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 purchasing process. This work was completed March through June 2018. The scope of the engagement included the key procurement processes related to requisitioning and purchasing of goods and services for the following:

- Vocational Rehabilitation (VR)
- Independent Living (IL)
- OOD Operations to include IT, Facilities and Office Supplies

The audit period was July 1, 2017 through April 30, 2018 except for the purchases of programmatic administrative items (Objective #1) for which the audit period was February through April 2018 due to a process change. The specific audit objectives included:

- Objective 1 - Evaluate the design and effectiveness of controls for purchasing administrative goods and services for the VR and IL programs.



- Objective 2 - Evaluate the design and effectiveness of controls for purchasing goods and services for VR and IL consumers.
- Objective 3 - Evaluate the design and effectiveness of controls for purchasing goods and services for OOD's administrative 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 observation was considered as part of the audit objective conclusions.



## Observation 1 – Inadequate Controls over Procurement

Policies, procedures and a sound internal control framework help ensure the actions initiated by management to address risks are performed and the entity's objectives are achieved. Procedures should define roles, designate responsibilities, and detail actions necessary to achieve management's objectives and help ensure compliance with applicable laws and regulations. In addition, detailed procedures help ensure the continuity of the process in the event of personnel turnover. Best practices for procurement processes also include a periodic review of purchases to ensure the process is completed as intended and purchases are made appropriately.

State purchasing laws, rules, and regulations are outlined in Ohio Revised Code, Ohio Administrative Code, Executive Orders, and Department of Administrative Services (DAS) Directives. Key purchasing requirements include:

- Identification of required state sources. Prior to making any purchase, the purchaser must first determine if the supply or service is available from a required state source.
- Use of DAS mandatory contracts. If the supply or service is not available from a required state source, the purchaser must determine if available from a mandatory DAS contract.
- Use of DAS optional contracts. DAS State Term Schedules (STS) are not mandatory. DAS STS guidance states that all purchases referencing STS contracts requires the receipt of at least three quotes. Agencies must complete an STS Contract Purchase form in OAKS FIN for all purchases made using STS purchase authority.
- Pre-approval from DAS is required for purchases of information technology, telecommunications, printed goods, vehicles, and multi-functional print devices.
- Two verbal quotes are required for any purchase under \$500 and three written quotes are required for any purchase over \$500.
- All contracts or purchases for more than \$25,000 require documentation of bids before being signed.
- Administrative purchases and contracts of \$50,000 or more require Controlling Board approval prior to execution.

OOD's key controls for ensuring compliance with state purchasing requirements have weaknesses. For example:

- For administrative purchases, OOD has initiated a pilot program during February 2018 for the Senior Sourcing Analyst to review and approve all Request to Purchase (RTP) forms to ensure purchasing requirements are met. However, there is no procedure to identify the types of purchases that require the Senior Sourcing Analyst's (or other purchasing authority's) approval of the RTP form prior to purchasing goods or services. The RTP



form includes a checklist for the Senior Sourcing Analyst to confirm if the purchase requires approval from the Controlling Board, DAS, or is subject to required state sources or mandatory contracts. However, the checklist does not include any confirmation that quotes or bids were received as required by state purchasing rules.

- According to the Senior Sourcing Analyst, during the period of February through April 2018, four administrative purchases had been approved through the RTP approval process. OIA tested all four and noted the following:
  - One of four (25%) did not have documentation of the RTP form attached to the voucher in OAKS FIN and the remaining three did not have documentation of completed RTP checklists attached to the voucher in OAKS FIN.
- Two (10%) purchases, for \$3,616 and \$516, respectively, did not have three quotes attached to the voucher in OAKS FIN.
- The Senior Sourcing Analyst performs monthly reviews of IT, facility, and administrative purchases, including payment card transactions, by testing a sample of transactions from a month-end transaction listing to ensure transactions were properly procured and supporting documentation is maintained in OAKS. The Senior Sourcing Analyst documents any issues and communicates results to the Finance Manager and the purchaser(s). OIA tested two of the month-end reports (August and December 2017) including a sample of five transactions from each month to re-perform the Senior Sourcing Analyst's review. The following issues were noted:
  - Two (100%) month-end reports did not have documentation that the results were sent to the Finance Manager.
  - One (50%) month-end report review was not completed.
  - Three (75%) of four transactions tested that required written or verbal quotes lacked supporting documentation of verbal quotes (the three purchases were each under \$500) attached to the voucher in OAKS FIN.
  - The monthly review is an inefficient process to detect non-compliance with purchasing rules. Specifically, the sample sizes for August and December 2017 were 68% (126 transactions) and 71% (112 transactions) of the populations, respectively, with only two errors detected by the senior sourcing analyst.
- The CIO's approval was documented for all transactions tested for IT purchases during the period July 2017 through April 2018; however, during discussions with IT managers, it was noted that the CIO may give verbal, rather than documented, approval.

Lacking or weak key controls throughout the purchasing process may lead to inconsistent processes, inappropriate purchases, or non-compliance with purchasing rules.



### Recommendation

Define the purchasing process so those with purchasing authority can easily determine the appropriate approval process. This process should outline the processes to ensure required state sources and mandatory contracts are used, necessary approvals or waivers are received, and the required bids or quotes are obtained and documented. Develop and implement a checklist or workflow to document adherence to purchasing requirements prior to procurement of goods or services.

Develop and implement procedures and the necessary training for agency purchasers to outline the types of purchases that require use of the RTP form and the Senior Sourcing Analyst's, or designee's, approval prior to purchase. The RTP checklist must be consistently completed and maintained to evidence compliance with purchasing rules. Update the RTP checklist to include verification that the required bids or quotes were received and documented. Implement detective monitoring procedures to identify purchases that do not obtain necessary approval from the Senior Sourcing Analyst; document results of monitoring reviews as well as communication to responsible parties.

All month-end reviews should be fully documented and supported with results sent to the Finance Manager for review and oversight of the review process. Develop and implement a risk-based methodology to determine the types of purchases to select for review. For example, purchases that exceed a determined threshold or those from purchasers or departments with past issues should be selected for review to help ensure compliance with laws and regulations and that all necessary documentation is maintained. Consider selecting a standard sample size to review and expanding the sample if many errors are detected and to identify trends or patterns.

Create and/or update policies and procedures over the procurement process. All policies and procedures should be reviewed periodically by management to ensure they remain up-to-date with current practices.

### Management Response

The observations noted in the pilot process implemented in February 2018 have identified opportunities for improvement.

OOD Fiscal will finalize the OOD procurement manual to guide purchasers through the process with more ease by October 2018. This manual will outline the procurement process, when to use the request to purchase (RTP) form and outline use of required sources and mandatory contracts. Training on the procurement manual will coincide with policy/procedure training for purchasers in December 2018.



OOD will implement controls within Finance to ensure the request to purchase (RTP) form is attached to purchase order requests. When using a p-card for the purchase, the Sourcing Analyst will provide written approval and instruct the purchaser to attach supporting documentation to p-card log. This applies to purchases made by departments within the pilot (e.g., VR, BE, HR, Communications, excludes IT, facilities and DDD.). The RTP form will be updated by August 2018 to include confirmation that quotes were received as required by State procurement.

To monitor the above controls, OOD will ensure monthly reviews are completed to identify purchases that may not have followed the process. If a purchase is found to not have followed the process, Finance will follow-up with parties to provide guidance and ensure purchasing rules are followed. The Senior Sourcing Analyst will review 10% of all purchases not to exceed 20 per month. The Finance Manager will ensure evidence that monthly reviews have taken place. The revised monitoring review process will be in place by July 2018.

OOD will update Finance policies and procedures for purchasing and ensure staff are notified and acknowledge the revisions. OOD will routinely review the policies and procedures and keep the information current so that agency purchasers understand and follow state purchasing rules. It is anticipated that policy revisions will be made by November 2018 with training provided to purchasers by December 2018.

The above work will be completed by January 2019. By March 2019, the process will be in place for three months and will be sufficient time to ensure the process is working correctly for testing.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Financial Manager	March 31, 2019

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
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
<b>Well-Controlled with Improvement Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Improvement Needed</b>	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.
<b>Major Improvement Needed</b>	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
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
<b>Moderate</b>	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
<b>High</b>	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