



Office of the City Auditor

CONSENT CALENDAR  
March 15, 2005

To: Honorable Mayor and  
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: Purchase Order Audit – Select Public Works Divisions At the Corporation Yard

RECOMMENDATION

We are asking Council to request the City Manager to report back on September 13, 2005 regarding the implementation status of each of the City Auditor's recommendations in the attached report, and continue to report back every six months thereafter, until all recommendations have been implemented.

SUMMARY

A performance audit was performed to:

1. Determine if purchase order purchase and payment activity for the Equipment Maintenance Division and Streets and Utilities Division of the Public Works Department:
  - a. Is in compliance with written policies and procedures.
  - b. Has an adequate internal control structure.
2. Evaluate the effectiveness of efforts by Equipment Maintenance Division and Streets and Utilities Division staff to reduce workers' compensation claims.

The audit report contains eleven audit findings and twenty-three recommendations.

FISCAL IMPACTS OF RECOMMENDATION

The audit did not look at the cost to implement the audit recommendations. However, care was taken not to make audit recommendations that did not appear cost effective to implement.

CURRENT SITUATION AND ITS EFFECTS

Concerns identified during the audit include the following:

- The City Purchasing Manual, which is maintained by the Finance Department, is very outdated. (Finding 1)

- There are a number of managers, supervisors, and other employees in the Equipment Maintenance and Streets and Utilities Divisions that can perform one or more incompatible purchasing related duties. (Finding 2,10) Additionally, a couple of employees have not been properly authorized to perform some of their purchasing duties. (Finding 7,10)
- A senior supervisor gave his FUNDS\$ password to a subordinate supervisor, which gave the subordinate supervisor the ability to perform incompatible duties, such as review and approve some of his own work, under his supervisor's ID. (Finding 2)
- The parts inventory in Equipment Maintenance is not secure and procedures are not in place to detect parts inventory used for purposes other than to repair City equipment. (Finding 4,5) Additionally, procedures are not in place that provide a reasonable assurance that Equipment Maintenance is being reimbursed by other departments for the parts and outside service purchases it buys to repair their equipment. (Finding 6)
- Sufficient competitive pricing, or price negotiation, is often not obtained before a purchase order is issued for Equipment Maintenance. (Finding 3)
- The monthly documented safety inspections required by the City's Illness and Injury Prevention Plan are seldom performed in the Streets and Utilities Division. (Finding 11)

#### RATIONALE FOR RECOMMENDATIONS

The audit identified a number of areas where purchasing and payment procedures, as well as safety monitoring, could be improved. It also identified many internal control weaknesses likely to create conditions such that waste and abuse could go undetected. Implementation of the audit recommendations in this report will:

- Improve the efficiency and overall internal control structure over purchasing in Public Works and Citywide.
- Reduce the risk to the City that inappropriate or unnecessary purchases will be made and go undetected, or that City assets will be stolen.
- Increase the likelihood that competitive prices are paid for goods and services.
- Better ensure that the Equipment Maintenance Division bills other City departments for all the parts and outside services it purchases to repair City equipment.
- Possibly decrease the risk of employee accidents and injuries.

CONTACT PERSON

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Approved:

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