

September 2018



## Office of Internal Audit

### Why We Did This Audit

This audit was conducted as part of the Office of Internal Audit's Fiscal Year 2016 Audit Plan.

### What We Recommend

We made the following recommendations:

- The Office of Procurement (OP) use the IRS Tax Identification Matching program to vet vendors.
- The OP establish a timeframe to periodically review and update the Vendor Master File.
- The OP limit edit rights to only those employees in the OP.
- The OP establish workflow rules in Munis alerting the Chief Procurement Officer of any changes to the Vendor Master File.
- The OP update user access to the Vendor Master File regularly and upon changes in personnel.
- The OP monitor departments' compliance with the City's procurement policy in which goods and services are requisitioned and approved prior to when the services and/or goods are rendered/received and notify departments of continued noncompliance.

(Continued on page 2)

# Citywide Purchasing and Accounts Payable Performance Audit Highlights

## Audit Results

Except for the matters discussed in the accompanying report under Findings and Recommendations, the internal controls over the purchasing and accounts payable processes are generally adequate to ensure compliance with Massachusetts General Laws, the City of Springfield's (City) ordinances, and the City's purchasing and accounts payable policies and procedures.

## Background

The City's purchasing and accounts payable processes include the full procurement cycle from the initial requisition to the final payment including the required approvals, acceptance of goods and/or services, invoice processing, and payment processing.

During Fiscal Year (FY) 2016 and FY 2017, the City disbursed \$502,149,606 and \$510,679,559 on goods and services, respectively. Each department is responsible for initiating the purchase of goods and services and obtaining the appropriate approvals. The Office of Budget and Management (OMB) approves all requisitions. The City's Office of Procurement (OP) administers the procurement of goods and services for the City, including approving all requisitions, and maintaining the Vendor Master File in the City's accounting system, Munis. The Comptroller's Office is responsible for authorizing and posting payments for goods and services received. The Treasurer's Office prints, signs, and mails the checks.

## Objectives and Scope

The primary objectives of this audit were to:

- Determine whether the City's purchases are processed in compliance with Massachusetts General Laws, the City's ordinances, and the City's policies and procedures.
- Determine if adequate controls exist over the process of vendor setup, maintenance, and validation.

The audit scope included purchases made within FY 2016 and FY 2017. Payroll and purchase card expenditures at Springfield Public Schools were excluded from our scope and may be the subjects of future audits.

(Continued on page 2)

**What We Recommend (continued)**

- The Comptroller's Office establish a policy to define a uniform naming convention for invoices.
- The OP and Comptroller's Office provide training to departments on the City's procurement policy and department manager's oversight responsibilities.
- All employees comply with the City's Computer Use policy by not sharing user IDs and passwords.
- The OP develop a monitoring program that periodically reviews new purchase orders which are unlinked to contracts.
- The Office of Management and Budget notify the Comptroller's Office whenever requisitions for goods and supplies that are equal to or greater than \$50,000 are issued to ensure that they are properly recorded as capital assets.
- The Comptroller's Office propose the Citywide Proper Municipal Expenditure Policy to the Mayor and the City Council for codification.
- The City establish a policy for applying for refunds of the exempt uses of motor fuels.

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**What We Found**

- Duplicate payments were made to vendors.
- Vendors were not verified prior to set up in Munis. Also, the Vendor Master File was not periodically reviewed or updated.
- Inappropriate individuals were granted edit rights to the Vendor Master File.
- Requisitions were approved after goods were received and services were rendered.
- Individuals inappropriately approved invoices in Munis.
- Purchases were approved by department managers with deficiencies, including purchases made with incorrect invoices, purchases made on an incorrect contract, and others were made without contracts in place.
- Purchase orders were not correctly linked to contracts.
- A capital asset was inappropriately expensed.
- The draft Citywide Proper Municipal Expenditure policy has not been codified or implemented.
- The City does not have a policy to apply for refunds of the exempt uses of motor fuel.



## INTRODUCTION

Chapter 468 of the Acts of 2008 authorizes the Director of Internal Audit to examine the records of the City and its departments to prevent and detect waste, fraud and abuse and to improve the efficiency, effectiveness and quality of public services provided in and by the City. In accordance with this legislation, all offices and employees of officers, boards, commissions, agencies and other units of City government are required to comply with requests for information or access to systems and records by the Office of Internal Audit (OIA). The following audit aligns the authority and goals of the OIA with those of the City. Specifically, this audit addresses the City's values related to accountability such as integrity, fiscal responsibility, and transparent practices. The audit also supports the City's strategic priorities ensuring operational excellence, fiscal health and sustainability in all divisions, departments, programs, and activities.

This report is not intended to be an adverse reflection of the City or its departments. The intent is for City management to use these findings and recommendations to help make future well-informed strategic decisions while ultimately meeting City objectives.

## BACKGROUND

Massachusetts General Laws, including Chapter 30B, *Uniform Procurement Act*, (Chapter 30B) and the City's Ordinance Section 82, *Purchasing and Contracts*, (Ordinance Section 82) establish citywide guidelines, uniform procedures, and related internal controls for management of the City's purchases and accounts payable. Effective November 7, 2016, Ordinance Section 82 was amended to incorporate the statutory changes to Chapter 30B, including new thresholds and requirements in Chapter 218 of the Acts of 2016, *An Act Modernizing Municipal Finance and Government*.

The City of Springfield's purchasing and accounts payable processes include the full procurement cycle from the initial requisition to the final payment including the required approvals, acceptance of goods and/or services, invoice processing, and payment processing.

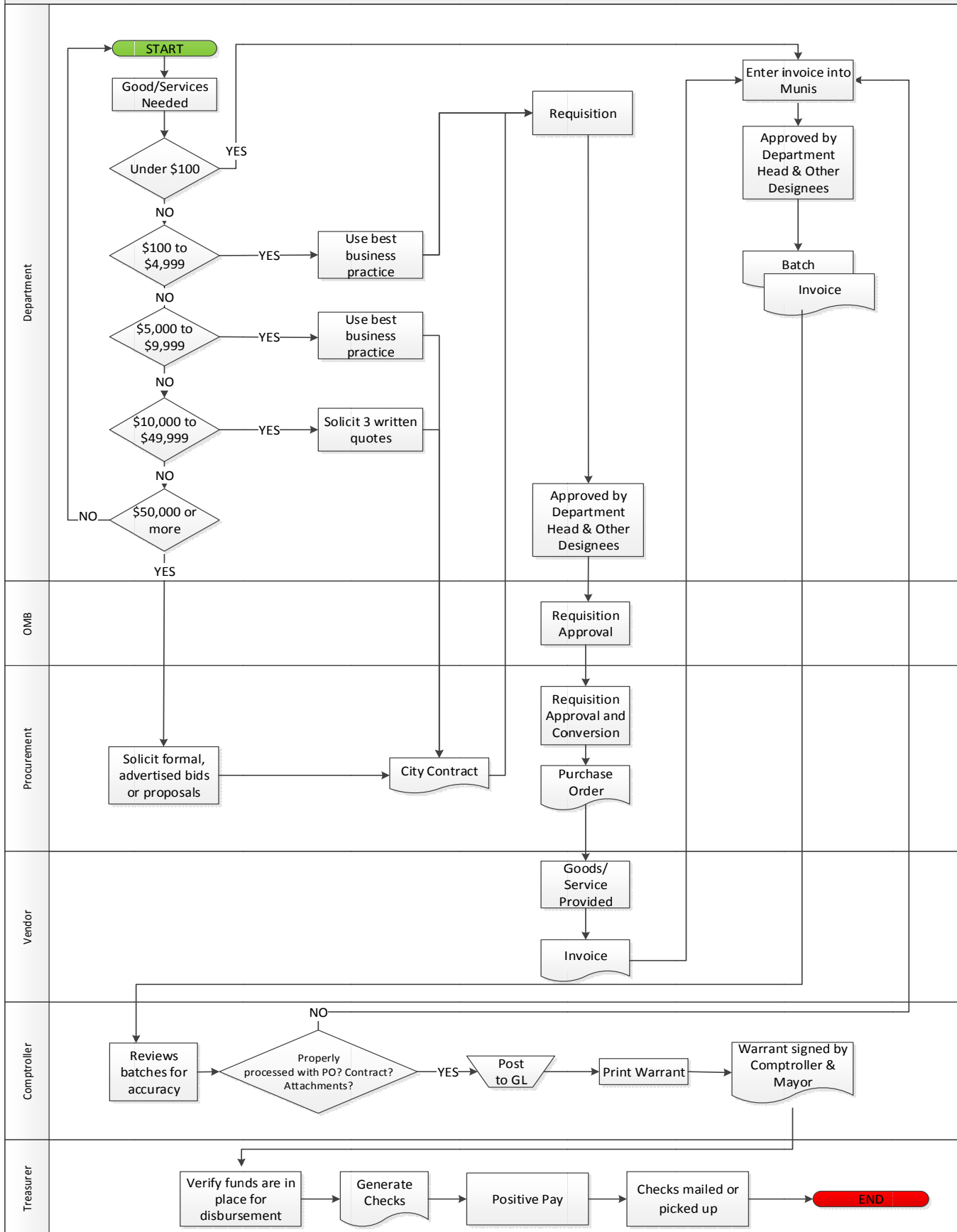
Each department is responsible for initiating the purchase of goods and services and obtaining the appropriate approvals. The Office of Budget and Management (OMB) approves all requisitions. The City's Office of Procurement (OP) administers the procurement of goods and services for the City, including approving all requisitions, and maintains the Vendor Master File in the City's accounting system, Munis. The Comptroller's Office is responsible for authorizing and posting payments for goods and services received. The Treasurer's Office prints, signs, and mails the checks.

During Fiscal Year (FY) 2016 and FY 2017, the City disbursed \$502,149,606 and \$510,679,559 on goods and services, respectively.

The purchasing and accounts payable processes are further described in the following flowchart:



Purchasing and Accounts Payable Process as of June 30, 2017





## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The Purchasing and Accounts Payable Performance Audit was conducted as part of the Office of Internal Audit's FY 2016 Audit Plan, as presented to the Audit Committee of the City Council.

### **Objectives**

The primary objectives of this audit were to:

- Determine whether the City's purchases are processed in compliance with Massachusetts General Laws, the City's ordinances, and the City's policies and procedures; and
- Determine if adequate controls exist over the process of vendor setup, maintenance and validation.

### **Scope**

Our audit included purchases made within FY 2016 and FY 2017. Payroll and purchase card expenditures at Springfield Public Schools were excluded from our scope and may be the subjects of future audits.

### **Methodology**

To accomplish our objectives, we performed the following audit procedures:

- Interviewed employees to gain an understanding of the operational processes and procedures, including the Chief Procurement Officer and City Comptroller;
- Reviewed applicable City policies and procedures, the City's ordinances, and Massachusetts General Laws;
- Analyzed vendor payment history for potential inactive vendors;
- Analyzed the Vendor Master File to identify potential duplicate vendors;
- Analyzed user access rights to the Vendor Master File;
- Tested a sample of City vendors to determine their validity;
- Tested a sample of transactions in Munis for appropriateness of approvals;
- Tested a sample of disbursement transactions that occurred during FY 2016 and FY 2017 to determine if the transactions were processed in compliance with Massachusetts General Laws, the City's ordinances, and the City's policies and procedures, and to verify the accuracy of data provided to the City Comptroller;
- Using Audit Command Language (ACL) software data mined purchases made in FY 2016 and FY 2017 for duplicate payments; and
- Performed other tests deemed as necessary.

Our findings and related recommendations are in the following sections of the report. Each affected department was given the opportunity to respond to the findings. The departmental responses are incorporated into the report following each finding and recommendation.



## FINDINGS AND RECOMMENDATIONS

### Finding 1: Duplicate payments were made to vendors.

We analyzed FY 2016 and FY 2017 purchases for duplicate payments using ACL software. For FY 2016, we identified ten duplicate payments totaling \$43,172 in overpayments to vendors. Two of these duplicate payments totaling \$6,220 were either resolved or in the process of being resolved prior to our testing. In both of these instances, the vendors had identified the duplicate payment for the \$6,220 discussed above. For the remaining eight duplicate payments totaling \$36,952, the process of resolving the duplicate payments had not begun until we notified the departments of the duplicate payments. For FY 2017, we identified two duplicate payments, totaling less than \$100, both of which the vendors had identified the duplicate payments.

The causes of the duplicate payments appear to have been for the following reasons:

- Identical invoices with different invoice numbers; and
- Duplicate vendors set up in Munis.

### Recommendation

We recommend that the following actions be taken to reduce the risk of duplicate payments:

- The recommendations in Finding 2 be implemented to reduce the number of unintentional duplicate vendors in Munis; and
- The Comptroller's Office establish a policy to define a uniform naming convention for invoices.

### Management Response

#### Office of Procurement

OP does not have care or control over invoice processing, but will continue to monitor for duplicate invoices in the normal course.

#### Comptroller's Office

We agree with the findings on duplicate payments to vendors and are in the process of creating a citywide policy which will include a uniform naming convention to flag possible duplicate invoice entries prior to payment. The Comptroller will assist the Chief Procurement Officer to identify the circumstances in which a duplicate vendor must be created in the Munis Vendor File. All other duplicate vendors will be purged from the system.

**Finding 2: Vendors were not verified prior to set up in Munis. Also, the Vendor Master File was not periodically reviewed or updated.**

All vendors are required to provide a completed and signed Form W-9 before setup in Munis. However, such information on the W-9 is not verified. Without such verification, there is a risk of setting up invalid vendors, and therefore creating opportunities for fraud.

We noted that periodic reviews of the Vendor Master File data were not being performed. The OP is aware of this issue. Based on our review of the Vendor Master File, we noted 7,136 (or 41%) active vendors with no payment activity for the preceding five years that potentially should have been classified as inactive. We also noted that the Vendor Master File contained 381 vendors with different vendor numbers but the same tax identification numbers. Failure to regularly maintain and review vendor file data increases the chances for duplicate and erroneous payments (see Finding 1) and fraud.

**Recommendation**

We recommend that the OP update its standard operating procedures to include the following:

- Requirement to validate information of Form W-9 to the IRS Tax Identification Matching program;
- Establish a time frame to periodically review and clean up the Master Vendor File. Inactivate vendors with no payment activity for a specified period of time;
- Correct duplicate vendor information; and
- Regularly review changes to the Master Vendor File.

**Management Response**Office of Procurement

All vendors that entered into Munis have EIN/SS# checked against the Vendor file to limit duplication. OP agrees with the IA finding in that it will work to periodically/annually review the vendor file for duplicate vendors that may have been entered by City Staff that previously had permissions to alter the vendor module.

OP agrees with the IA finding in part to explore utilizing the IRS's TIM program to double check entities are legitimate before assigning vendor numbers, and will research how to integrate that resource into existing procedures, as well as updating its training policy for vendor maintenance.

The OP disagrees with the finding of utilizing the "inactive" feature on the vendor module, largely due to the additional level of involvement and research this additional task would utilize. OP will continue to label vendors as "STOPS" whenever appropriate or when duplicate vendors are discovered, but will not be labeling any vendor as inactive due to potential for confusion of users.

OP agrees with the IA recommendation to limit the pool of City staff that are capable of performing vendor maintenance. Additionally, OP will continue to train other Departments on the use of the "remit" address function, which allows for a vendor to have multiple addresses/contacts without having duplicate numbers. OP has consistently requested additional staff in order to better implement many of the procedures suggested by IA. The current staffing levels in the office make the management of the vendor file, especially given the changes to vendor maintenance being an exclusive OP function, making implementing all of the suggested procedures difficult.



**Finding 3: Inappropriate individuals were granted edit rights to the Vendor Master File**

We noted 22 individuals from various departments outside of the OP had edit rights to the Vendor Master File, including two employees who no longer work in the OP and one separated employee. These departments included the Springfield Public Schools (SPS) Business Office, the Comptroller's Office, the OMB, the Office of Internal Audit, the Legal department, the Parks, Buildings and Recreation Management (PBRM) department, and the Information Technology (IT) department. The OP should be the only department with edit rights to the Vendor Master File; and authorized employees outside of the OP should be granted read-only rights to the Vendor Master File.

Also, granting access to the Vendor Master File to the SPS Business Office, the Comptroller's Office, and the OMB employees creates a segregation of duties risk. Employees from the SPS Business Office and the Comptroller's Office can create and approve invoices and add/delete vendors. Likewise employees from the OMB can approve purchases and add/delete vendors. These conflicting duties increase the risk that unauthorized payments could be processed and go undetected.

**Recommendation**

We recommend that the OP work collaboratively with the IT department on the following:

- Limit edit rights to the Vendor Master File to only those authorized employees in the OP;
- Grant read-only rights to the Vendor Master File to authorized employees outside of the OP;
- Establish workflow rules in Munis alerting the Chief Procurement Officer or her designee of any changes to the Vendor Master File; and
- Update the user access information regularly and upon changes in any key OP personnel.

**Management Response**Office of Procurement

The OP has met with both the Comptroller's Office and Internal Audit to identify City staff that have vendor module permissions as either former OP employees or employees who at one time were tasked with vendor maintenance. OP is working with IT to modify permissions of current and former City staff to limit the amount of Munis users capable of vendor maintenance. Most, if not all of these City staff permissions have been rectified, and OP will work with IT to address employee adjustments as they may be needed in the future (ie, employee leaving OP, etc. ).

Workflow process has been discussed but may not be feasible due to the volume of vendor maintenance the OP performs, making the function of review and verification impossible to track/approve at current staffing levels. The proposed method of limiting the amount of staff capable of performing vendor maintenance functions in Munis is a much more preferred control method.

Read only permissions are a basic Munis function that is already in place in the vendor module to the vast majority of users. Additional trainings and "how-tos" are anticipated for FY 2019.

Information Technology

We are in the process of completing this. The School Department Business Office has been done.



**Finding 4: Requisitions were approved after goods and/or services were received and/or rendered.**

We noted that of the 145 purchases tested 40, or 28%, of the requisitions totaling \$433,711 were approved after the invoice date. Additionally, we noted that \$87,075 of turf maintenance related services were rendered by a PBRM vendor in FY 2016 and FY 2017 without the requisition and approval from the Department Head. In accordance with the City's Accounts Payable policy, goods and services greater than \$100 purchased by City departments should be requisitioned and approved for purchase by the OMB, the OP, and the Department Head (or their designee) prior to the actual performance by the vendor. This will ensure invoices are processed efficiently, vendors are paid timely, and that purchase commitments are properly encumbered.

**Recommendation**

We recommend the following:

- Departments follow the established procurement policy in which goods and services are requisitioned and approved prior to when the services and/or goods are actually rendered and/or delivered; and
- The OP monitor compliance with this policy and notify Department Heads of continued noncompliance.

**Management Response**Office of Procurement

OP has a robust set of requirements that need to be followed by Departments before a requisition that is entered into the system is approved and converted to a purchase order. When a department orders goods/and services directly from the vendor instead of going through the system that department is putting the City at risk, and increases the exposure to a lawsuit substantially. With no encumbrance in place, there is no legal way for the Comptroller to make a payment on an invoice that is submitted. The only method of paying a vendor at this point is for them to make a claim or file a lawsuit against the City, which further drains City resources. The vendor has an affirmative obligation to also not perform a service/furnish a good without a valid purchase order, but this concern is secondary.

The policies and procedures established by the OP exist to protect the City's financial interests, and do indeed work to balance the needs of departments against statutory requirements, but this is only as effective as Departments are honest in regards to information supplied to OP.

This finding should be geared toward the offending Department, as it's a training issue not to stack up invoices for services that were not requisitioned, and in most instances was done outside of the established controls set up OP.

**Finding 5: Certain individuals inappropriately approved invoices in Munis.**

We noted that in two departments employees shared user identifications and passwords in order for transactions to be approved in Munis as that individual. In particular we noted that an individual's approval occurred when s/he was on vacation and occurred on workstations assigned to other employees. In some of these instances, we noted that the employee was essentially approving their own work. This is in violation of the City's policies and sound internal control practices. The City's Computer Use policy requires that user IDs and passwords not be shared. Sound internal control practices discourage an employee from approving their own work. Also, Munis workflow rules are established to limit a user's authority to their role. Employees signing off as another employee could manipulate data and commit fraud without the other employee's knowledge.

**Recommendation**

We recommend the following:

- All employees comply with the City's Computer Use policy by not sharing user IDs and passwords;
- For those employees who have shared their Munis user IDs and passwords to change their passwords; and
- If away from the office, the employee contact the IT department to forward approval requests to an authorized individual, who is separate from the data entry process, to approve in their absence.

**Management Response**Parks, Building and Recreation Management

This was corrected.

Health and Human Services

We agree with the auditor's recommendations, and the following action (password changed) was also done immediately (April 7, 2017).

**Finding 6: Departmental Oversight Over Purchases Needs Improvement**

We found several issues related to the departmental oversight procedures for purchases. Specifically, we found instances where purchases were approved with the following deficiencies:

- Invoices with incorrect and or multiple purchase orders referenced;
- Invoices that were inappropriately modified; and
- Invoices that were posted to incorrect departments in Munis.

We also found an instance where purchases were approved for items not reflected in the contract. Finally, we found instances where approved purchases were made against incorrect contracts, or made without contracts in place.



As a result, the following risks were noted:

- The payment of an incorrect invoice may result in an invalid purchase and may expose the City to additional liability; it should be returned to the vendor and remain unprocessed until corrected;
- Changes in services not reflected in a contract could lead to misunderstandings of work to be performed by the vendor and expose the City to unnecessary services and liability;
- Invoices posted to incorrect departments in Munis could result in the potential misstatement of the City's financial records, including budgetary reports; and
- Purchases made to a non-applicable contract or without a contract in place violate Massachusetts General Laws, the City ordinances, and the City's procurement policy.

We recommend that the Office of Procurement and Comptroller's Office provide City departments training to understand the City's procurement policy and department managers' oversight responsibilities, including but not limited to:

- Procurement standards
- Proper and legal contract execution requirements
- Clarifying the use and purpose of purchase orders as contracts
- Correct creation of purchase requisitions
- Vendor monitoring
- Adequate and complete invoice processing

Additionally, we recommend department managers implement more effective oversight procedures based on the City's procurement policy and procedures conveyed to them during the training session.

## **Management Response**

### Office of Procurement

The Office of Procurement agrees with the finding and will work with the Comptroller to develop a training program for departments to better able to enforce internal controls. Training will include procurement, AP and other related functions, and will include a new City purchasing manual.

### Comptroller's Office

The Comptroller's Office agrees with the finding and will work with the Office of Procurement to formulate a schedule of mandatory departmental training sessions. The training sessions will include a complete review of the procurement and accounts payable policies and procedures.

**Finding 7: Purchase Orders Were Not Correctly Linked to Contracts**

During our audit, we found instances in which new purchase orders were generated but were not tied to existing contracts, even though the purchase orders were for the contracted goods and services with the same vendors. According to the Office of Procurement, if a contract for the goods or services already exists within the City, then they would link the purchase to the contract. By not linking purchases to existing contracts, prices for goods and services charged by vendors may not be in accordance with existing contracts. Additionally, there is a risk of expenditures surpassing the contract limit.

We recommend that the Office of Procurement develop a monitoring program that periodically reviews new purchase orders that have been created and were not tied to contracts. This monitoring process should review all purchasing information and vendor assignment to ensure that there was not a contract available for the goods or services. If errors are detected during this process, departmental staff should be further trained to help eliminate such errors.

**Management Response**Office of Procurement

Procurement agrees with the finding and will continue periodically review Purchase orders for contract compliance. OP will continue to advise departments of existing contract vendors in place to maximize values.

**Finding 8: A Capital Asset Was Inappropriately Expensed**

A capital fixed asset is defined by the City as an item of property valued at \$50,000 or more with a useful life longer than one year. Individual acquisitions must meet the minimum capitalization thresholds in order to be capitalized. When capital assets are purchased, the City's policy requires departments to record them to the capitalization account in Munis. We noted that a purchase, which was made by the School department in June 2017, for a construction of a sign at Roger Putnam Vocational Technical Academy totaling approximately \$77,000 had been recorded as school supplies rather than being capitalized. When we notified the School department and Comptroller Office's, the School department subsequently properly reclassified the expense as a capital asset.

When departments do not properly use the capital account in Munis to record capital assets, it places an additional burden on the resources of the Comptroller 's Office and could potentially result in the misstatement of the City's financial statements.

We recommend the following to ensure capital assets are properly recorded:

- The Comptroller's Office re-educate departments on how to properly record capital assets in Munis; and
- Office of Management and Budget notify the Comptroller's Office whenever requisitions for goods and supplies that are equal to or greater than \$50,000 are issued.

Also, we recommend that the City ordinances be updated to reflect the current capitalization policy.



## **Management Response**

### Comptroller's Office

The Comptroller's Office agrees with the finding and will work with the Office of Management and Budget to implement the recommendations made by the Office of Internal Audit. Additionally, the Comptroller's Office will submit an amendment to the Financial Policies Ordinance to the Mayor and City Council to reflect the revised Capital Asset capitalization threshold of \$50,000.

### Office of Management and Budget

We agree with the finding and will work with the Mayor and City Council to update the ordinance to reflect the higher amount. Also, the Office of Management and Budget will work with the Comptroller's office to identify and properly record capital assets in Munis.

## **Finding 9: The draft Proper Municipal Expenditure policy is not codified and implemented.**

We noted that there is a draft Citywide Municipal Expenditure policy prepared by the Office of Management and Budget, the Office of Procurement, and the Comptroller's Office that defines proper municipal purchases. However, we noted that such policy has neither been codified by the City Council nor disseminated to departments for implementation. Without a uniform guide to define allowable and proper municipal purchases, departments are left to interpret the propriety of purchases which could result in inappropriate expenditures, e.g., purchases that are deemed to be personal.

## **Recommendation**

We recommend that the Comptroller's Office perform the following:

- Propose the Citywide Proper Municipal Expenditure policy to the Mayor and the City Council for codification;
- Once codified, disseminate the policy to departments for implementation; and
- Provide training to departments on the policy

## **Management Response**

### Comptroller's Office

We agree with the finding to codify and implement the draft Proper Municipal Expenditure Policy and will work with the Chief Administrative and Financial Officer and City Solicitor to have this policy formally adopted by the Mayor and City Council.

**Finding 10: The City does not have a policy to apply for refunds of the exempt uses of motor fuel.**

We noted that the City does not have a policy to apply for refunds related to fuel excise taxes paid for off road vehicle gas consumption. In accordance with Massachusetts General Laws<sup>1</sup>, fuel excise tax is charged by gas distributors at \$0.24 per gallon. This excise tax is for gas consumption by vehicles on highways. However, an entity can apply for refunds of this excise tax paid if such consumption was used for off road purposes, such as golf carts, power equipment, and off road vehicles<sup>2</sup>. An entity can apply for refunds of fuel purchases made within two years for which the refund claim is made and can apply for refunds as often as quarterly (calendar year basis). We estimate that the FY 2016 annual refund of the exempt uses of motor fuel would amount to approximately \$20,000. By not applying for refunds of the exempt uses of motor fuel, the City is forgoing funds to which it is entitled.

**Recommendation**

We recommend that the City develop an excise tax refund policy in which each department inventory all of their off road vehicles and power equipment, compile their excise taxes paid on off road vehicle fuel (diesel separately from gasoline) use, and work with the City Treasurer's Office in applying for the initial refund and quarterly refunds to the Massachusetts Department of Revenue.

**Management Response**Office Management and Budget

We agree that the City should apply for any motor fuel excise refund it is due. Accordingly, any department that qualifies for the refund should fill out the appropriate application, with supporting documentation, and turn it in to the Treasurer's Department. The Treasurer's Department will be happy to coordinate and file the applications requesting the refund.

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<sup>1</sup> Massachusetts General Laws, Chapter 64A, Section 4

<sup>2</sup> Massachusetts General Laws, Chapter 64E, Section 5