AUDIT REPORT
Purchasing and Accounts Payable
Purchasing and Payment Processes
October 2018

Office of the Auditor
Audit Services Division
City and County of Denver

Timothy M. O’Brien, CPA
Denver Auditor
Audit Team

Cody Schulte, MAcc, CPA, CIA, Audit Supervisor
Vilma Balnyte, CPA, Lead Auditor
Robert Persichitte, CPA, CFE, Senior Auditor
William Morales Ferrer, Senior Auditor
Brandon Stolba, Associate Auditor

Audit Management

Timothy M. O’Brien, CPA, Auditor
Valerie Walling, CPA, CMC®, Deputy Auditor
Katja E. V. Freeman, MA, MELP, Audit Manager

Audit Committee

Timothy M. O’Brien, CPA, Chairman
Rudolfo Payan, Vice Chairman
Jack Blumenthal
Leslie Mitchell
Florine Nath
Charles Scheibe
Ed Scholz

You can obtain copies of this report by contacting us:

Office of the Auditor
201 West Colfax Avenue, #705
Denver, CO 80202
(720) 913-5000 • Fax (720) 913-5253

Or access an electronic copy by visiting our website at: www.denverauditor.org
AUDITOR’S REPORT

We have completed an audit of the City’s purchasing and payment processes. The objective of the audit was to determine the effectiveness of the procedures and internal controls within the City’s purchase order, non-purchase order, and payment processes.

As described in the attached report, our audit revealed that the City’s Purchasing Division and Accounts Payable team have designed good internal controls surrounding the procurement and payment processes and put them into action in many areas. However, their operations could be further enhanced. Specifically, we found that the Purchasing Division should better document bidding; enforce compliance with bidding exceptions, emergency, and unauthorized purchase procedures; analyze purchase order changes; and track master purchase orders in P-Card purchases. We also found that the Accounts Payable team should better enforce compliance with non-purchase order and payment support requirements, request more input validation controls in Workday, address minor weaknesses in the three-way match process, report on the late payment charges to the City Council, and reduce the amount of checks and checks held for pickup.

Through even stronger internal controls and procedures, the Purchasing Division and the Accounts Payable team will be able to reduce opportunities for fraud and mistakes and improve the efficiency and effectiveness of its operations. Our report lists several related recommendations.

This performance audit is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, Section 1, General Powers and Duties of Auditor, and was conducted 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.

We extend our appreciation to the Purchasing Division and the Accounts Payable personnel who assisted and cooperated with us during the audit.

Denver Auditor’s Office

[Signature]

Timothy M. O’Brien, CPA
Auditor
Purchasing and Payment Processes
October 2018

Objective
The objective of this audit was to assess the effectiveness and efficiency of the City’s procurement and payment processes.

Background
The total City’s expenditure amount in 2017 was roughly $1.3 billion. Of this amount, the Purchasing Division procures approximately $330 million annually of goods and services.

The City has various rules, policies, and procedures agencies must comply with when procuring goods or services. Depending on the needs of the agency and the dollar amount of the goods or services, the City uses different procurement methods: Purchase Order (PO), bidding, Non-PO payments, and credit cards. The City has various controls in place to ensure that payments are valid, accurate, and permitted.

Highlights
Our audit of the City’s procurement and payment processes found that, although the related policies and procedures are generally well designed, the implementation, monitoring, enforcement, and documentation of the processes need further improvement. Approval of purchases and payments are controlled and documented by the Workday system of record, ensuring that all transactions are properly approved. However, the documentation and monitoring procedures surrounding the approvals are still manual in nature and at risk of inconsistent application that could result in incomplete or inaccurate data and support. Purchasing could also evaluate the effectiveness of their control processes.

Specifically, we found the following issues in the procurement and payment processes:

Procurement Process – Monitoring and Enforcement Improvements Are Needed – We found that bidding documentation and tracking span across several databases, which was causing inconsistent and incomplete data that make tracking bid solicitations inefficient and unreliable. There were also tracking issues with emergency purchase order numbers, change orders, and Master Purchase Order transactions paid with P-cards. Lastly, we found that documentation requirements for bidding exceptions and unauthorized purchases are not being enforced consistently.

Payment Process – Documentation, Monitoring, Enforcement, and System Improvements Are Needed – We found that documentation requirements for payments were not being enforced consistently. The Non-PO procurement mechanisms were not always used in compliance with the Non-PO guidance, which is outdated. Also, we found that required reporting on prompt pay interest penalties was not being performed, nor had an analysis of cost and volume of payment methods been performed for several years. Lastly, we noted that Workday lacked certain input validation controls for invoice numbers and that minor improvements are needed in the three-way match exception processing.

For a copy of this report, visit www.denverauditor.org or contact the Auditor’s Office at (720) 913-5000.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>BACKGROUND</td>
<td>1</td>
</tr>
<tr>
<td>FINDING 1</td>
<td>8</td>
</tr>
<tr>
<td>Documentation, Monitoring, and Enforcement Improvements Are Needed in the Procurement Process</td>
<td>8</td>
</tr>
<tr>
<td>FINDING 2</td>
<td>30</td>
</tr>
<tr>
<td>Documentation, Monitoring, Enforcement, and System Improvements Are Needed to Address Internal Control Weaknesses in the Payment Process</td>
<td>30</td>
</tr>
<tr>
<td>RECOMMENDATIONS</td>
<td>48</td>
</tr>
<tr>
<td>AGENCY RESPONSE TO AUDIT RECOMMENDATIONS</td>
<td>56</td>
</tr>
<tr>
<td>OBJECTIVE, SCOPE, &amp; METHODOLOGY</td>
<td>70</td>
</tr>
</tbody>
</table>
BACKGROUND

Procurement of all City supplies, equipment, personal property, and services is a power and duty granted by the City Charter to the General Services Department (General Services). Within General Services, the Purchasing Division (Purchasing) specifically is given exclusive authority for buying goods and services. As established in the City’s Fiscal Accountability Rules, “The Purchasing Division is committed to attracting and contracting with vendors who provide high quality, innovative goods and services related to goods that support the City’s activities, are delivered on schedule, and are at competitive prices.”

Agencies have an option of several procurement methods to meet their good and service needs. Some of these methods, such as bidding, are much more complex than others. Others do not require any input from Purchasing and are mainly processed by the Accounts Payable team within the Financial Services Division of the Controller’s Office (Accounts Payable).

Procurement and Payment Process Overview

There are multiple parties involved in any procurement, depending on which method of procurement is used. The possible parties involved are an agency, the Purchasing Division, a supplier of goods or services, Accounts Payable, and the Accounting and Financial Reporting Division within the Controller’s Office (Accounting).

Within the Purchasing Division, buyers are available to help advise agencies about which method of procurement is optimal for the given purchasing scenario. Analysts in the Purchasing Division also play a big role in procurement of goods because they run metrics on the performance of both agencies and buyers. They also track agency satisfaction and help identify where processes can be improved both internally in the Purchasing Division and externally within other agencies.

Within Accounts Payable, there are accounts payable specialists and several supporting positions such as an analyst and a credit card (P-card) coordinator.

Figure 1 provides a basic visual representation of the procurement and payment processes, and how they differ based on the procurement

---

1 D.R.M.C. §2.9.3 (A) (2001)
3 Agency in this context is taken to mean an agency, department or other entity providing a specific service for a government. For example, Department of Public Works, Denver Police Department, Office of Economic Development, etc.
method being used. Figure 1 also identifies which parties are involved in the procurement and payment processes and their associated responsibilities.

**FIGURE 1. Procurement and Payment Process Responsibility by Party**

<table>
<thead>
<tr>
<th>Agencies</th>
<th>Purchasing</th>
<th>Supplier</th>
<th>Accounts Payable</th>
<th>Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requisition</td>
<td>Purchase Order/ Master Purchase Order</td>
<td>Invoice</td>
<td>Three-Way Match by Workday and Review for Compliance</td>
<td></td>
</tr>
<tr>
<td>Initiate Request for Proposal</td>
<td>Bidding Process Leading to a Purchase Order</td>
<td>Invoice</td>
<td>Review for Compliance</td>
<td></td>
</tr>
<tr>
<td>Supplier Invoice Request</td>
<td></td>
<td>Invoice</td>
<td>Review for Compliance</td>
<td></td>
</tr>
<tr>
<td>Ad Hoc Request</td>
<td></td>
<td></td>
<td>Review for Compliance</td>
<td></td>
</tr>
<tr>
<td>P-card</td>
<td></td>
<td></td>
<td></td>
<td>Pay Suppliers, Customers, and Employees</td>
</tr>
</tbody>
</table>

**Source:** Developed by auditors based on the Auditor’s Office analysis of the purchasing and payment processes.

**Note:** The order of presentation of findings in this report will generally follow the process flow (left to right) presented in this figure.

**Purchase Orders** Purchasing Division’s preferred method of procurement is the Requisition to Purchase Order method when terms and conditions apply. Using this method, an agency identifies a need for a good or service and creates a requisition, which is then sent to a buyer in the Purchasing Division. The buyer ensures that the requisition includes all required items, such as a quote from the supplier and the supplier’s contact information. The buyer then creates a purchase order based on this requisition in Workday, the City’s accounting system. The purchase order defines the commitments from the City and the vendor.

---

It gives the specifications of the goods or services and the payment terms. Agencies modify a purchase order using a change order form, which they submit to Purchasing. During our audit period, approximately 18,000 POs were processed for a total amount of $736 million. These numbers include Denver International Airport’s (airport) activity. Unless otherwise noted, all numbers in this report are for the audit period of August 28, 2017 through May 31, 2018.

The City can also create Master Purchase Orders that give price leveraging, which can be applied to multiple goods with a specific vendor.

**Master Purchase Orders** - Master Purchase Orders (MPOs) are contracts with merchants that enable agencies to make many purchases without needing to go through the bidding process each time. The Purchasing Division creates an agreement with a supplier who has competed for the MPO or has a national cooperative contract available to provide the best value for the City’s requirements.

There are three main advantages to using MPOs:

- First, an agency can quickly and conveniently purchase goods or services that it uses frequently while getting the best price. The agencies do not need to put small purchases like a stapler out to bid, and Purchasing Division buyers have already obtained a competitive, best value price for the item. This price is available to all City agencies.

- Second, buyers gain additional leverage when negotiating for a large amount—such as all the office supplies purchased by the City.

- Third, small purchases on MPOs are more efficient because Purchasing can reference the MPO instead of creating a new solicitation or negotiation for every small purchase.

**Three-Way Match** - Once the good or service has been delivered, the supplier sends an invoice. The agency will indicate in Workday that the good or service has been received by creating a receipt in Workday including either a quantity of items received (usually for goods) or a total amount received (usually for services). The agency writes the receipt number manually on the supplier invoice before submitting the invoice to Accounts Payable for processing. The agency also reviews the invoice for accuracy and then sends it to Accounts Payable. Ideally, any discrepancies between a PO, receipt, and invoice, such as quantity or item price, should be resolved by the agency before submitting the invoice for payment. Accounts Payable reviews all
supporting documentation for the purchase and enters the invoice into Workday by receipt, thus linking the receipt and invoice in Workday.

When a purchase is processed by a purchase order, a three-way match process is applied as a control to ensure that the City receives what has been ordered and is only paying for goods or services received. Workday performs the three-way match between the purchase order, receipt, and invoice automatically for all PO-related invoices, matching the quantity, amount paid, and unit price. If all three documents agree, the system moves the invoice to the list of items to be paid by Accounting prior to the due date. If these documents do not agree, they go through an exception process.

**Bidding Process**

Purchasing Division policies require that the City use the bidding process when the estimated cost of the goods or services is over $10,000. Based on the needs of the agency, Purchasing will choose a request for proposal or a formal or informal bid.

**Request for proposal** - A request for proposal (RFP) is a document that solicits a proposal, through a bidding process, by an agency interested in procurement of a commodity, service, or valuable asset to potential suppliers to submit business proposals. The RFP process contains the following phases: (1) Preparation, (2) Issuance, (3) Pre-bid/site visit conference, (4) Supplier question deadline, (5) City response to supplier question deadline, (6) RFP due date and time (generally the time frame from issuance to due date is a minimum of 4 to 6 weeks), (7) Evaluation (may take up to 4 weeks depending upon the number of responses received), and (8) Award/Contracting phase. Price and other evaluation factors are considered when awarding a contract based on the RFP. RFPs are typically for goods or services that are not generally available commercially (e.g. specialized services or development for a very specific need).

**Formal and Informal Bidding Process** - The bidding process, by comparison, is for goods or services that are generally commercially available. The City has specific procedures at different dollar thresholds. For all procurements exceeding $50,000, a formal bidding procedure must be performed. This includes buyers posting the request for bids on BidNet or other public-facing bidding system, analyzing bids from those vendors who have submitted them, and issuing an award. For procurements between $10,000 and $50,000 an informal procedure can be followed. For informal procedures, the solicitation can be made on a third-party website and the open and close dates for bidding can be shorter than a formal bid. To ensure competition, every effort by the Purchasing Division should be made to obtain at least three bids.
Supplier Invoice Request and Ad Hoc Payments

The Purchasing Division and Accounts Payable have identified situations where the Purchasing Division does not need to be involved because it would not add any value to the procurement process. One example is for goods or services where the price cannot be negotiated, such as postage rates or conference registration fees. Purchasing and Accounts Payable have compiled a list of such purchases and published it in the Fiscal Accountability Rules. If an item is included on this "Non-PO Voucher" list, an agency can order it directly and then send the invoice, after appropriate form completion and approval and/or entry in Workday, directly to the Accounts Payable team for payment review. There are two methods of processing a payment in these situations: supplier invoice request and ad hoc payment.

Supplier Invoice Request – One method is for the agency to fill out a supplier invoice request in Workday and attach all appropriate support. These requests are reviewed and approved by the cost center approver in Workday. A cost center approver is typically a manager of the business unit. Cost center approvers are set up in Workday and Workday automatically routes the supplier invoice request to the appropriate person. Next, the request is routed to one of the accounts payable specialists who determines whether the request matches the support, support is adequate, payment information is accurate, and that the payment qualifies to be processed as a supplier invoice request. If these criteria are met, the accounts payable specialist approves this payment in Workday. Workday forwards it to Accounting to be processed by the due date. During the audit period, there were almost 9,000 supplier invoice request payments totaling approximately $390 million, airport activity excluded.

Ad Hoc Payment – The second method, ad hoc payment, is to be used in reimbursement or refund situations where the payment is to an employee or a customer as opposed to a supplier. There is no document describing when ad hoc payments should be used, but the Invoice Numbering Standard policy mentions employee reimbursements and customer refunds, and Accounts Payable has additionally verbally listed workers’ compensation and certain payments to cultural facilities. The ad hoc payment process is slightly more manual than supplier invoice requests. The agency prepares a manual form and emails it to Accounts Payable. An accounts payable specialist enters it into Workday, reviewing and approving in a similar manner as supplier invoice requests. The ad hoc payment is routed to the agency cost center approver and then to Accounting. During the

---

5 A cost center is a unit within the City to which costs are charged for accounting purposes.
6 Employee reimbursements are processed via Workday Expense beginning July 16, 2018; however, they were processed as ad hoc payments during our scope period.
audit period, there were about 31,000 ad hoc payments totaling approximately $45 million, airport activity excluded.

**Purchase Cards (P-Cards)**

Purchase cards (P-cards) are credit cards issued to City employees for use on low-dollar purchases which, for most P-card users, are defined as purchases less than $2,000 per transaction. They help the City by reducing the time and paperwork required to complete a purchase. To reduce the risks associated with P-cards, the Procurement Division has implemented a variety of controls, including cardholders reviewing expenses, supervisors approving expenses, additional review by Accounts Payable, limits on the total amount of spending, and system controls that prevent certain types of transactions such as purchases from a liquor store. 

7 During our audit period, there were approximately 40,000 P-card transactions for a total amount of $11.7 million, airport activity excluded.

**Emergencies and Unauthorized Purchases**

Sometimes there are instances where the City makes purchases outside the normal procurement methods. These are considered either emergency or unauthorized purchases.

Emergency purchases occur when a good or service must be delivered faster than the procurement process would allow, such as a water pipe burst. Emergency purchases are not intended to provide a method of circumventing the City’s procurement process. Rather, the Denver City Charter lays out specific requirements that must be met for an emergency purchase to be made. During our audit period, there were 49 emergency purchases made for the total of approximately $782,000, airport activity included.

When a purchase is made outside of the proper procurement methods and is not made in accordance with City rules regarding emergency purchases, this is considered an unauthorized purchase (UNA). For example, if a good needing to be purchased were required to go through a bidding procedure before purchasing but did not, this would be considered a UNA. The Purchasing Department follows a standard process for obtaining proper documentation and justification from the agencies prior to processing payments for UNAs. Purchasing has the ability to place a hold status on the purchase if the UNA form is incomplete. During our audit period, we found 287 UNAs made for a total of approximately $1.8 million, airport activity included.

**Volume of Purchasing across the City**

According to the 2018 General Services strategic plan, the Purchasing Division procure approximately $330 million dollars in goods and services annually, airport activity included. Figure 2 shows the amount

---

7 During the audit period, the P-card program was co-administered by the Purchasing Division and the Accounts Payable team. During 2018, the responsibilities for the whole P-card program were transferred to Accounts Payable.
of total City spending since 2012, which has increased annually since 2012.

**FIGURE 2.** General Fund Expenditures (in Billions)


*Note: These amounts do not include airport expenditures.*
FINDING 1

Documentation, Monitoring, and Enforcement Improvements Are Needed in the Procurement Process

As part of this audit, we analyzed and flowcharted the procurement process and concluded that it appears to be well-designed in most areas. However, we found multiple areas where improvement is needed.

The City’s accounting functions transitioned from PeopleSoft to Workday on August 28, 2017, which is the beginning of our scope period. All purchase orders in the City are processed through Workday, which is also used as a repository for most of the purchasing-related documentation. The transition from the previous accounting system to Workday was time-consuming and affected many City agencies, especially agencies such as Purchasing and Accounts Payable that use Workday extensively. That transition took priority over many other needed process improvements.

At the time of this audit, the Purchasing Division also was going through organizational and procedural changes. Purchasing has created a detailed operational plan aligned with General Services’ April 2018 strategic plan and the Mayor’s initiatives. While many of the improvements outlined in the operational plan have not been started or are still in early planning stages, these initiatives are documented, prioritized, tracked, have expected completion dates, and have responsible leaders assigned.

Despite these notable steps, we found several instances during this audit where purchasing processes can be strengthened, some of which had been identified and started by Purchasing prior to our audit. We observed that the request for proposal (RFP) process is not standardized and that bidding information is scattered and not well linked across multiple databases. We also noted that required support for exceptions to the bidding process is not consistently documented and approved. We found that changes to purchase orders were not being analyzed and that master purchase order agreements were not being tracked in purchase card transactions. Additionally, we noted the training of new purchase card holders to be out-of-date and inefficient. We also determined that even though the number of unauthorized purchases has decreased significantly over the last few years, the documentation and approval of the occurrences is
inconsistent and incomplete. Lastly, we noted the presence of a procedure for processing emergency purchases, but that the monitoring and tracking of them could be improved.

Throughout this report, we offer recommendations to improve documentation, monitoring, and enforcement in the procurement and payment processes. “Monitoring” in this report will mean any review and analysis efforts, while “enforcement” will mean acting on any irregularities or noncompliance found.

Lack of Key Identifying Fields Among Procurement and Bidding Systems Makes It Difficult for Procurement to Track Solicitations

As part of our audit work, we sought to determine whether all required steps in the formal procurement process are being followed. This work also revealed weaknesses in the process, specifically with regard to procurement data.

Procurement Process Not Always Being Followed

There are five systems throughout the City that are used during the solicitation process, both to accept bids and RFP responses and to enter information about the suppliers that end up getting hired to do work for the City:

- **Workday** – Used by Purchasing to enter data about winning bids and RFPs
- **BidNet** – Primary system for collecting City bids and RFP responses
- **Procurement Access Database** – Used by the Procurement Division to track a solicitation number to a purchase order or contract
- **Quest Construction Data Network** – Used by the Department of Public Works to make work opportunities public to the construction community
- **Denver International Airport (DIA) Business Center Contract Procurement System** – Used by DIA to make work opportunities public to interested contractors

To better assess whether personnel involved in solicitation and procurement are following the established process, we randomly selected a non-statistical sample of 10 purchase orders initiated during the window of August 28, 2017, through May 31, 2018. Five of the solicitations were for amounts exceeding $50,000 and should have gone through the formal bidding process; the other five were for solicitations amounting to between $10,000 and $50,000 and should have gone through the informal bidding process. We selected and

---

---

8 To select this sample, we first split the population into purchase orders above $10,000 and above $50,000. Because this was a non-statistical sample, we cannot infer the extent of the issue in the broader population. However, this indicates that more issues could be in the full population.
tested the three following process steps that Procurement is responsible for:

- Purchasing ensures that a sufficient number of bids had been received,
- Purchasing conducts a cost price analysis, and
- Purchasing issues an award.

We found that only two of the 10 solicitations in our test sample could be verified as having gone through these required steps in the process.

**Use of Multiple Bid Systems Makes It Difficult to Trace Solicitations among Systems and Databases**

Although we initially set out to test whether the procurement process was consistently followed, we identified weaknesses associated with using multiple systems which prevented us from being able to comprehensively test bidding procedures. Our first indication that there might be a problem was in the initial listing of 10 purchase orders generated from Workday for testing. This list did not contain any fields that coincided with fields in BidNet. Therefore, we could not locate our test solicitations within the BidNet system. Additionally, the Workday records did not include enough documentation to trace a purchase order back to the solicitation from which it arose.

After encountering these difficulties, Purchasing provided us with a report from a Microsoft Access database with additional bidding data. This new report was intended to reconcile purchase orders from Workday with solicitation numbers in BidNet, but the data was incomplete. For example, the report accounted for approximately $13 million in awards, airport activity included, for the period under audit. However, we estimated that this amount should have been approximately $324 million. This indicates that the Procurement Access Database was insufficient to provide thorough solicitation, bid, and purchase order information.

Additionally, we noted discrepancies between information included in the Access database report, BidNet, and Workday. For example, we found evidence of inconsistency among the systems regarding which vendor was awarded a contract or bid, purchase order numbers that were matched with solicitations, invalid solicitation numbers, and award amounts. Our analysis also revealed weaknesses in the tracking of bids for solicitations regarding the number of bids accepted.

---

9 This amount includes airport activity and excludes the contracts handled by the City Attorney’s Office as well as bid exception amounts. We were unable to separate purchase orders which were not under the Purchasing’s purview, such as construction contracts handled by Public Works and the airport.
Since there were so many inconsistencies among systems, the audit team also conducted a cursory review of the rest of the Access database report and noted that these discrepancies were not limited to our previously mentioned judgmental sample of 10 solicitations. For example, the omission of purchase order numbers in the database was fairly common throughout the report. The large discrepancy between the Workday total dollars of purchase orders that should have gone through formal procedures ($324 million) and the amount represented by the Access database report ($13 million) also made it difficult and inefficient to determine the complete and accurate total population. These difficulties are compounded by a lack of common fields among the systems, which leaves a gap in the ability to link and track all solicitations throughout all of the City’s bid-related databases.

Auditors asked Procurement Division personnel why there are multiple systems used by the City for RFP and bid solicitations. They explained that the current bidding and procurement process is decentralized, allowing for flexibility in the procurement of goods and services. This also allows for flexibility in the number of bidding systems the City can use to post requests for proposals and requests for bids.

**Best Practice Supports Limiting Procurement Data to One System**

The National Institute of Governmental Purchasing (NIGP) has established best practices for public procurement in multiple areas, including data management. One of the standards that NIGP promotes is Supplier Relationship Management (SRM), which is defined as a set of principles, processes, and tools that can assist organizations to maximize relationship value with suppliers while minimizing risk. This standard has six elements, one of which focuses on supplier relationship management systems. Within the systems element, NIGP states that systems play three key roles in enabling SRM: providing standardized tools and templates, enabling supplier relationship data management, and enabling relationship visibility. The latter two are especially relevant for our assessment of the City’s procurement process and use of multiple systems and databases:

- **Supplier Relationship Data Management** – NIGP encourages organizations to have a single source of procurement data. Everyone in the organization involved in the supplier relationship should have access to this source. Having a common and consistent repository of procurement information enables a common understanding of status and current relationship activities while the secure storage of the data reduces the risk of data loss.

- **Relationship Visibility** – The NIGP also encourages organizations to put systems in place that make all relevant relationship
information available, including through consistent reports that can be used to facilitate executive and management reviews of supplier performance. Organizations should also be able to produce reports that reveal overall relationship factors such as risk, performance, and resource allocation.

Additionally, the inability to track these solicitations makes it difficult to determine: if a purchase actually went through the bidding process or if it was circumvented; if sufficient bids were submitted to determine the adequacy of competition; and if bids were awarded to the stated vendors.

Auditors recognize the challenges associated with consolidating the five systems currently being used for solicitation and purchasing into one system, from both a time and money perspective. However, these inefficiencies and limitations warrant examination by Procurement Division leadership. Therefore, we make the following two recommendations that, if implemented, will enhance the ability to track all bids and solicitations through to an award and offer better reporting for making informed management decisions.

**RECOMMENDATION 1.1**

*Create Key Identifier among Databases Used in the Bidding Process*– The Purchasing Division should consider developing a key identifier field that is shared among all procurement-related systems and databases in order to more effectively track the procurements that have gone through the solicitation process and have been awarded.

*Agency Response: Agree – Implementation Date (May 2019)*

**RECOMMENDATION 1.2**

*Integrate Key Bid Information* – The Purchasing Division should consider developing a plan and timeline that would better integrate key information from the different bidding systems used across the City in order to enable more visibility and provide access to consistent reports which can facilitate executive and management reviews.

*Agency Response: Agree – Implementation Date (January 2019)*
Based on our observations and discussions with Purchasing Division personnel, we determined that the City does not have a formal, standardized intake process for requests for proposals (RFPs). When auditors asked about the beginning of the RFP process, division personnel explained that there is no consistent way to initiate an RFP. This is due to complexity of the RFP process and the varying requirements of each procurement. This made standardization for the minimum required information for the Procurement Division to initiate a proper RFP difficult.

As a result, buyers do not always have all the information from agencies that they need to initiate the process and must communicate back and forth until all need information is obtained.

Another consequence of there not being a standardized RFP process is that IT-related requests are not always routed to Technology Services (TS) in a timely manner. Specifically, auditors learned that agencies do not always consult with the City’s Technology Services department (TS) when selecting software or hardware. This step is essential because the procurement teams do not have the expertise necessary to evaluate whether software or hardware meets an agency’s needs and TS requirements. Once Purchasing receives the IT-related RFP requests, they engage TS, thus delaying the acquisition process.

**Best Practice Encourages the Use of Standardized Tools and Templates for Procurement Processes**

Within the NIGP guidance on using systems for SRM, organizations are encouraged to standardize tools and templates. This allows everyone involved in the procurement process to use a system that is easily accessible so that they do not have to create their own processes. Organization-created tools also facilitate employee training; everyone is learning the process in the same way because they are being trained on how to use the same tools and templates.

Having already recognized this issue prior to the commencement of our audit work, the Procurement Division has been developing a new RFP intake process. The planned process distinguishes IT-related purchases and non-IT-related purchases to ensure that IT-related purchases are routed to TS for timely review. Additionally, Procurement Division personnel have developed and began using a non-IT RFP request form to standardize the RFP intake process and ensure that agencies are submitting all of the information that buyers need to carry out their steps in the process. Procurement is planning to create a similar form for IT-related purchases.
The Procurement Division is currently communicating this new process to agencies. Once the new process is fully rolled out and functional, it should reduce the amount of communication required between Purchasing Division personnel and agency contacts to ensure that an RFP request is accurate, complete, and timely. Therefore, we recommend that the Purchasing Division continue to work on implementing the new RFP intake process, ensuring that it achieves the desired efficiencies.

**RECOMMENDATION 1.3**

| Improve Request for Proposal Intake Process | The Purchasing Division should continue making improvements to the Request for Proposal intake process, including the implementation of standardized tools and forms and timely identifying requests that require review by Technology Services. |
| Agency Response: Agree – Implementation Date (December 2018) |

**Bidding Exceptions Are Not Consistently Approved**

The bidding process was put in place to ensure adequate competition exists and the City can ensure it is getting the best possible price for goods and services. However, the process also recognizes legitimate scenarios when an exception to the bidding process can occur and still maintain the best interests of the City. The four exception areas are:

- Sole Source Procurement\(^{10}\)
- Professional Preference\(^{11}\)
- Standardization\(^{12}\)
- Manager Exception\(^{13}\)

The Procurement Division has also outlined requirements for exceptions based on the D.R.M.C. within its policies and procedures. Based on

---

\(^{10}\) Denver Revised Municipal Code 20-64a(1) - Sole Source Procurement, the Manager of a Department states in writing the necessity of sole source procurement and receives the approval of the Purchasing Director or designee in accordance with established signature authority. For example, sole source procurement may be necessary when we are obtaining replacement parts for an asset that the City already owns and there is only one supplier.

\(^{11}\) Denver Revised Municipal Code 20-64a(3) - Professional Preference, a “professional” shall be defined as a person(s) who is uniquely knowledgeable and technically qualified in the supply, equipment or services to be provided due to an on-going day-to-day familiarity with the supply, equipment or service to be provided and because of professional qualifications such as a degree or professional certification related hereto.

\(^{12}\) Denver Revised Municipal Code 20-64a(4) – Standardization, “standardization” shall be defined as equipment presently in operation as it relates to the day-to-day operation of the equipment and replacement and repair parts for said equipment.

\(^{13}\) Denver Revised Municipal Code 20-64a(6) – Manager Exception, the manager of general services or his designee may establish policy and procedure related to purchases not subject to bidding procedures.
information from Workday, auditors found that $47 million, airport activity included, in purchases were made during the audit period using a bidding exception. Sole source procurements were the most common type of exception used, accounting for 89 percent of the total value of goods or services obtained through an exception. Figure 3 shows the breakdown of bidding exceptions by exception types.

**FIGURE 3. Bidding Exceptions Distribution**

![Pie chart showing bidding exceptions distribution: Sole Source Procurement 89%, Professional Preference 4%, Standardization/Uniformity 4%, Manager Exception 3%]

**Source:** City and County of Denver Auditor’s Office analysis.

**Note:** Purchasing processed a total of $47.3 million in bidding exceptions during the audit period of August 28, 2017 through May 31, 2018.

To determine whether bidding exceptions are following the steps required by the Procurement Division’s process, the audit team randomly selected 30 purchase orders from the list of exceptions generated from Workday. For each of the 30 exceptions in the sample, we tried to verify that the exceptions contained sufficient supporting documentation in compliance with the D.R.M.C. Based on the amount of missing documentation in this sample, auditors concluded that there are weaknesses in the enforcement of documentation requirements for bidding exceptions.

The audit team noted that 10 sole source procurement exceptions either did not have an attached exception form or the form lacked the required signatures from the agency heads as detailed in the D.R.M.C. While the D.R.M.C. requires written justification for sole source procurement exceptions, Purchasing has a standard form for agencies to use in documenting this type of exception but does not require it. As a result, support for these exceptions varies based on which agency is submitting the written justification for the exception. We also learned that there is no form for a professional preference exception either. Testing of these exceptions revealed that details provided depend on the agencies and can range from very detailed descriptions with all
required signatures of a sole source procurement to emails sent between an agency and the Procurement Division to no supporting document for the exception. Finally, our analysis disclosed that purchases that underwent management exceptions did not contain sufficient details as to why that exception was granted. There is currently no requirement to provide a written explanation for a manager exception. This leads to a lack of accountability for agencies that procure goods or services through the bid exception process. A lack of accountability may lead to inappropriately circumventing the bidding process and potentially paying more for goods and services.

**TABLE 2. Analysis of Bidding Exceptions**

<table>
<thead>
<tr>
<th>Bidding Exception Type</th>
<th>No Exceptions Noted</th>
<th>Missing Authorizing Signatures or Explanations</th>
<th>Total Purchase Orders Reviewed</th>
<th>Percentage of Total Reviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Source Procurement</td>
<td>12</td>
<td>9</td>
<td>21</td>
<td>70%</td>
</tr>
<tr>
<td>Professional Preference</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>10%</td>
</tr>
<tr>
<td>Standardization/Uniformity</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>7%</td>
</tr>
<tr>
<td>Manager Exception</td>
<td>0</td>
<td>4</td>
<td>4</td>
<td>13%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14</strong></td>
<td><strong>16</strong></td>
<td><strong>30</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: City and County of Denver Auditor’s Office analysis.

**Bidding exception documentation helps determine whether an exception was properly granted.**

Since an exception does not go through the typical procurement process, it is especially important that exceptions follow the rules that govern them, including manager approval or other supporting documentation. These steps allow the Purchasing Division to determine whether an exception was properly granted. Furthermore, not reviewing the reasoning provided for the exceptions can lead to improperly granting an exception when a competitive bid would be more appropriate.

Therefore, we recommend the Purchasing Division enforces their policies and procedures for documentation requirements.
RECOMMENDATION 1.4

Enforce Bidding Exception Documentation Requirements – The Purchasing Division should develop a plan to better enforce documentation requirements for bidding exceptions.

Agency Response: Agree – Implementation Date (January 2019)

Change Order Activity
Not Analyzed for Trends and Issues

Once a purchase order is finalized, an agency may make changes to it as needed using a change order, which is a written alteration to change or amend an existing purchase order. The change order process allows Purchasing and the agencies to make corrections, modifications, and necessary adjustments to purchase orders. Some types of change orders may be used to change the nature of the purchase, while other types may simply modify the internal accounting of the purchase like the account used to pay for the purchase.

Change orders fall into three major types: increased cost change, decreased cost change, and no cost change. The following are some examples, or sub-types, of reasons for a change order that we noted during our test work:

Increased or Decreased Cost Change

- Increase or decrease in services, number of units, or specifications
- Increase or decrease in unit cost
- Addition of shipping and freight cost
- Decrease in purchase order to close it out

No Cost Change

- Change in cost center or spend category
- Change in delivery or due date
- Change in vendor contact information

Purchasing Division officials stated that prior to the conversion from PeopleSoft to Workday, they monitored change order activity of agencies with a high volume of change orders and worked with them to reduce the change orders. Since trends and patterns in change orders can be an indicator of ineffective negotiations and
inefficiencies in purchasing, the audit team wanted to look at change order activity for the audit period. However, the Purchasing Division did not have a report that detailed all change orders since the transition to Workday, and stated that they have not analyzed the change order activity. At the request of the audit team, Purchasing Division personnel created a “Find Change Order” report using data from Workday. This report included the whole population of change orders, including information about the vendor.

However, the Find Change Order report still has limitations. First, vendor information cannot be easily sorted for analysis. Second, it does not contain information about the employee or agency submitting the change order. Finally, the report does not include the reason for the change order. Even though users can manually enter the reason into the memo field, it is not standardized or entered consistently, and therefore, cannot easily be grouped together in a report and analyzed.

Despite its limitations, the audit team was able to use the Find Change Order report to create the following example of a simple analysis that can be done with better data reporting. Figure 4 shows the number of change orders by change in dollar amount and indicates that most of the change orders processed by Purchasing are for changes that do not change the dollar amount of the purchase order.

**FIGURE 4.** Count of Change Orders by Dollar Change Amount

![Chart showing the count of change orders by dollar change amount](chart.png)

**Source:** Auditor’s analysis of change orders in Workday.

**Note:** These figures include airport change orders.
Without capturing all relevant change order population data in Workday and producing regular reports for analysis, areas that are causing issues, such as an agency that has an unusually high number of change orders, may not be identified and addressed. This could lead to a higher volume of change orders requiring more of Purchasing’s time and resources.

The NIGP has established best practices that emphasize the importance of having access to summary information. Analyzing this type of information enables management to identify risk and assess the performance of suppliers. By adopting this best practice, the Purchasing Division will be able to identify not only issues with suppliers, but also issues with agencies and changes in trends of the reasons for change orders.

**RECOMMENDATION 1.5**

**Change Order Reporting and Analysis** – The Purchasing Division should develop procedures to analyze purchase order changes to improve process efficiency. The Purchasing Division should consider working with Technology Services as necessary to create a Workday report that facilitates this analysis.

**Agency Response: Agree – Implementation Date (January 2019)**

---

**Inability to Track MPO Purchases May Result in Violations of P-Card Rules**

As described in the Background section of this report, the City uses Master Purchase Orders (MPOs) and P-cards to make the procurement process more efficient. Auditors sought to determine whether the controls over MPOs and P-cards are being followed. We found several issues related to system configurations and internal controls.

**Workday Not Configured to Indicate When a P-Card Purchase Is Part of an MPO**

Under the City’s previous accounting system, PeopleSoft, P-card users were required to indicate whether their purchase was made as part of an MPO. Under Workday, P-card users are no longer able to indicate whether the purchase was covered by an MPO. Although information regarding the MPO could be entered manually as free form text in the item’s description, P-Card holders often do not enter this information. This limitation in Workday prevents the Purchasing Division from being able to link MPOs to P-card transactions. Because the split and recurring purchase rules only apply in certain scenarios, Accounts Payable must understand which set of rules is applicable for a specific transaction. If rules universally disallowed recurring purchases or splits, it
would be unnecessary to track which purchases are based on MPOs for rule enforcement purposes.

The current configuration of Workday creates two problems. First, effective enforcement of procurement rules that apply to purchases not covered by MPOs is not possible. Second, the Purchasing Division cannot easily assess spending against MPOs.

**P-Card Rules May Allow Excessive Split Purchases**

The City’s procurement rules generally prohibit a purchasing strategy known as splitting. Splitting a purchase occurs when a P-card holder uses the P-card two or three times for the same item to circumvent the purchasing limits assigned to the P-card. However, the rules allow a purchaser to split a purchase using a P-card for purchases that are part of an MPO. Since this exception presents a risk of misuse, the audit team sought to determine how often P-cards are being used for splits under MPOs. All P-card amounts in this section exclude airport activity.

Our testing revealed the following:

- 188 splits that were not allowed under the procurement rules totaling approximately $567,000 (5.84 percent of all P-card spending).\(^{14}\)
- 44 splits were allowed as part of an MPO totaling approximately $144,000 (1.48 percent of all P-card spending).\(^{15}\)

The procurement rules also allow a P-card to be used for recurring purchases, as long as they are made under an MPO. These rules do not allow repetitive purchases that are not covered by an MPO. P-cards are intended to give agencies the authority for making small dollar purchases, and according to the P-card manual, it is more advantageous for Purchasing to manage frequently repeating transactions through an MPO. Our testing related to this rule revealed the following:

- During the audit period, agencies spent approximately $2.7 million using P-cards for recurring transactions (27.77 percent of all P-card spending).\(^{16}\)

---

14 Each split may account for 2 or more transactions.
15 Our analysis did not include looking at the individual purchases. Instead, we categorized determined if a purchase was part of an MPO solely based on the supplier. It is possible to purchase goods or services not covered by an MPO with a supplier that has an active MPO. As a result, the amount of purchases not associated with an MPO may be partially understated. In addition, some smaller suppliers may be included under a larger supplier’s MPO, but they would not be counted as covered by an MPO in our analysis.
16 City rules prohibit recurring or repetitive transactions, but do not clearly define them. For this audit, we define repetitive transactions by both the frequency and amount of an interaction between a supplier and agency. First, the total amount of spending from the agency to the supplier is greater than $5,000. Second, the agency has at least one transaction per month with the supplier for 6 or more months during the audit period.
○ Of that amount, approximately $1.5 million in purchases (56 percent of recurring transactions) violated the P-card policy, because these purchases were not covered by an MPO.

○ The remaining approximately $1.2 million in purchases (44 percent of recurring transactions) were spent with vendors who have MPOs with the City.¹⁷

The recurring purchases that were not covered by an MPO were opportunities where Purchasing could have added value. For instances where the combined value of purchases is over $10,000, they would have required, at a minimum, an informal bid process if made through any payment mechanism other than P-card. The bidding process improves transparency and gives the Purchasing Division an opportunity to find better deals for the City.

A system control called the single transaction limit sets a cap on the amount that can be spent in a single transaction.¹⁸ The single transaction limit control is only effective if Accounts Payable enforces rules for split purchases with P-cards. The Association of Certified Fraud Examiners (ACFE) recommends single transaction limits as a control to lessen the impact of fraud. The ACFE also mentions split transactions as a potential indicator of risk that should be reviewed by an organization’s management.

**The Purchasing Division Is Not Able to Fully Account for Spending against MPOs**

Without tracking P-card purchases, the Purchasing Division does not have all the information they need to manage MPOs. Personnel must actively manage relationships with MPO vendors and must prioritize the relationships based on spending volume and value. One way to prioritize would be to observe how frequently and how much is spent for each MPO. However, the Purchasing Division has not historically analyzed this P-card spending. Currently they cannot perform this analysis due to the limitations presented by Workday configuration. This may in turn limit the Purchasing Division’s ability to get the best pricing and or quantity deals.

Although MPOs can be a useful procurement tool, it is challenging for any Purchasing department to identify appropriate situations for establishing an MPO. If Purchasing maintains too many MPOs, it wastes time and resources to manage vendor relationships. In addition, MPOs are only useful when utilized by agencies, so Purchasing must make an effort to understand the needs of agencies to identify where establishing an MPO is effective. Further, procurement personnel need

---

¹⁷ As above, our analysis focused on the suppliers rather than the individual purchases.

¹⁸ For most cardholders, this limit is $2,000.
the right information to determine whether it is economical to continue to spend resources to maintain the MPO.

The NIGP provides valuable guidance for organizations seeking to analyze spending related to MPO viability. A guide issued by the NIGP positions the concept of “spend analysis” as a public procurement best practice that can be used to leverage buying power, reduce costs, and improve the management and oversight of suppliers. The guide defines spend analysis as the process of collecting, cleansing, classifying, and analyzing all sources of the organization’s expenditure data, positioning it as the first step in developing an organization-wide strategic procurement strategy. One of the four steps of spend analysis is regular analysis of collected spend data to support management decisions for the organization.19

To get a complete understanding, purchasing must consider all the mechanisms of spending, including P-card purchases. Without comprehensive information about how spending on P-cards is linked to MPOs, the Purchasing Division has incomplete data about vendor relationships. Purchasing is analyzing spending using other procurement and payment methods. However, it is impractical to assess MPO utilization based on the P-card information currently available in Workday. To ascertain whether a purchase is part of an MPO, buyers must determine the supplier, the item purchased, and the price paid. Given the volume of transactions, it is not practical to do this manual work. Therefore, we make the following recommendations to strengthen the reporting of MPOs associated with P-card purchases.

RECOMMENDATION 1.6

Identify P-Card Transactions Associated with Master Purchase Orders – The Accounts Payable team, in consultation with the Purchasing Division, should work with Technology Services to require that users identify whether a P-card purchase is associated with a Master Purchase Order. Assess the use of Master Purchase Orders for P-card purchases to reduce disallowed splits and recurring purchases. Instead of a technical solution, the Accounts Payable team could reduce splits and recurring purchases made with P-cards by modifying policies and procedures.

Agency Response: Agree – Implementation Date (May 2019)

---

Audit work identified two issues with employee training on P-card use, one related to accuracy of training materials and the other related to efficiency of training.

**P-Card Training Materials Are Out-of-Date by Three Years**

When P-cards are issued to City employees, Accounts Payable personnel send training material to the employees before they physically obtain their cards. The training material is made up of portions of purchasing policies and procedures. During our review of the training material, we found that much of it, including Fiscal Accountability Rule 8.1 and P-Card Allowed Services, are three or more years out of date. These sections need to be updated to reflect Workday as the new system of record and account for any changes or exceptions to purchasing rules that are in practice.

When asked why the training material had not been updated, Accounts Payable stated that there was no specific reason. The P-card program had been jointly administered by both Accounts Payable and Purchasing, but the program is being transitioned fully over to Accounts Payable. As part of this transition, Accounts Payable will be updating all the P-card training material.

By continuing to use the outdated material, P-card holders may not be receiving the most up-to-date instruction on the use of their new P-cards. They may also receive conflicting instruction between the outdated training materials and what is actually done in practice.

Maintaining up-to-date training materials is a practice promoted by the Fiscal Accountability Rule Overview published by the Controller’s Office. This Overview emphasizes that City procedures should evolve over time as new tools emerge, new processes are designed, and the risks associated with a process change. By reviewing and updating the P-card training materials, the Accounts Payable team will not only be in compliance with Controller’s Office guidance, but risks associated with P-card misuse will be mitigated.

**P-Card Training Process Is Inefficient**

In addition to sending new P-card holders training materials, the Credit Card Administrator who issues new P-cards conducts a one-on-one training with each new card holder either by phone or in person. Not only is this practice time consuming for the administrator, but new cardholders may receive a slightly different message as her discussion points may change or get mistakenly left out during the discussion.

Due to these limitations, the Credit Card Administrator wants to automate the P-card training process as much as possible by creating an online training for all new cardholders. The administrator and
Accounts Payable have intended to eventually move the training into an online setting, but it has not been a high priority. The administrator has had preliminary discussions with the Controller’s Office about creating an online P-card training course, but no action has been taken.

The U.S. Government Accountability Office provides relevant guidance regarding efficiency in its Standards for Internal Control in the Federal Government (the Green Book), stating that efficient operations minimize the waste of organizational resources. Therefore, we make the following recommendation to the Accounts Payable team to continue to pursue the creation of an online P-card training course.

**RECOMMENDATION 1.7**

*Create Online P-Card Training* – The Accounts Payable team should update the City’s P-card policies and procedures, which are used as training material for City employees being issued a P-card and continue to work with the Controller’s Office to create an online P-card training program that can be accessed by new P-card holders at any time.

*Agency Response: Agree – Implementation Date (March 2019)*

Unauthorized Purchases Have Decreased, but Documentation Enforcement Could Be Improved

An unauthorized purchase (UNA) occurs when a purchase is made outside of normal purchasing procedures. There are three types of UNAs: After the Fact, Fiscal Rule Violation, and Code Violations. After the Fact purchases are made when an agency uses valid pricing and a Master Purchase Order (MPO), but the purchase is made before the issuance of a purchase order. Likely, this will occur when an agency does not get the Purchasing Division involved with the procurement process. Although the agency still benefits from the negotiations Purchasing made with the MPO, it is best business practice to get the Purchasing Division involved in the procurement of a good or service and obtain appropriate approvals before committing funds to the supplier. The second type of violation—Fiscal Rule Violation—occurs when a department or agency makes a purchase under $10,000 without any valid procurement mechanism being used. Similarly, the third type of violation—Code Violations—occur when a purchase is made over $10,000 without using any valid procurement mechanism.

In 2013, we issued an audit report about purchasing and procurement, which recommended that the Purchasing Division track unauthorized purchases. The Purchasing Division agreed, and since implementing it, the Purchasing Division buyers have been tracking the three types of
UNA violations. As seen in Figure 5, both the number of UNAs and the spending associated with UNAs has steadily dropped since 2014.

**Figure 5: UNA Trends: Count of UNAs**

![Diagram showing UNA Trends: Count of UNAs from 2014 to 2016, including Audit Period (Annualized) and Audit Period (Actual).]

**Source:** Workday and Purchasing data compiled and analyzed by the audit team.

**Note:** The audit period is from August 28, 2017 through May 31, 2018, which is nine months spanning two fiscal years. Due to changes in tracking during 2017, we did not include the data for the full year of 2017 but annualized the number of violations during the audit period. To compare with historical data, this chart includes violations originating from the airport.

Although the total number of UNAs has decreased from 2014 to 2016, auditors found that the amount of spending related to UNAs has been shifting to code violations. Code violations are, by definition, higher dollar amounts than fiscal rule violations, but based on the data collected by Purchasing, we see them accounting for a greater share of UNAs since 2014 as shown in Figure 6 below. In 2016, UNAs still accounted for $2.1 million in spending, including airport activity.
Even though Purchasing has made considerable progress in reducing UNAs, they are sometimes misclassified. For example, a purchase could be mistakenly classified as a UNA even though it is a purchase made in accordance with policies and procedures. We also gathered evidence that in some instances forms are not filled out or they are missing entirely. Purchasing is not consistently enforcing their own policies and procedures by authorizing payment without completed UNA forms and signatures. Specifically, the audit team pulled a judgmental, non-statistical sample of thirty UNAs and found the following:

- Six of 30 fiscal rule and code violations tested were not categorized correctly.
- Of the remaining 24 fiscal rule and code violations tested:
  - Three instances were missing the required explanations;
  - Four instances were missing required signatures; and
  - Three were missing both explanation and signatures.²⁰

²⁰ To pull this sample, we selected 15 fiscal rule violations and 15 code violations across various buyers who processed them. Because this was not a statistical sample, we cannot extrapolate these findings to the full population.
In two of the instances missing both explanation and signature, Purchasing Division personnel chose not to enforce rules because the purchases were allowable under P-card rules, but some complication prevented the agency from ultimately using the P-card. In other words, they did not want to punish agencies for matters beyond their control. However, the policy for accounting for UNA purchases does not include exceptions for these situations.

The General Services Purchasing Procurement Policy and Procedure Manual states that buyers are required to complete UNA forms for Fiscal Rule Violations and Code Violations prior to the release of the purchase order. When buyers do not hold agencies accountable for properly completing UNA forms, this opens the door for agencies to commit the City to purchasing goods or services without the proper oversight by the Purchasing Division. The UNA forms are the method in which the Purchasing Division communicates the violation to the agency, also requiring a justification and a plan for how to avoid violations in the future. Forms lacking signatures and explanations are not likely to prevent future violations. In turn, agencies continue to submit incomplete forms. A formal plan for enforcing UNA procedures could stop this cycle, and the Purchasing Division has already begun clarifying and enforcing these new policy changes.

**RECOMMENDATION 1.8**

*Improve Unauthorized Purchase Document Enforcement* – We recommend that the Purchasing Division improve enforcement of unauthorized purchases by developing and implementing a plan to require fully completed unauthorized purchase documentation. Consider updating policies and procedures to allow for additional flexibility in specific instances.

**Agency Response:** Agree – Implementation Date (December 2018)

---

*Purchasing Has Designed a Process to Authorize Emergency Spending, but Monitoring Could Be Improved*

Emergency situations are defined as situations in which, if they continue to exist, would endanger the health or safety of the public or employees and requires a remedy sooner than the supplies, materials, equipment, personal property, or services would be delivered if the normal purchasing procedures were followed; or a situation which would place an excessive financial burden on the City unless addressed in a shorter time than the bidding procedures require. When emergencies occur, City Charter requires that agencies must contact

---


the Purchasing Division to receive an Emergency Purchase Order number. Buyers provide these Emergency Purchase Order numbers verbally and verify them when the PO and invoice are received. This authorization number gives proof that an emergency has been approved by the Purchasing Division.

To help reduce costs and ensure quality goods or services, the Purchasing Division sets up emergency vendor contracts to be used during emergency situations. In addition, the Purchasing Division reviews these contracts every few years to ensure usefulness and competitive pricing. If agencies use these emergency vendor contracts, they do not need to receive prior approval before making an emergency purchase.

During the audit period, agencies made 49 emergency purchases, airport activity included. We sought to determine whether emergency purchases are for legitimate emergencies, as defined in the City Charter, and that procedures are being followed and documented in Workday. To test this, we judgmentally selected a non-statistical sample of 10 emergency purchases.23

Of the 10 items tested, we only identified one that did not follow emergency procedures. In this transaction, portable sinks were purchased for a homeless shelter without Purchasing Division’s involvement, and then the agency referenced an Emergency Purchase Order number that was not valid or provided by the Purchasing Division. The invalid number was also not verified when the PO and invoice were received. However, even with the fabricated Emergency Purchase Order number, the transaction was still processed by the Purchasing Division. This would indicate faulty design and implementation of the controls in place for emergency purchases.

The results from our testing also indicate that the Purchasing Division is not adequately tracking authorized emergencies. After verbally giving out the Emergency Purchase Order numbers, buyers are not recording or tracking them. Therefore, it opens the door for unauthorized emergencies to be processed, potentially circumventing all preferred procurement procedures.24 Because of the nature of emergencies, these types of purchases tend to be more expensive than planned purchases. When goods or services are needed urgently, the agency or Purchasing cannot compare the pricing and quality between multiple vendors.

One of the standard-setting bodies that is relevant to the scope of this audit is the Committee of Sponsoring Organizations of the Treadway

---

23 To select this sample, we picked emergencies of different dollar amounts, various agencies, items that looked unusual, and where two emergencies were the same dollar amount. Because this was not a statistical sample, findings of this testing cannot be extrapolated for the whole population of 49 emergencies.

24 Unauthorized emergencies must be marked and treated like a UNA.
COSO suggests developing internal controls and performing ongoing evaluations to determine whether these controls are functioning properly. Therefore, we recommend that the Purchasing Division develop, implement, and evaluate an Emergency Purchase Order number tracking log to ensure all emergencies are approved and in accordance with City Charter. The Purchasing Division has already begun tracking all emergency numbers in a shared spreadsheet.

**RECOMMENDATION 1.9**

**Create Emergency Purchase Order Tracking Log** – The Purchasing Division should develop, implement, and evaluate an Emergency Purchase Order number tracking log to ensure all emergencies are approved and in accordance with City Charter.

**Agency Response: Agree – Implementation Date (December 2018)**

---

**FINDING 2**

**Documentation, Monitoring, Enforcement, and System Improvements Are Needed to Address Internal Control Weaknesses in the Payment Process**

Once procurement is complete and goods or services are delivered, suppliers send invoices to the agencies. Agencies prepare the necessary forms and entries in Workday and send invoices to the Accounts Payable team within the Finance Department (Accounts Payable). The Finance Department has created several policies and procedures for agencies to follow so that they prepare correct and consistent support for payment of invoices as well as payment by P-card.

To approve an invoice payment, Accounts Payable verifies that there is sufficient documentation for payment, coding is appropriate, and information matches between Workday and supporting documentation. The Accounts Payable team also reviews a portion of P-card transactions for compliance with City policies. Data entry and verification steps vary depending on how goods or services were procured and ordered. After the Accounts Payable team reviews payments for compliance, Accounting processes the payment.

Approval of purchases and payments are controlled, tracked, and documented in Workday. However, audit work found that the documentation and monitoring procedures relating to the approval process are primarily performed by employees and, therefore, are sometimes applied inconsistently. Inconsistency can result in incomplete or inaccurate data and support. Indeed, we found several instances where these procedures can be improved.

We found that the processes that allow agencies to purchase certain items without a purchase order are not always used as intended. In addition, when some purchases are being processed for payment, there is not adequate support as required by policy and procedure. We also found that additional data input validation controls in Workday could help prevent duplicate payments. Additional system improvements within the Workday’s three-way match process could provide reports needed for trend analysis and improve the efficiency of employees monitoring exceptions that the system cannot process. It was also brought to our attention that Accounts Payable was not annually reporting late payment interest penalties as required by ordinance. Lastly, we noted a cost analysis of payment methods had not been performed in several years and that a large number of checks were being held for pick up.
Supplier Invoice Request and Ad Hoc Payments Are Not Always Used Appropriately

As explained in the Background section of this report, under current rules, two procurement methods do not involve the Purchasing Division, which are supplier invoice requests and ad hoc payments. These payment methods may be used only for items that are included on the Non-PO Voucher list established by Accounts Payable and Purchasing. Accounts Payable has verbally communicated what can be paid by the ad hoc method to the agencies. In assessing whether these methods are being used appropriately, we found that they are being used for a variety of payments, including those that should have been processed under an existing purchase order (PO) or a new PO. Some of the examples we found of inappropriate use were for heavy construction services, management advisory services, food, office supplies, and computer equipment.

To come to this conclusion, we grouped and analyzed the purchase categories of these payments found in Workday, tested a sample of transactions, interviewed accounts payable specialists, and evaluated internal controls in this payment process. We selected a judgmental, non-statistical sample of 30 supplier invoice requests and 10 ad hoc payments.26 Our tests of these 40 payments yielded the following results:

- Of the 30 supplier invoice requests tested, 22 purchases were for transaction types that are not on the Non-PO Voucher list.
- Of the 10 ad hoc payments tested, four purchases did not fit the ad hoc payment description from the Accounts Payable team.
- One of these four ad hoc payments was used to reissue a stale check. Our analysis of purchase categories in the ad hoc payment report revealed more stale check payments, which were not tested. The City has a different process for stale checks that was not used in these situations but should have been. As we have not evaluated the controls within the standard stale check reissue process, we cannot draw any conclusions whether using the wrong reissue process could result in overpayment or inefficiencies.

For some of the above exceptions, the procurement was made by an independent agency, such as the District Attorney’s Office, Auditor’s Office, and Denver County Court. Independent agencies may procure goods and services without involving the Purchasing Division, which explains why they can purchase items such as computer equipment.

---

26 To select this sample, we reviewed the categories of payments and targeted those that appeared to not be listed on the Non-PO voucher list. By doing so, we were more likely to identify items that were procured and paid using incorrect methods. Because of this selection approach and because we did not generate a statistical sample, the results of this testing cannot be used to infer the volume and type of errors in the whole listing of supplier invoice requests and ad-hoc payments.
and process that purchase as a supplier invoice request. However, this is not specified in the Non-PO Voucher list.

In addition, based on the analysis of payment categories and our sample testing, we concluded that using a supplier invoice request or an ad hoc payment would be a logical method of payment in many other situations not covered in the Non-PO Voucher list or the ad hoc payment description from Accounts Payable, regardless of whether the purchasing agency is independent. We concluded this because some types of purchases are not listed but would not benefit from the Purchasing Division’s involvement.

Accounts Payable was not aware of the inappropriate use of supplier invoice requests and ad hoc payments before our audit as they do not have a procedure to periodically analyze these payments.

In assessing the cause of this misuse of supplier invoice requests and ad hoc payments, we noted that the Non-PO Voucher list was last revised in 2012. Further, the Non-PO Voucher list does not provide for any additional situations or flexibility where a non-PO payment would be appropriate. Therefore, agencies do not have clear guidance of what can and cannot be processed as a supplier invoice request or ad hoc payment. In addition, we found that some accounts payable specialists are not aware that management expects them to be responsible for reviewing whether the supplier invoice request or ad hoc payment method was appropriate. We did not find any policies and procedures describing accounts payable specialist responsibilities when processing these payments.

The most significant effect of insufficient guidance and Accounts Payable review lies in procuring items without Purchasing Division’s involvement by circumventing the PO process or possibly even the bidding process and potentially not getting the best value for purchases. This audit did not attempt to quantify these potential impacts. While we found payments that should have been processed via a PO process, we also recognize that the Non-PO voucher list should be expanded. Making purchases using the non-PO voucher mechanisms for purchases not included in Non-PO Voucher list is against the Procurement Policy. Therefore, we make the following recommendations to strengthen the guidance and monitor supplier invoice requests and ad hoc payments.
RECOMMENDATION 2.1

Update Non-PO Voucher Guidance – The Accounts Payable team and the Purchasing Division should update and clarify guidance specifying when non-PO vouchers can be used for City agencies as well as for Accounts Payable employees.

Agency Response: Agree – Implementation Date (January 2019)

RECOMMENDATION 2.2

Analyze Inappropriate Non-PO Voucher Usage – The Accounts Payable team and the Purchasing Division should analyze inappropriate non-PO voucher usage and work with agencies to reduce noncompliance.

Agency Response: Agree – Implementation Date (January 2019)

Some Payments Were Processed Without Adequate Support

When invoices are approved for payment by the cost center approver and Accounts Payable, they must have adequate support such as the invoice, receipt number, and any associated calculations and correspondence. Support is attached in Workday prior to processing the payment. While performing various tests during our audit, we found 11 out of 77 payments processed without adequate support. All testing excluded airport activity. While we did not select a specific sample to evaluate the adequacy of support, we reviewed support as part of all other testing during this audit. The samples were judgmental and non-statistical. The judgement used for these selections is described in other sections of this report.

Specifically, the following payments either had insufficient support or support did not fully match the payment made:

- 2 out of 10 Ad Hoc payments tested
- 1 out of 27 invoices tested during the duplicate payment test
- 7 out of 30 supplier invoice requests tested
- 1 out of 10 emergency payments tested

In several situations, the support only included quotes instead of invoices. Because a quote does not always include the final price or quantity, and the City may not have ordered anything based on the quote, a quote is not reliable support for a payment. Additionally, some of the payments in our test samples did not have any references to the
underlying agreements, such as purchasing contracts or intergovernmental agreements, or explanations why agreements were unnecessary.

The following descriptions provide additional detail regarding the results of our test work:

- For one of the exceptions identified during our testing, a $1,347 payment was made up of many small receipts. However, receipts for $139 of the $1,347 total were missing from the documentation compiled in Workday. In this case, it appears that the accounts payable specialist did not diligently review the support to match every item paid.

- In a few other exceptions we identified, an independent agency was using store accounts (for example, Home Depot or Walmart) and was paying the monthly statement with no detail receipts attached. Due to the volume of store account purchases, an informal process exists whereby the agency should retain and review all receipts in hard copies and only submit the statement for payment processing. The agency stated that they are hoping to phase out the use of these cards.

- In another situation, we found that an agency submitted an invoice for confidential services, but there was no documentation explaining the nature of the services, and why they were not covered by a contract. Accounts Payable appears to have an information procedure to process confidential service payments if payment requests come from agencies that would reasonably need such services, such as the Safety Department.

- In one case, we noted a legal settlement payment of approximately $117,000 that did not have adequate support to ascertain whether the amount was accurate and paid to the correct recipient. The accounts payable manager explained that all other documentation was missing to keep the agreement conditions and payee confidential. Accounts Payable personnel had not reviewed this confidential support.

Fiscal Accountability Rule 2.5 – Supporting Documentation states that supporting documentation should describe all key aspects of the transaction and provide an explanation regarding why the transaction is being processed. Documentation should include the name of the recipient, amount, date, nature and purpose of the transaction, and any special terms and conditions. Since quotes do not include a

While 11 of the 77 tested payments did not have adequate support in Workday, we obtained evidence that the City did not incur any financial loss from these payments.

transaction date or final amount, they are not an adequate support for a payment.

Based on audit interviews and review of additional documentation associated with these exceptions, we were able to conclude that all of these payments appear to have been reasonable and did not cause any financial loss to the City.

When a non-statistical sample is used, we cannot infer that the same type and volume of issues are present in the whole population. However, issues found, in the context of other information regarding the processes and internal controls, indicate that there could be more payments without adequate support in the whole population. When payment support is not adequately reviewed, Accounts Payable personnel may be approving incorrect amounts or paying for goods or services that were never provided or are disallowed under the City’s Procurement Policy. For example, in the absence of a store card statement detail, accounts payable specialists cannot verify whether purchases are properly coded or that items are reasonable and allowed. Also, some agencies could submit a fictitious document or use an actual document with payees wiped out and hand-written payment amounts, stating that further support is confidential. Finally, processing payments without obtaining and reviewing adequate support may create fraud opportunities. Therefore, we make the following recommendations to improve documentation guidance and enforcement for payments.

**RECOMMENDATION 2.3**

**Additional Training and Enforcement of Transaction Support Requirements** – The Accounts Payable team should provide additional training and/or guidance for accounts payable specialists and agencies regarding adequate support for transactions. Additionally, the Accounts Payable team should enforce support requirements for all payments by not processing payments until all support is included, as required by Financial Accountability Rule and other policies and procedures.

Agency Response: Agree – Implementation Date (December 2018)
RECOMMENDATION 2.4

Create a Process to Verify Confidential Support – The Accounts Payable team should create and follow a process to ensure that confidential payment support exists and has been properly verified.

Agency Response: Agree – Implementation Date (December 2018)

Lack of Input Validation Controls in Workday

Every supplier invoice that is submitted to the City for payment must have an invoice number when being entered into Workday. The City’s Invoice Numbering Standard gives instructions to enter invoice numbers, and how to create an invoice number when no invoice number is available, such as for ad hoc payments, which do not always have invoices. In Workday, ad hoc payments have an external reference field instead of an invoice number field. If an ad hoc payment has an invoice and an invoice number, it is entered into the external reference field under the same Invoice Numbering Standard. If it does not, accounts payable specialist must create one. The Invoice Numbering Standard specifies that special characters are not allowed in invoice numbers.28

Workday is configured to disallow entering a duplicate invoice number. However, payment invoices that are entered in different formats are not detected by this control because Workday does not account for special characters. For example, 12-345-6789 would be recognized as different from 123456789. The dashes alone cause Workday to accept both entries as unique invoice numbers. Because of the lacking control, there are invoice numbers that do not comply with the Invoice Numbering Standard rules simply because they contain special characters.29 Unlike invoices, ad hoc payments can be issued even if the external reference number is identical to another payment.

We used computer-aided auditing techniques to analyze the entire population of invoices and ad hoc payments that were made during the audit period to identify all uses of special characters in the fields where invoice numbers are entered. Our analysis revealed the following (airport activity excluded):

- 609 instances (0.81 percent of invoices covered in the audit period) of an invoice number containing at least one special character

---

28 A special character is any non-alphanumeric character. Some examples are a space, dash, number sign, slash, period, or comma.
29 The ad hoc payment external reference field is also not configured to prevent exact duplicate invoice numbers in Workday.
• 6,661 instances (22.14 percent of ad hoc payments made during the audit period) where the external reference field contains at least one special character

• Several instances where the external reference field contained only a short description, rather than an invoice number as required by the Invoice Numbering Standard. One example was “PAYROLL STALE CHECK” entered in the external reference field. This example would be considered an exception simply because it contains spaces.

We also performed analysis of the impact that special characters have on the payment process. Using computer aided auditing techniques, we analyzed the entire populations of invoices and ad hoc payments to identify all invoice numbers that were either identical or would be identical after special characters are removed. In this analysis we found (airport activity excluded):

• 27 payments totaling approximately $1.5 million where invoice numbers that were either identical or would be identical after special characters are removed
  ○ Many of these items were paid multiple times for a legitimate business purpose; for example, two partial payments of a single invoice
  ○ Of the twenty-seven, six transactions totaling $2,285, which is an immaterial amount, were overpayments because of duplicate invoice numbers

• 950 instances totaling approximately $2.8 million where the system allowed processing of ad hoc payments with duplicate external reference numbers.
  ○ From these, we judgmentally selected a sample of twenty and found only one overpayment of $2,679, which appears insignificant.30 Based on the type of other payments we tested and the description of other payments in the population, it appears that most other items in the listing of 950 are legitimate payments processed with duplicate reference numbers. For example, separate checks generated to pay for two years of property tax reimbursements to the same City resident.

The National Institute of Standards and Technology (NIST), which is a federal agency that develops and implements science and technology standards, provides relevant guidance regarding this issue. NIST Special Publication 800-53 (Rev. 4) suggests that information should be

30 We selected our sample by reviewing the listing of 950 instances and picking items of lower and higher amounts, amounts between potential duplicates same or different, and where payees appeared unusual. Our goal in picking this sample was to identify transactions that appeared to result in an overpayment and to gain a general understanding of the types of payments on this list.
validated as it is entered into a system.\textsuperscript{31} Technology, such as a character limitation imposed by Workday, can achieve real-time data validation. Part of this validation is to ensure that the formatting of data being entered meets the Invoice Numbering Standard formatting requirements.

Accounts Payable could not provide a specific cause for not having implemented additional input validation controls for invoice and external reference numbers. They have stated that setting up a special character validation control would be tedious, but feasible.

To prevent duplicate payments to suppliers and employees, we provide the following recommendations.

\textbf{RECOMMENDATION 2.5}

\textbf{Implement Additional Input Validation Controls} – The Accounts Payable team should work with Technology Services to implement Workday data validation system controls to prevent exact duplicate ad hoc reference numbers and special characters in invoice numbers.

\textit{Agency Response: Agree – Implementation Date (March 2019)}

\textbf{RECOMMENDATION 2.6}

\textbf{Prevent Duplicate Ad Hoc payments} – The Accounts Payable team should design and implement additional controls to detect and rectify duplicate ad hoc payments when an invoice number is created by the Accounts Payable team. Consider designing, generating, and periodically reviewing a report, which facilitates the identification of similar invoice numbers and other indicators of duplicate payments.

\textit{Agency Response: Agree – Implementation Date (December 2018)}

\textbf{Three-Way Match Exceptions Could Be Reduced by Analyzing Exceptions and Resolving Workday Limitations}

In the Background section of this report we have described the three-way match and exception resolution process. There are seven types of three-way match errors which trigger Workday to mark the transaction as an exception:

- Exceeding the freight amount on the invoice

• No receipt for the selected PO
• Invoice quantity exceeding the total purchase order quantity
• Invoice amount exceeding the total purchase order amount
• Invoice unit price exceeding set purchase order unit price
• Receipt amount not matching the invoice
• Receipt quantity not matching the invoice

If an invoice is marked as an exception, it cannot be paid until the exception is resolved. To do so, Workday sends an email to an agency representative notifying them of the exception. The agency is ultimately responsible for resolving all exceptions related to its invoices. The most common methods used to resolve an exception are processing a PO change order, applying additional or different receipts to the invoice, or requesting that the vendor send a corrected invoice. Once the quantities and amounts in Workday match, the invoice is no longer considered an exception and the system allows further processing.

Although Accounts Payable stated that resolving exceptions is the responsibility of the agency, the Accounts Payable team monitors and assists in resolving these exceptions to ensure invoices are paid on time. After running a daily active exception report, Accounts Payable personnel identify items, which they can address themselves. For example, if the cause of the exception is clear and no additional documentation is needed from the agency, Accounts Payable clears the exception in Workday. In addition, if the variance is less than $5, Accounts Payable overrides the exception and marks the reason for override in Workday. The accounts payable manager must approve every override. During our audit period, there were approximately 200 overrides, excluding airport activity. Note that this number includes only overrides and not all exceptions processed by Accounts Payable.

Overrides pose the highest risk of error, because an override indicates that the system could not completely execute the three-way match. Of these 200, we selected a judgmental non-statistical sample of 30 to test if these items were adequately justified, if override reasons matched the actual issues, and if override execution and approval duties were properly segregated.\[32\] Based on this testing, evaluation of internal control design, and review of access permissions in Workday, we concluded the following:

• First, of the 30 tested items, all exceptions tested were properly classified. Only one invoice out of 30 for about $6,500 did not have an adequate justification. While this payment did have

---

32 To select this sample, we picked items of various dollar amounts. We could not use any other judgment to identify unusual items as the report we used to generate the listing of overrides did not have other useful information.
adequate support at the time of override, the matched receipt was later cancelled. We could not determine if this resulted in an overpayment, or the service was actually delivered.

- Second, while there is a daily report that Accounts Payable runs to monitor exceptions, this report only shows unresolved items. Accounts Payable does not currently have any procedures to analyze historical information on the type and volume of exceptions by agency, and, with the current monitoring report, they do not have the ability to do so. The Accounts Payable team saves daily exception reports and, if a historical report cannot be easily created, could combine this information for analytics in the future.

- Third, there are situations where Workday erroneously identifies exceptions, particularly incorrectly flagging invoices that have exceeded the purchase order amount or quantity. Accounts Payable calls it a system anomaly.

- Fourth, there are risks in cases when an invoice is entered into Workday by a PO and not the receipt or when the invoice exceeds the receipt and a second receipt is found after an exception is flagged. The new or additional receipt must be applied by referencing it in a memo field. This means that the receipt is not fully linked to the invoice. In these cases, the receipt could be referenced to more than one invoice or cancelled after it was applied, which is what happened in the case described earlier. In addition, when an invoice is applied to a PO, the system does not identify exceptions when an invoice exceeds the receipt or a receipt for this specific invoice is missing. During our duplicate testing, we found two invoices that were paid twice because the system did not check the invoice against the receipt. Note that these items have already been counted as part of duplicates described earlier. Accounts Payable stated that they are not currently monitoring invoices entered by PO.

- Fifth, duties in this process were properly segregated.

The Accounts Payable team stated that they have not analyzed exception trends since Workday was implemented on August 28, 2017. Accounts Payable personnel further explained that they have not approached Workday consultants to resolve this system anomaly because it happens only occasionally. Accounts Payable has stated that they have not requested the report and resolved anomalies because they have other more pressing priorities. Also, Workday consultants have stated that the system does not allow linking to

---

33 The only situation where an invoice applied to a PO would be identified as an exception is if there are no receipts at all linked to the PO. For example, if a PO is for $1,000 and a receipt for $100 is linked to this PO, an invoice for $500 can be erroneously processed for this PO. If this PO has no receipts at all, an invoice entered by this PO would go to exceptions.
receipts “after the fact” except for direct purchases from vendors based on MPOs. This would require software changes.

Two professional organizations have established best practices that emphasize the importance of effective three-way matching controls. The Committee of Sponsoring Organizations of the Treadway Commission Principle 13 – Information and Communication – states that an organization should generate and use information, such as historical three-way match exception reports, to support the functioning of internal control.\textsuperscript{34} Further, the American Institute of Certified Public Accountants 2017 Trust Services Criteria suggests that entities should have controls over the security, availability, processing integrity, confidentiality, and privacy of information and systems. The third criteria, processing integrity, addresses whether systems, among other things, perform their intended functions without errors, delays, or omissions.\textsuperscript{35}

If exception rates are not analyzed, the Accounts Payable team may not be able to identify repetitive issues and methods for reducing exceptions. False exceptions require time to address and override, which creates inefficiencies. According to Accounts Payable personnel, resolving an exception can take anywhere from five minutes to a few hours, depending on the complexity of the issue and changes required. And finally, if an invoice exceeds the receipt or receipts can be applied more than once or cancelled after being applied, the City could be paying for goods or services not received. While we found only one such instance out of 30 tested items, there could be more cancelled or misapplied receipts in the full population of 200 and in the future.

To reduce the number of exceptions and the risk of incorrectly applying receipts for processing payments, we offer the following recommendations.


RECOMMENDATION 2.7

Create and Analyze a Historic Report for Three-way Match Exceptions – The Accounts Payable team should collaborate with Workday consultants to create a historic report of all three-way match exceptions and periodically generate and analyze this report to identify trends and major issues.

Agency Response: Agree – Implementation Date (December 2018)

RECOMMENDATION 2.8

Resolve Workday Receipt Application Limitations – The Accounts Payable team should work with Technology Services to resolve limitations related to receipt application and exception identification. If a technical resolution is not feasible, Accounts Payable should implement monitoring controls to mitigate the risk of overpayment.

Agency Response: Agree – Implementation Date (May 2019)

RECOMMENDATION 2.9

Resolve Three-way Match System Anomalies – The Accounts Payable team should work with Technology Services to resolve the three-way match system anomalies.

Agency Response: Agree – Implementation Date (May 2019)

No Annual Prompt Pay Reporting

The City has a Prompt Pay Ordinance that requires the City to make timely payments to vendors and mandates the payment of interest on payments that are delayed by the City through no fault of the vendor. Any interest paid by the City is calculated at the rate of 1 percent per month on the unpaid balance of an invoice until the invoice is paid in full.

The 1 percent per month interest rate annualized is 12 percent. This is about four times higher than the August 2018 prime interest rate of 2.86%. The prime rate is the overnight rate that banks loan to each other and to their best, lowest risk customers. We reviewed late payment interest rate in several comparable Cities and states and found a wide range of rates. Some cities and states paid as high as an 18 percent annual rate, while others do not have a specified rate at all. Upon further research, the late payment interest rate has not
City's annual interest rate on late payments is approximately four times higher than August 2018 prime interest rate.

changed since the ordinance was created in 2001. Continuing to pay an annual interest rate of 12 percent may not be necessary if a lower rate could still incentivize the agencies to pay invoices promptly.

We reviewed the Accounts Payable team processes for preventing and monitoring prompt pay interest and found that they have a control process that helps prevent data entry errors from delaying invoice payments. They also have monitoring controls and reports that help ensure that delayed invoice payments are detected and addressed by both the agencies and the Accounts Payable team before they become a major issue. However, during the review of these processes, Accounts Payable personnel acknowledged that they had not met the annual reporting requirement established by section 20-115(d) of the ordinance.

This section of the ordinance requires that the Department of Finance create a report detailing the number of late payments and interest payments by department and agency. The end of the section also states that Finance will make an annual presentation to City Council of the previous year's interest assessments by department or agency upon request from City Council. However, the ordinance is not clear about what Finance should do with the report if City Council does not request an annual report of the previous year’s late payment interest.

Accounts Payable personnel were unable to determine when the last annual prompt pay report was made to City Council. However, they stated that they are committed to start reporting for the reporting year 2018. They also readily provided to the audit team the prompt pay interest penalties assessed for the 12-month period from July 2017 through June 2018, as shown in Figure 7. A total of 343 penalties were assessed during this time period for approximately $175,000, including airport activity.
FIGURE 7. Prompt Pay Penalties Count and Amounts by Month

Source: Chart created by Auditor’s Office using prompt pay interest data from the Accounts Payable team.
Note: Data includes airport transactions.

The reporting required by this ordinance contributes to the transparency and accountability of City spending and payment timeliness. Therefore, we make the following recommendation to the Accounts Payable team to continue with their plan to reestablish annual prompt pay reporting.

RECOMMENDATION 2.10

Report Prompt Pay Interest to City Council – The Accounts Payable team should continue to prepare the 2018 annual report of prompt pay interest by each department or agency as required by the Prompt Pay Ordinance Section 20-115 and continue to do so annually in the future. As part of this effort, Accounts Payable should consider the need to confirm their interpretation of this section regarding what to do with the annual report and how to use it if City Council does not request a presentation of the results. Additionally, Accounts Payable should consider working with City Council on revising the prompt pay interest rate to better align it with the market rate.

Agency Response: Agree – Implementation Date (November 2018)
Accounts Payable Could Improve Efficiencies and Reduce Control Risks by Increasing Electronic Payments and Reducing Checks Held for Pick Up

When invoices are approved by the Accounts Payable team, payments are processed by the Accounting and Financial Reporting Division (Accounting) in the Controller’s Office. Accounting makes electronic and check payments based on instructions from the agency, which are entered in the invoice in Workday or based on standard terms under supplier agreements. For some checks, there are instructions noting that they should be held for pick up. Accounting generates a list of these checks and pulls them out once they are printed. They are grouped by the agency that initiated the transaction and properly safeguarded until they are picked up by approved agency representatives.

The Accounts Payable team has performance metrics for the processing of checks versus electronic payments, which were listed in the 2017 Budget Book. Accounts Payable stated that these metrics have been provided to the Budget and Management Office for 2018, but they were not published in the 2018 Budget Book. However, Accounts Payable has not performed a recent cost analysis for processing checks versus electronic payments. They stated it was last calculated in 2013, but this analysis could not be found for our review. During the audit period, we identified a significant number of payments made by check, as noted in Table 3. Amounts and counts in Tables 3 and 4 exclude airport activity.

### TABLE 3. City Payments by Payment Method—August 28, 2017 through May 31, 2018

<table>
<thead>
<tr>
<th>Payment Method</th>
<th>Amount</th>
<th>Percent of Amount</th>
<th>Count</th>
<th>Percent of Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACH</td>
<td>$870,112</td>
<td>77%</td>
<td>40,198</td>
<td>39%</td>
</tr>
<tr>
<td>Check</td>
<td>259,960</td>
<td>23%</td>
<td>61,832</td>
<td>60%</td>
</tr>
<tr>
<td>All Others</td>
<td>3,024</td>
<td>0%</td>
<td>1,617</td>
<td>1%</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>$1,133,096</strong></td>
<td></td>
<td><strong>103,647</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Generated by auditors from CCD Find Supplier Invoice report and CCD Find Ad Hoc Payments report in Workday.*

The reasons why checks are held for pick up can vary, such as when a supplier needs an urgent payment, the City is closing on a real estate transaction, or the City is paying legal settlements. However, we noted many examples lacking a reason to hold checks or even to pay by check. For example, we saw small payments to large corporations held for pick up. In some situations, checks had been lost in the past and the agencies want to ensure that payments are mailed out by mailing them out themselves. A portion of payments are reimbursements to...
employees who have not signed up for electronic deposit of their pay
checks. Expense and travel reimbursement checks for some of these
employees are held for convenience. Auditors could not easily
calculate the percentage of payments to employees due to
employee name differences between the payroll listing and the
reimbursement listing. However, we were able to pull together the
number and amount of checks held for pick up, as shown in Table 4.
The Controller's Office has not analyzed or addressed the volume and
situations where checks are held for pick up.

**TABLE 4. Amount of City Checks Held for Pick Up – August 28, 2017 through May 31, 2018 (in thousands of dollars)**

<table>
<thead>
<tr>
<th>Checks Held</th>
<th>Amount</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checks Held</td>
<td>$66,756</td>
<td>4,796</td>
</tr>
<tr>
<td>All Checks</td>
<td>$259,960</td>
<td>61,832</td>
</tr>
<tr>
<td>Checks Held as Percent of All Checks Issued</td>
<td>26%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: Generated by auditors from CCD Find Supplier Invoice report and CCD Find Ad Hoc Payments report.

The Association of Certified Fraud Examiners advises that checks should
be mailed out as soon as printed. Holding checks increases the risk of fraud. Additionally, the Governmental Financial Officers Association
recommends that agencies should analyze the cost and volume of
electronic versus check payments and increase the use of electronic
payments. Although the City does not have a cost analysis of
payment methods used, it is generally considered less expensive to
process electronic payments as costs of paper, ink, mailing, and
resolving lost checks are eliminated. Picking up and mailing checks by
agencies is not an efficient procedure. In addition, when agencies
have control over approving payments and distribution, there are
increased opportunities for fraud. Therefore, we make the following
recommendations to help reduce the number of manual checks written and held for pick up.

37 The City has begun using Workday Expense starting July 16, 2018. This will allow employees to enter their expense reimbursement
requests electronically into Workday. The Controller’s Office reported that payments will be transferred electronically, and checks will
not be allowed in these situations going forward.
## RECOMMENDATION 2.11

**Analyze and Reduce Checks Held for Pick Up** – The Accounting and Financial Reporting Division should analyze the volume and type of checks held for pick up and work to reduce the number of checks held.

*Agency Response: Agree – Implementation Date (December 2018)***

## RECOMMENDATION 2.12

**Reduce Payment Processing Costs by Increasing Electronic Payments** – The Accounts Payable team should analyze the cost of payment methods and create a plan for payment processing cost reduction.

*Agency Response: Agree – Implementation Date (December 2018)***
RECOMMENDATIONS

1.1 Create Key Identifier among Databases Used in the Bidding Process – The Purchasing Division should consider developing a key identifier field that is shared among all procurement-related systems and databases in order to more effectively track the procurements that have gone through the solicitation process and have been awarded.

Auditee Response: Agree, Implementation Date – May 2019

Auditee Narrative

General Services Purchasing agrees there is need to develop a key identifier field that is shared among the procurement related systems and databases within Purchasing’s span of control and authority. Purchasing will share this finding with Denver Public Works and Denver International Airport (DEN), who utilize Quest Construction Data Network and DIA Business Center Contract Procurement respectively, as their City procurement systems. Currently, Workday contains the procurement solicitation identifier associated with Purchase Orders issued by Purchasing. Purchasing will build upon this to make the recommended improvement.

1.2 Integrate Key Bid Information – The Purchasing Division should consider developing a plan and timeline that would better integrate key information from the different bidding systems used across the City in order to enable more visibility and provide access to consistent reports which can facilitate executive and management reviews.

Auditee Response: Agree, Implementation Date – January 2019

Auditee Narrative

Purchasing will share this finding with Public Works and DEN, who utilize Quest Construction Data Network and DIA Business Center Contract Procurement respectively, as their City procurement systems.

The General Services Purchasing group will be responsible for the following three systems, Workday, BidNet and the Procurement Access Data Base, and together with DIA and Public Works, will collaborate in developing a plan and timeline for possible implementation of a process that would better integrate key information from the different bidding systems used across the City in order to enable more visibility and provide access to consistent reports which can facilitate executive and management reviews.

1.3 Improve Request for Proposal Intake Process – The Purchasing Division should continue making improvements to the Request for Proposal intake process, including the implementation of standardized tools and forms and timely identifying requests that require review by Technology Services.

Auditee Response: Agree, Implementation Date – December 2018
Auditee Narrative

The Purchasing Division will continue to make progress in improving the RFP intake process, including utilizing Salesforce as the intake entry point which will allow for improved service and visibility for City agencies.

1.4 Enforce Bidding Exception Documentation Requirements – The Purchasing Division should develop a plan to better enforce documentation requirements for bidding exceptions.

Auditee Response: Agree, Implementation Date – January 2019

Auditee Narrative

The Purchasing division has developed and utilizes a specific form for each of four bid exceptions including Professional preference and Manager Exception. The Purchasing Division will continue to require agencies to complete the applicable justification form and submit to Purchasing with appropriate approvals. The Purchasing Division will conduct quarterly reviews and provide orientation to agencies to assure proper compliance and enforcement.

1.5 Change Order Reporting and Analysis – The Purchasing Division should develop procedures to analyze purchase order changes to improve process efficiency. The Purchasing Division should consider working with Technology Services as necessary to create a Workday report that facilitates this analysis.

Auditee Response: Agree, Implementation Date – January 2019

Auditee Narrative

The Purchasing Division launched in August 2018 the PO Change Order improvement project for Workday with Agencies who create most of PO Change Orders participating. A Workday analytics report will be added to the Change Order process so purchasing can better identify the root cause of the change orders. Based on this analysis, the Purchasing Division will conduct quarterly reviews with the relevant agencies and provide orientation to agencies to assure proper compliance and enforcement.

1.6 Identify P-Card Transactions Associated with Master Purchase Orders – The Accounts Payable team, in consultation with the Purchasing Division, should work with Technology Services to require that users identify whether a P-card purchase is associated with a Master Purchase Order. Assess the use of Master Purchase Orders for P-card purchases to reduce disallowed splits and recurring purchases. Instead of a technical solution, the Accounts Payable team could reduce splits and recurring purchases made with P-cards by modifying policies and procedures.

Auditee Response: Agree, Implementation Date – May 2019

Auditee Narrative

The Controller’s Office Accounts Payable and General Services Purchasing agree there is a need to be able to identify P-card purchases associated with master purchase order (MPO).
Accounts Payable and Purchasing will work with other City work groups, including Technology Services, to develop and implement a solution, which may include technology, for identifying P-card purchases associated with MPOs. The development and timing of this solution is dependent on the potential of Workday configuration.

AP will revisit P-card policies and procedures to identify changes that will reduce or eliminate the splitting of P-card Purchases associated with MPOs.

1.7 Create Online P-Card Training – The Accounts Payable team should update the City’s P-card policies and procedures, which are used as training material for City employees being issued a P-card and continue to work with the Controller’s Office to create an online P-card training program that can be accessed by new P-card holders at any time.

Auditee Response: Agree, Implementation Date – March 2019

Auditee Narrative

The Controller’s Office Accounts Payable team will update the City’s P-card policies and procedures, including all training material. Accounts Payable will also work with other sections within the Controller’s Office to create a fully online P-card training program.

1.8 Improve Unauthorized Purchase Document Enforcement – We recommend that the Purchasing Division improve enforcement of unauthorized purchases by developing and implementing a plan to require fully completed unauthorized purchase documentation. Consider updating policies and procedures to allow for additional flexibility in specific instances.

Auditee Response: Agree, Implementation Date – December 2018

Auditee Narrative

General Services Purchasing agrees there is need to develop processes to improve enforcement of unauthorized purchases. As a policy change, all Unauthorized Purchase requests will comply with the following revised issuance processing and documentation and procedures:

• All UNA (Unauthorized Purchase Requests) need to have the standardized UNA Letter completed and included with the corresponding requisition.

• It will be mandatory for All UNA’s for both Code and Fiscal rule violations to have the aforementioned standardized letter completed and signed by the appropriate authority level, which will be as follows:

  o For Code Violations: (A purchase OVER $10,000) will require Agency/Department Executive Director Approval (or their appointed proxy).

  o For Fiscal Rule Violations: (A purchase UNDER $10,000) will require Division Director approval.
• It will be the responsibility of the Agency initiating the UNA to provide and attach to the requisition, the appropriate UNA justification letter, which is to include a clear concise and justifiable reason as well as the appropriate authorized approval signatures for the unauthorized purchase. It will be the responsibility of the GS Purchasing Buyer Supervisors to ensure the UNA is logged appropriately. This log sheet is to be kept up to date and accurately reflect the usage of all UNA justification letters. As a check and balance measure, this log sheet will be reviewed by the Chief Procurement Officer, in conjunction with the Buyer Supervisors on a quarterly basis to ensure compliance with this process and to address all UNA Justifications.

• Based on this review, The Purchasing Division will distribute a quarterly report to the Executive Director of the appropriate agencies/departments to assure proper compliance, training and enforcement of the established UNA policy.

1.9 Create Emergency Purchase Order Tracking Log – The Purchasing Division should develop, implement, and evaluate an Emergency Purchase Order number tracking log to ensure all emergencies are approved and in accordance with City Charter.

Auditee Response: Agree, Implementation Date – December 2018

Auditee Narrative

General Services Purchasing agrees there is need to develop processes to improve enforcement of and use of Emergency Purchase order numbers. As a policy change, all emergency purchase order number issuance will comply with the following revised issuance processing, documentation and procedures:

• All emergency PO numbers will be issued from the sequential numbering log that is maintained by the GS purchasing team.

• The population of all fields on this log sheet will be mandatory. If for any reason they cannot be fully populated, notification must be made to the Chief Procurement Officer, so the appropriate notations and Agency follow-up can be made.

• It will be the responsibility of the Buyer and Buyer Supervisor that have issued the Emergency Purchase Order Number to ensure the agency submits the proper requisition and the associated emergency purchase order number is correctly references within the corresponding requisition and PO.

• The referenced log sheet will be reviewed by the Chief Procurement Officer, in conjunction with the Buyer Supervisors on a quarterly basis to ensure compliance with this process and to address any non-compliant or incomplete entries.

• Based on this review, The Purchasing Division will distribute a quarterly report to the Executive Director of the appropriate agencies to assure proper compliance, training and use of the established Emergency PO Number issuance and usage policy.

2.1 Update Non-PO Voucher Guidance – The Accounts Payable team and the Purchasing Division should update and clarify guidance specifying when non-PO vouchers can be used for City agencies as well as for Accounts Payable employees.
Auditee Response: Agree, Implementation Date – January 2019

Auditee Narrative

Accounts Payable and Purchasing will collaborate to update and clarify guidance on the appropriateness of PO and non-PO purchases and associated payments. This guidance will include criteria for identifying when a PO is not required. The clarifying guidance will be provided to City Departments and Agencies. In addition, the AP and Purchasing teams will be provided training on the new guidance.

2.2 Analyze Inappropriate Non-PO Voucher Usage – The Accounts Payable team and the Purchasing Division should analyze inappropriate non-PO voucher usage and work with agencies to reduce noncompliance.

Auditee Response: Agree, Implementation Date – January 2019

Auditee Narrative

Accounts Payable and Purchasing will work together to develop a process for the ongoing analysis of inappropriate non-PO payments. AP and Purchasing will work with City Departments and Agencies to reduce non-compliance.

2.3 Additional Training and Enforcement of Transaction Support Requirements – The Accounts Payable team should provide additional training and/or guidance for accounts payable specialists and agencies regarding adequate support for transactions. Additionally, the Accounts Payable team should enforce support requirements for all payments by not processing payments until all support is included, as required by Financial Accountability Rule and other policies and procedures.

Auditee Response: Agree, Implementation Date – December 2018

Auditee Narrative

Accounts Payable will provide additional training to all AP team members on the requirement for adequate supporting documentation for all payments, including instructions to not process payments that are missing adequate support. Accounts Payable will also communicate to Departments and Agencies on the requirement for adequate supporting documentation for all payments.

2.4 Create a Process to Verify Confidential Support – The Accounts Payable team should create and follow a process to ensure that confidential payment support exists and has been properly verified.

Auditee Response: Agree, Implementation Date – December 2018

Auditee Narrative

Accounts Payable has already put in place a process to ensure adequate support and verification of settlement payments containing confidential information. Accounts Payable will work with City Departments and Agencies to create and follow a process to ensure
adequate support and verification for all other types of payments which contain confidential information.

2.5 Implement Additional Input Validation Controls – The Accounts Payable team should work with Technology Services to implement Workday data validation system controls to prevent exact duplicate ad hoc reference numbers and special characters in invoice numbers.

**Auditee Response: Agree, Implementation Date – March 2019**

**Auditee Narrative**

The Controller’s Office Accounts Payable team agrees with the need for data validation controls to prevent duplicate ad-hoc reference numbers and special characters in invoice numbers. Accounts Payable will work with other City work groups, including Technology Services, to develop and implement a potential technology solution for creating data validation controls to prevent duplicate ad-hoc reference numbers and special characters in invoice numbers. The development and timing of this solution will be dependent on the potential of Workday configuration.

2.6 Prevent Duplicate Ad Hoc payments – The Accounts Payable team should design and implement additional controls to detect and rectify duplicate ad hoc payments when an invoice number is created by the Accounts Payable team. Consider designing, generating, and periodically reviewing a report, which facilitates the identification of similar invoice numbers and other indicators of duplicate payments.

**Auditee Response: Agree, Implementation Date – December 2018**

**Auditee Narrative**

Accounts Payable will identify a potential solution for developing additional controls to detect and rectify duplicate ad hoc payments when an invoice number is created by the Accounts Payable team. This solution may include creating a report which facilitates the identification of similar invoice numbers and other indicators of duplicate payments. Technology dependencies may impact the design and timing of this solution.

2.7 Create and Analyze a Historic Report for Three-way Match Exceptions – The Accounts Payable team should collaborate with Workday consultants to create a historic report of all three-way match exceptions and periodically generate and analyze this report to identify trends and major issues.

**Auditee Response: Agree, Implementation Date – December 2018**

**Auditee Narrative**

Accounts Payable will develop a process for analyzing the history of three-way match exceptions to identify trends and major issues. This process might include a Workday generated report or a solution outside of Workday.

2.8 Resolve Workday Receipt Application Limitations – The Accounts Payable team should work with Technology Services to resolve limitations related to receipt application and exception
identification. If a technical resolution is not feasible, Accounts Payable should implement monitoring controls to mitigate the risk of overpayment.

**Auditee Response: Agree, Implementation Date – May 2019**

**Auditee Narrative**

Accounts Payable will work with other City work groups, including Technology Services, to resolve limitations related to receipt application and exception identification. If a technical solution is not feasible, Accounts Payable will implement monitoring controls to mitigate the risk of overpayment. The development and timing of this solution is dependent on the potential of Workday configuration.

2.9 **Resolve Three-way Match System Anomalies** – The Accounts Payable team should work with Technology Services to resolve the three-way match system anomalies.

**Auditee Response: Agree, Implementation Date – May 2019**

**Auditee Narrative**

Accounts Payable will work with other City work groups, including Technology Services, to resolve three-way match system anomalies. The development and timing of this solution will depend on the potential of Workday configuration.

2.10 **Report Prompt Pay Interest to City Council** – The Accounts Payable team should continue to prepare the 2018 annual report of prompt pay interest by each department or agency as required by the Prompt Pay Ordinance Section 20-115 and continue to do so annually in the future. As part of this effort, Accounts Payable should consider the need to confirm their interpretation of this section regarding what to do with the annual report and how to use it if City Council does not request a presentation of the results. Additionally, Accounts Payable should consider working with City Council on revising the prompt pay interest rate to better align it with the market rate.

**Auditee Response: Agree, Implementation Date – November 2018**

**Auditee Narrative**

Accounts Payable will prepare the 2017 annual report of prompt pay interest by each department or agency as required by the Prompt Pay Ordinance Section 20-115 and continue to do so annually in the future, including the 2018 report in the first quarter of 2019.

Accounts Payable will analyze the appropriateness of the prompt payment interest rate as it relates to the purpose of prompt payment penalties on City Departments and Agencies. This analysis will include comparison to other government prompt payment regulations.

2.11 **Analyze and Reduce Checks Held for Pick Up** – The Accounting and Financial Reporting Division should analyze the volume and type of checks held for pick up and work to reduce the number of checks held.

**Auditee Response: Agree, Implementation Date – December 2018**
Auditee Narrative

The Controller’s Office strongly agrees with the recommendation to reduce the number of checks held for pick-up. A significant portion of checks held for pick-up were employee reimbursements. With the implementation of Workday Expense (new functionality for employee reimbursements) in July of 2018, employee reimbursements can only be made via direct deposit (preferred) or a check mailed to the employee.

Accounts Payable will work with the Accounting and Financial Reporting Division to analyze the volume of other types of checks held for pick up and work to reduce the number of checks held.

2.12 Reduce Payment Processing Costs by Increasing Electronic Payments – The Accounts Payable team should analyze the cost of payment methods and create a plan for payment processing cost reduction.

Auditee Response: Agree, Implementation Date – December 2018

Auditee Narrative

Accounts Payable will analyze and identify the cost of payment methods to create a plan for payment processing cost reduction.
October 5th, 2018

Auditor Timothy M. O’Brien, CPA
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado 80220

Dear Mr. O’Brien,

The Office of the Auditor has conducted a performance audit of Purchasing and Payment Processes.

This memorandum provides a written response for each reportable condition pertaining to the Purchasing Division within the Department of General Services as noted in the Auditor’s Report final draft that was sent to us on October 1st, 2018. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

**AUDIT FINDING 1**
Documentation, Monitoring, and Enforcement Improvements Are Needed in the Procurement Process

**RECOMMENDATION 1.1**
*Create Key Identifier among Databases* – The Purchasing Division should consider developing a key identifier field that is shared among all procurement-related systems and databases in order to more effectively track the procurements that have gone through the solicitation process and have been awarded.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>May 1, 2019</td>
<td>John Utterback 720.913.8121</td>
</tr>
</tbody>
</table>
Narrative for Recommendation 1.1

General Services Purchasing agrees there is need to develop a key identifier field that is shared among the procurement related systems and databases within Purchasing’s span of control and authority. Purchasing will share this finding with Denver Public Works and Denver International Airport (DEN), who utilize Quest Construction Data Network and DIA Business Center Contract Procurement respectively, as their City procurement systems. Currently, Workday contains the procurement solicitation identifier associated with Purchase Orders issued by Purchasing. Purchasing will build upon this to make the recommended improvement.

RECOMMENDATION 1.2
Consolidate Bid Data – The Purchasing Division should consider developing a plan and timeline that would better integrate key information from the different bidding systems used across the City in order to enable more visibility and provide access to consistent reports which can facilitate executive and management reviews.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>January 31, 2019</td>
<td>John Utterback-720.913.8121</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 1.2

Purchasing will share this finding with Public Works and DEN, who utilize Quest Construction Data Network and DIA Business Center Contract Procurement respectively, as their City procurement systems.

The General Services Purchasing group will be responsible for the following three systems, Workday, BidNet and the Procurement Access Data Base, and together with DIA and Public Works, will collaborate in developing a plan and timeline for possible implementation of a process that would better integrate key information from the different bidding systems used across the City in order to enable more visibility and provide access to consistent reports which can facilitate executive and management reviews.
RECOMMENDATION 1.3

Improve Request for Proposal Intake Process – The Purchasing Division should continue making improvements to the Request for Proposal intake process, including the implementation of standardized tools and forms and timely identifying requests that require review by Technology Services.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>December 31, 2018</td>
<td>Lance Jay- 720-913-8119</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 1.3

The Purchasing Division will continue to make progress in improving the RFP intake process, including utilizing Salesforce as the intake entry point which will allow for improved service and visibility for City agencies.

RECOMMENDATION 1.4

Enforce Bidding Documentation Requirements – The Purchasing Division should develop a plan to better enforce documentation requirements for bidding exceptions.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>January 31, 2019</td>
<td>Lance Jay- 720-913-8119</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 1.4

The Purchasing division has developed and utilizes a specific form for each of four bid exceptions including Professional preference and Manager Exception. The Purchasing Division will continue to require agencies to complete the applicable justification form and submit to Purchasing with appropriate approvals. The Purchasing Division will conduct quarterly reviews and provide orientation to agencies to assure proper compliance and enforcement.
RECOMMENDATION 1.5

Change Order Reporting and Analysis – The Purchasing Division should develop procedures to analyze purchase order (PO) changes to improve process efficiency. The Purchasing Division should consider working with Technology Services as necessary to create a Workday report that facilitates this analysis.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>January 31, 2019</td>
<td>John Utterback-720.913.8121</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 1.5

The Purchasing Division launched in August 2018 the PO Change Order improvement project for Workday with Agencies who create most of PO Change Orders participating. A Workday analytics report will be added to the Change Order process so purchasing can better identify the root cause of the change orders. Based on this analysis, the Purchasing Division will conduct quarterly reviews with the relevant agencies and provide orientation to agencies to assure proper compliance and enforcement.

RECOMMENDATION 1.8

Improve Unauthorized Purchase Document Enforcement – We recommend that the Purchasing Division improve enforcement of unauthorized purchases by developing and implementing a plan to require fully completed unauthorized purchase documentation. Consider updating policies and procedures to allow for additional flexibility in specific instances.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>December 31st 2018</td>
<td>Lance Jay 720-913-8119</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 1.8

General Services Purchasing agrees there is need to develop processes to improve enforcement of unauthorized purchases. As a policy change, all Unauthorized Purchase requests will comply with the following revised issuance processing and documentation and procedures:
- All UNA (Unauthorized Purchase Requests) need to have the standardized UNA Letter completed and included with the corresponding requisition.

- It will be mandatory for All UNA’s for both Code and Fiscal rule violations to have the aforementioned standardized letter completed and signed by the appropriate authority level, which will be as follows:
  
  o **For Code Violations:** (A purchase **OVER $10,000**) will require Agency/Department Executive Director Approval (or their appointed proxy).

  o **For Fiscal Rule Violations:** (A purchase **UNDER $10,000**) will require Division Director approval.

- It will be the responsibility of the Agency initiating the UNA to provide and attach to the requisition, the appropriate UNA justification letter, which is to include a clear concise and justifiable reason as well as the appropriate authorized approval signatures for the unauthorized purchase. It will be the responsibility of the GS Purchasing Buyer Supervisors to ensure the UNA is logged appropriately. This log sheet is to be kept up to date and accurately reflect the usage of all UNA justification letters. As a check and balance measure, this log sheet will be reviewed by the Chief Procurement Officer, in conjunction with the Buyer Supervisors on a quarterly basis to ensure compliance with this process and to address all UNA Justifications.

- Based on this review, The Purchasing Division will distribute a quarterly report to the Executive Director of the appropriate agencies/departments to assure proper compliance, training and enforcement of the established UNA policy.

---

**RECOMMENDATION 1.9**

Create Emergency Purchase Order Tracking Log – The Purchasing Division should develop, implement, and evaluate an Emergency Purchase Order number tracking log to ensure all emergencies are approved and in accordance with City Charter.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>December 31st 2018</td>
<td>Lance Jay 720-913-8119</td>
</tr>
</tbody>
</table>

**Narrative for Recommendation 1.9**

General Services Purchasing agrees there is need to develop processes to improve enforcement of and use of Emergency Purchase order numbers. As a policy change, all emergency purchase order number issuance will comply with the following revised issuance processing, documentation and procedures:
• All emergency PO numbers will be issued from the sequential numbering log that is maintained by the GS purchasing team.

• The population of all fields on this log sheet will be mandatory. If for any reason they cannot be fully populated, notification must be made to the Chief Procurement Officer, so the appropriate notations and Agency follow-up can be made.

• It will be the responsibility of the Buyer and Buyer Supervisor that have issued the Emergency Purchase Order Number to ensure the agency submits the proper requisition and the associated emergency purchase order number is correctly references within the corresponding requisition and PO.

• The referenced log sheet will be reviewed by the Chief Procurement Officer, in conjunction with the Buyer Supervisors on a quarterly basis to ensure compliance with this process and to address any non-compliant or incomplete entries.

• Based on this review, The Purchasing Division will distribute a quarterly report to the Executive Director of the appropriate agencies to assure proper compliance, training and use of the established Emergency PO Number issuance and usage policy.

Please contact Lance Jay at 720-913-8119 with any questions.

Sincerely,

Lance Jay
Chief Procurement Officer
City and County of Denver

cc: Valerie Walling, CPA, CMC®, Deputy Auditor
    Cody Schulte, CPA, CIA, Audit Supervisor
    Katja E. V. Freeman, MA, MELP, Audit Manager
    Murphy Robinson, Executive Director, General Services
    Lance Jay, Chief Procurement Officer, General Services
    John Utterback, Supply Chain Enterprise Manager, General Services
    Beth Machann, Controller
    Brendan Hanlon, Chief Financial Officer
October 5th, 2018

Auditor Timothy M. O’Brien, CPA
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado 80202

Dear Mr. O’Brien,

The Office of the Auditor has conducted a performance audit of Purchasing and Payment Processes.

This memorandum provides a written response for each reportable condition pertaining to the Accounts Payable team within the Financial Services Division as noted in the Auditor’s Report final draft that was sent to us on October 1st, 2018. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1
Documentation, Monitoring, and Enforcement Improvements Are Needed in the Procurement Process

RECOMMENDATION 1.6
Identify P-Card Transactions Associated with Master Purchase Orders – The Accounts Payable team, in consultation with the Purchasing Division, should work with Technology Services to ensure that users identify whether a P-card purchase is associated with a Master Purchase Order. Assess the use of Master Purchase Orders for P-card purchases to reduce disallowed splits and recurring purchases. Instead of a technical solution, the Accounts Payable team could reduce splits and recurring purchases made with P-cards by modifying policies and procedures.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>May 1, 2019</td>
<td>Bill Riedell – 720.913.4854</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 1.6

The Controller’s Office Accounts Payable and General Services Purchasing agree there is a need to be able to identify P-card purchases associated with a master purchase order (MPO). Accounts Payable and Purchasing will work with other City work groups, including Technology Services, to develop and
implement a solution, which may include technology, for identifying P-card purchases associated with MPOs. The development and timing of this solution is dependent on the potential of Workday configuration.

AP will revisit P-card policies and procedures to identify changes that will reduce or eliminate the splitting of P-card Purchases associated with MPOs.

**RECOMMENDATION 1.7**

*Create Online P-Card Training* – The Accounts Payable team should update the City’s P-card policies and procedures, which are used as training material for City employees being issued a P-card and continue to work with the Controller’s Office to create an online P-card training program that can be accessed by new P-card holders at any time.

| Agree or Disagree with Recommendation | Target date to complete implementation activities (Generally expected within 60 to 90 days) | Name and phone number of specific point of contact for implementation |
|---------------------------------------|------------------------------------------------------------------------------------------|
| Agree                                 | March 31, 2019                                                                          | Bill Riedell – 720.913.4854 |

**Narrative for Recommendation 1.7**

The Controller’s Office Accounts Payable team will update the City’s P-card policies and procedures, including all training material. Accounts Payable will also work with other sections within the Controller’s Office to create a fully online P-card training program.

**AUDIT FINDING 2**

*Documentation, Monitoring, Enforcement, and System Improvements Are Needed to Address Internal Control Weaknesses in the Payment Process*

**RECOMMENDATION 2.1**

*Update Non-PO Voucher Guidance* – The Accounts Payable team and the Purchasing Division should update and clarify guidance specifying when non-PO vouchers can be used for City agencies as well as for Accounts Payable employees.

| Agree or Disagree with Recommendation | Target date to complete implementation activities (Generally expected within 60 to 90 days) | Name and phone number of specific point of contact for implementation |
|---------------------------------------|------------------------------------------------------------------------------------------|
| Agree                                 | January 4, 2019                                                                          | Bill Riedell – 720.913.4854 |

**Narrative for Recommendation 2.1**

Accounts Payable and Purchasing will collaborate to update and clarify guidance on the appropriateness of PO and non-PO purchases and associated payments. This guidance will include criteria for identifying when a PO is not required. The clarifying guidance will be provided to City Departments and Agencies. In addition, the AP and Purchasing teams will be provided training on the new guidance.
RECOMMENDATION 2.2
Analyze Inappropriate Non-PO Voucher Usage – The Accounts Payable team and the Purchasing Division should analyze inappropriate non-PO voucher usage and work with agencies to reduce noncompliance.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>January 4, 2019</td>
<td>Bill Riedell – 720.913.4854</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 2.2
Accounts Payable and Purchasing will work together to develop a process for the ongoing analysis of inappropriate non-PO payments. AP and Purchasing will work with City Departments and Agencies to reduce non-compliance.

RECOMMENDATION 2.3
Additional Training and Enforcement of Transaction Support Requirements – The Accounts Payable team should provide additional training and/or guidance for accounts payable specialists and agencies regarding adequate support for transactions. Additionally, the Accounts Payable team should enforce support requirements for all payments by not processing payments until all support is included, as required by Financial Accountability Rule and other policies and procedures.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>December 7, 2018</td>
<td>Bill Riedell – 720.913.4854</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 2.3
Accounts Payable will provide additional training to all AP team members on the requirements for adequate supporting documentation for all payments, including instructions to not process payments that are missing adequate support. Accounts Payable will also communicate to Departments and Agencies on the requirement for adequate supporting documentation for all payments.

RECOMMENDATION 2.4
Create a Process to Verify Confidential Support – The Accounts Payable team should create and follow a process to ensure that confidential payment support exists and has been properly verified.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
</table>

- 3 -
Narrative for Recommendation 2.4

Accounts Payable has already put in place a process to ensure adequate support and verification of settlement payments containing confidential information. Accounts Payable will work with City Departments and Agencies to create and follow a process to ensure adequate support and verification for all other types of payments which contain confidential information.

RECOMMENDATION 2.5
Improve Additional Input Validation Controls – The Accounts Payable team should work with Technology Services to implement Workday data validation system controls to prevent exact duplicate ad hoc reference numbers and special characters in invoice numbers.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>March 31, 2019</td>
<td>Bill Riedell – 720.913.4854</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 2.5

The Controller’s Office Accounts Payable team agrees with the need for data validation controls to prevent duplicate ad-hoc reference numbers and special characters in invoice numbers. Accounts Payable will work with other City work groups, including Technology Services, to develop and implement a potential technology solution for creating data validation controls to prevent duplicate ad-hoc reference numbers and special characters in invoice numbers. The development and timing of this solution will be dependent on the potential of Workday configuration.

RECOMMENDATION 2.6
Prevent Duplicate Ad Hoc payments – The Accounts Payable team should design and implement additional controls to detect and rectify duplicate ad hoc payments when an invoice number is created by the Accounts Payable team. Consider designing, generating, and periodically reviewing a report, which facilitates the identification of similar invoice numbers and other indicators of duplicate payments.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>December 31, 2018</td>
<td>Bill Riedell – 720.913.4854</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 2.6
Accounts Payable will identify a potential solution for developing additional controls to detect and rectify duplicate ad hoc payments when an invoice number is created by the Accounts Payable team. This solution may include creating a report which facilitates the identification of similar invoice numbers and other indicators of duplicate payments. Technology dependencies may impact the design and timing of this solution.

**RECOMMENDATION 2.7**

Create and Analyze a Historic Report for Three-way Match Exceptions – The Accounts Payable team should collaborate with Workday consultants to create a historic report of all three-way match exceptions and periodically generate and analyze this report to identify trends and major issues.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>December 31, 2018</td>
<td>Bill Riedell – 720.913.4854</td>
</tr>
</tbody>
</table>

**Narrative for Recommendation 2.7**

Accounts Payable will develop a process for analyzing the history of three-way match exceptions to identify trends and major issues. This process might include a Workday generated report or a solution outside of Workday.

**RECOMMENDATION 2.8**

Resolve Workday Receipt Application Limitations – The Accounts Payable team should work with Technology Services to resolve limitations related to receipt application and exception identification. If a technical resolution is not feasible, Accounts Payable should implement monitoring controls to mitigate the risk of overpayment.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>May 1, 2019</td>
<td>Bill Riedell – 720.913.4854</td>
</tr>
</tbody>
</table>

**Narrative for Recommendation 2.8**

Accounts Payable will work with other City work groups, including Technology Services, to resolve limitations related to receipt application and exception identification. If a technical resolution is not feasible, Accounts Payable will implement monitoring controls to mitigate the risk of overpayment. The development and timing of this solution is dependent on the potential of Workday configuration.
RECOMMENDATION 2.9
Resolve Three-way Match System Anomalies – The Accounts Payable team should work with Technology Services to resolve the three-way match system anomalies.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>May 1, 2019</td>
<td>Bill Riedell – 720.913.4854</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 2.9

Accounts Payable will work with other City work groups, including Technology Services, to resolve three-way match system anomalies. The development and timing of this solution will be dependent on the potential of Workday configuration.

RECOMMENDATION 2.10
Report Prompt Pay Interest to City Council – The Accounts Payable team should continue to prepare the 2018 annual report of prompt pay interest by each department or agency as required by the Prompt Pay Ordinance Section 20-115 and continue to do so annually in the future. As part of this effort, Accounts Payable should consider the need to confirm their interpretation of this section regarding what to do with the annual report and how to use it if City Council does not request a presentation of the results. Additionally, Accounts Payable should consider working with City Council on revising the prompt pay interest rate to better align it with the market rate.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>November 2, 2018</td>
<td>Bill Riedell – 720.913.4854</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 2.10

Accounts Payable will prepare the 2017 annual report of prompt pay interest by each department or agency as required by the Prompt Pay Ordinance Section 20-115 and continue to do so annually in the future, including the 2018 report in the first quarter of 2019.
Accounts Payable will analyze the appropriateness of the prompt payment interest rate as it relates to the purpose of prompt payment penalties on City Departments and Agencies. This analysis will include comparison to other government prompt payment regulations.

**RECOMMENDATION 2.11**

**Analyze and Reduce Checks Held for Pick Up** – The Accounting and Financial Reporting Division should analyze the volume and type of checks held for pick up and work to reduce the number of checks held.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>December 31, 2018</td>
<td>Bill Riedell – 720.913.4854</td>
</tr>
</tbody>
</table>

**Narrative for Recommendation 2.11**

The Controller’s Office strongly agrees with the recommendation to reduce the number of checks held for pick-up. A significant portion of checks held for pick-up were employee reimbursements. With the implementation of Workday Expense (new functionality for employee reimbursements) in July of 2018, employee reimbursements can only be made via direct deposit (preferred) or a check mailed to the employee.

Accounts Payable will work with the Accounting and Financial Reporting Division to analyze the volume of other types of checks held for pick up and work to reduce the number of checks held.

**RECOMMENDATION 2.12**

**Reduce Payment Processing Costs by Increasing Electronic Payments** – The Accounts Payable team should analyze the cost of payment methods and create a plan for payment processing cost reduction.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>December 7, 2018</td>
<td>Bill Riedell – 720.913.4854</td>
</tr>
</tbody>
</table>

**Narrative for Recommendation 2.12**

Accounts Payable will analyze and identify the cost of payment methods and create a plan for payment processing cost reduction.
Please contact Bill Riedell at 720-913-4854 with any questions.

Sincerely,

Bill Riedell
Director of Financial Services

cc: Valerie Walling, CPA, CMC®, Deputy Auditor
    Cody Schulte, CPA, CIA, Audit Supervisor
    Katja E. V. Freeman, MA, MELP, Audit Manager
    Murphy Robinson, Executive Director, General Services
    Lance Jay, Chief Procurement Officer, General Services
    John Utterback, Supply Chain Enterprise Manager, General Services
    Beth Machann, Controller
    Brendan Hanlon, Chief Financial Officer
OBJECTIVE, SCOPE, & METHODOLOGY

The objective of this audit was to assess the effectiveness and efficiency of City’s procurement and payment processes. This included a focus on specific P-card risks identified by the continuous auditing effort.

SCOPE

In carrying out the objective of the audit, we limited our testing to the following: bidding practices, master purchase orders, supplier invoice requests, ad hoc requests, three-way match exceptions, P-card transactions, emergencies, and unauthorized purchases.

Whenever report data allowed, we excluded all purchases and payments for the Denver International Airport. Some reports used in this audit did not contain sufficient information to allow eliminating these transactions.

The City’s financial system was converted from PeopleSoft to Workday on August 28, 2017. The audit period was August 28, 2017 through May 31, 2018.

METHODOLOGY

During the audit, we performed the following steps to achieve the audit objectives:

- Reviewing laws, rules, regulations, and policies and procedures across the City’s procurement and payment processes
- Conducting walkthroughs and interviews with Purchasing and Accounts Payable personnel to gain an understanding and document procedures and internal controls
- Gaining an understanding and reviewing evidence of planned process changes
- Reviewing relevant best practices to compare to the City’s practices
- Evaluating related City’s internal control design and implementation
- Assessing the impact and likelihood of risks in the procurement and payment processes
- Obtaining reports for various procurement and payment methods to review trends, identify unusual items, and select testing items
- Selecting samples for selected types of procurement and payment methods to test for proper documentation, implementation, and enforcement of designed procedures
Office of the Auditor

The Auditor of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies and contractors for the purpose of ensuring the proper and efficient use of City resources. He also provides other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver’s government.

The Audit Committee is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities regarding the integrity of the City’s finances and operations, including the reliability of the City’s financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

201 West Colfax Avenue, #705
Denver CO, 80202
(720) 913-5000 • Fax (720) 913-5247
www.denverauditor.org

Our Mission

We deliver independent, transparent, and professional oversight in order to safeguard and improve the public’s investment in the City of Denver. Our work is performed on behalf of everyone who cares about the City, including its residents, workers, and decision-makers.