

**Summit County Executive Office**  
*Department of Finance & Budget – Purchasing Division*  
**Performance Audit General Report**

**Prepared for:**

**Ilene Shapiro**  
**Audit Committee**

**Approved by Audit Committee**  
**December 20, 2016**



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**EXECUTIVE SUMMARY**

**Total Number of Issues –4**

**Policies and Procedures**

<b>Section</b>	<b># Issues</b>	<b>Issue Descriptions</b>	<b>Page Ref.</b>
Policies and Procedures	2	<ul style="list-style-type: none"> <li>• Policies not reviewed and/or updated within the last two (2) years; employees not required to acknowledge receipt/review of policies.</li> <li>• RC-2 did not contain all relevant records.</li> </ul>	6

**Internal Controls**

*Strong Internal Controls:*

<b>Testing Section</b>	<b># Issues</b>	<b>Issue Description</b>	<b>Page Ref.</b>
Aggregate	0	N/A	9
Competitive Bidding			9

*Weaknesses in Internal Controls:*

<b>Testing Section</b>	<b># Issues</b>	<b>Issue Descriptions</b>	<b>Page Ref.</b>
Change Orders	1	<ul style="list-style-type: none"> <li>• Purchase order increase not properly approved.</li> </ul>	7
Surplus	1	<ul style="list-style-type: none"> <li>• CIO signature not obtained for IT surplus</li> </ul>	8

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**GENERAL BACKGROUND**

Under the Executive Office Department of Finance and Budget, the Purchasing Division is responsible for:

- Assuring three (3) quotes are obtained for purchase orders exceeding \$5,000 and reviewing documents that are presented to Board of Control.
- Ensuring proper bidding protocols and procedures are followed.
- Reviewing County-wide requisitions for proper documentation.
- Overseeing change orders and purchase order increases for the County.
- Managing the auction and disposal of County surplus.
- Coordinating the Procurement Card program for the County.
- Managing aggregate vendors for the County.

**AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY**

The primary focus of this review was to provide the Department of Finance & Budget – Purchasing Division (Purchasing Division) with reasonable assurance, based on the testing performed, on the adequacy of the system of management control currently in effect for the audit areas.

Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Management is responsible for establishing and maintaining effective controls that, in general, include the plan of organization, as well as methods and procedures to ensure that goals are met. Specific audit objectives include evaluating the policies, procedures, and internal controls related to the Purchasing Division.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Based on the results of our review, we prepared specific issues and recommendations for improvement that were discussed with management. These recommendations, as well as management's unaltered written response, can be found in the following sections of this report.

**Objectives:**

- To obtain and review the current policies and procedures.
- To review the internal control structure through employee interviews and observations.

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**Scope:**

An overview and evaluation of the existing policies, processes, procedures, contracts and internal control structure utilized by the Purchasing Division from August 1, 2015 through July 31, 2016.

The following were the major audit steps performed:

**OBJECTIVE 1 – POLICY AND PROCEDURES REVIEW**

1. Obtain and review the current policies and procedures.
2. Meet with the appropriate personnel to obtain an understanding of the current department processes and procedures. Compare those existing processes to the policies and procedures manual for consistency, noting all exceptions.
3. Obtain and review the document retention policy and determine if policies and procedures are currently in place and being followed.
4. Test procedures for mandatory compliance where applicable.
5. Identify audit issues and make recommendations where appropriate.

**OBJECTIVE 2 – REVIEW OF INTERNAL CONTROLS**

1. Meet with the appropriate personnel to obtain an understanding of the control environment.
2. Document the existing control procedures in narratives and/or flowcharts.
3. Compare existing processes to the policies and procedures manual for consistency.
4. Test procedures for compliance where applicable, noting all exceptions.
5. Investigate discrepancies and summarize results.
6. Make recommendations where appropriate.

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**DETAILED COMMENTS**

Interviews:

To gain an understanding of the Purchasing Division, IAD performed interviews with the following positions:

- Director of Finance & Budget
- Purchasing Director
- Purchasing Specialist 2

Any issues noted are addressed in the respective sections of this report.

**I. Policy and Procedures Review:**

Policies and procedures were reviewed for each applicable testing section within the audit for accuracy and completeness and compared to current processes for consistency. The Records Retention Schedule was also reviewed for completeness and compared to processes throughout the audit to ensure that the schedule contained all relevant documents.

The following issues were noted:

1. Issue:

Upon review of policies and procedures for completeness and accuracy, IAD noted six (6) out of seventeen (17), or thirty-five percent (35%), policies have not been reviewed and/or updated within the last two (2) years. Additionally, employees are not required to acknowledge receipt and review of the policies.

Recommendation:

IAD recommends that policies and procedures be updated/reviewed and approved by management on a routine basis and employees sign-off, acknowledging their receipt and review of the policy and procedure manuals. This will help ensure approved policies and procedures are accurate and adhered to by employees and compliance with best practices.

Corrective Action Taken Prior to the End of Fieldwork:

IAD obtained the updated Policy and Procedure manual and noted five (5) of six (6) outdated policies were updated/reviewed. Additionally, IAD obtained all (2) employees' acknowledgement forms.

Management Action Plan:

The Division of Purchasing will review Policy and Procedures every two years and update when required. Employees will sign a form stating they have reviewed and received any updated Policy and Procedures.

Target date: Updates are ongoing according to ordinance changes and all will be reviewed again for compliance June 2018.

2. Issue:

Upon review of the Records Retention Schedule (RC-2), IAD noted it did not contain all relevant records including, but not limited to, the following:

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- Notice of Interest forms for donated property and supporting IRS documentation

Recommendation:

IAD recommends that the Purchasing Division update the RC-2 to include all pertinent records and documents and submit to the appropriate parties for approval. This will help to ensure completeness and accuracy of records retention.

Management Action Plan:

An updated RC-2 is drafted and ready for submission to the January 2017 Records Commission meeting.

Target date: January 2017 deadline.

**II. Internal Control Testing:**

Risk-based internal control testing and/or observations were performed in the following areas:

- Change Orders
- Surplus
- Aggregate Purchases
- Competitive Bidding

CHANGE ORDERS

Policies and procedures and applicable Summit County Codified Ordinances were reviewed, staff interviews were conducted, and flowcharts were created and approved to gain an understanding of the change order and purchase order increase processes, the laws and regulations that govern it, and internal controls in place.

A sample of contract change orders was judgmentally selected for detail testing to ensure the change order was signed by the Director of Finance & Budget, a prior year purchase order was not used and the contract change order was properly approved, if thresholds were met, in accordance with Codified Ordinance §177.10.

No issues noted with contract change orders.

A sample of purchase order increases was judgmentally selected for detail testing to ensure the increase was signed by the head of the originating department, the form was initialed/reviewed by Purchasing Division personnel, a prior year purchase order was not used and the purchase order increase was properly approved, if thresholds were met, in accordance with Codified Ordinance §177.10 (a & b).

The following issue was noted:

3. Issue:

Upon detail testing of PO increases/decreases, IAD noted four (4) of twenty-four (24) instances where the change increased the PO over the Board of Control approval threshold (\$5,000); two (2) of the four (4), or fifty percent (50%), did not receive proper approval, in accordance with Codified Ordinance §177.10.

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Recommendation:

IAD recommends that all PO increases be reviewed in aggregate to determine if additional approval is required. This will help to ensure proper approval is obtained and compliance with Codified Ordinances.

Management Action Plan:

Purchase Order increases are reviewed for Board of Control compliance by the Dir. of Purchasing prior to completion.

Target date: This is in place and ongoing.

SURPLUS

Policies and procedures and applicable Summit County Codified Ordinances were reviewed, staff interviews were conducted, and flowcharts were created and approved to gain an understanding of the surplus disposal/sale process, the laws and regulations that govern it, and internal controls in place.

Samples of Declaration of Surplus forms were judgmentally selected and detail testing was performed to ensure the following in accordance with Codified Ordinance §177.18 and policies and procedures:

- Surplus property was posted to the appropriate websites noting availability.
- Proper Executive Orders were obtained for the sale, transfer, or disposal of surplus property.
- Proper IRS documentation was obtained for donations to non-profit organizations.
- Proper authorization was obtained for IT surplus.

Additionally, IAD performed detail testing to ensure internet auctions conducted via the Public Surplus website were in accordance with policies and procedures.

The following issue was noted:

4. Issue:

Upon detail testing of Declaration of Surplus Inventory forms containing IT surplus, IAD noted nine (9) of twelve (12), or seventy-five percent (75%), instances where the Chief Information Officer's (CIO) signature was not obtained, in accordance with policy and procedure.

Recommendation:

IAD recommends the CIO's signature be obtained for all IT surplus property, prior to processing the forms. This will help to ensure proper authorization and compliance with policies and procedures.

Management Action Plan:

The Office of Information Technology has confirmed they require approval on the surplus of hardware. The Declaration of Surplus Inventory Form is submitted to OIT for signature prior to processing.

Target date: This is in place and ongoing.



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AGGREGATE PURCHASES

Policies and procedures and applicable Summit County Codified Ordinances were reviewed and staff interviews were conducted to gain an understanding of the aggregate calculation process, the laws and regulations that govern it, and internal controls in place.

A sample of officeholders was selected for detail testing to ensure purchases made under an officeholder from a single vendor, which exceed fifty thousand dollars (\$50,000) in the aggregate annually, have been approved by County Council in compliance with Summit County Codified Ordinance §177.13.

No issues noted.

COMPETITIVE BIDDING

Policies and procedures and applicable Summit County Codified Ordinances were reviewed, staff interviews were conducted, and flowcharts were created and approved to gain an understanding of the competitive bidding process, the laws and regulations that govern it, and internal controls in place.

A sample of purchase orders exceeding \$5,000 but less than or equal to \$50,000 was judgmentally selected for detail testing to ensure three (3) written quotes were obtained, the lowest of the three (3) quotes was selected, and if the purchase was exempt from obtaining three (3) quotes, supporting documentation was obtained.

A sample of purchase orders exceeding \$50,000 was judgmentally selected for detail testing to ensure the following:

- A request for Legislation was submitted to advertise the bid along with a copy of the specifications and plans/drawings.
- A Legal Notice was emailed to the Akron Beacon Journal to be placed no later than two (2) weeks before the bid opening.
- The Legal Notice includes the date, time, and location of a mandatory pre bid meeting if applicable.
- The electronic request for bid was created on the Public Purchase website including specifications of solicitation of competitive bids.
- The Original Bid Bonds and Successful Bidder Requirements were mailed to the Purchasing Division within three (3) days of bid opening.
- At least five (5) vendors were emailed the request for bid web page link at the time of the bid's release.
- Lowest Bidder selected; if not, supporting documentation was provided explaining why they were not selected.
- The Bidder Recommendation was sent to Board of Control.
- The signed Board of Control and/or Legislation were obtained.
- The requisition created in Banner agrees to the project amount.

No issues noted.