

INTRADEPARTMENTAL CORRESPONDENCE

May 16, 2014
14.2

TO: The Honorable Board of Police Commissioners

FROM: Chief of Police

SUBJECT: SUPPLY PROCUREMENT AND DISBURSEMENT AUDIT
(IAID NO. 14-014)

RECOMMENDED ACTIONS

1. That the Board of Police Commissioners REVIEW and APPROVE the attached Supply Procurement and Disbursement Audit.
2. That the Board of Police Commissioners REVIEW and APPROVE the attached Executive Summary thereto.

DISCUSSION

Pursuant to the Department's Audit and Inspection Plan, Internal Audits and Inspections Division completed the Supply Procurement and Disbursement Audit to assess conformance with Department policies and procedures related to the procurement process.

If you have any questions, please contact Arif Alikhan, Special Assistant for Constitutional Policing, at (213) 486-8730.

Respectfully,



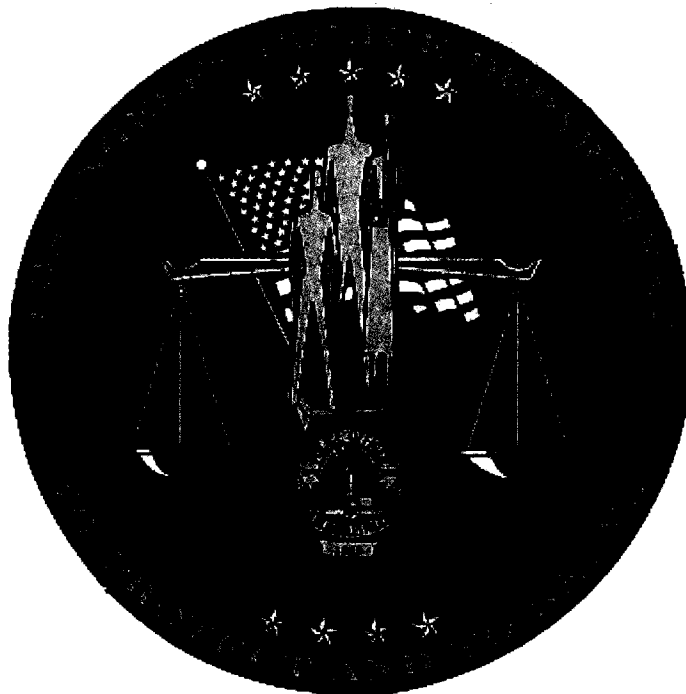
CHARLIE BECK
Chief of Police

Attachment

LOS ANGELES POLICE DEPARTMENT

***SUPPLY PROCUREMENT AND
DISBURSEMENT AUDIT***

(IAID NO. 14-014)



Conducted by

INTERNAL AUDITS & INSPECTIONS DIVISION

CHARLIE BECK
Chief of Police

May 2014

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EXECUTIVE SUMMARY
SUPPLY PROCUREMENT AND DISBURSEMENT AUDIT
Conducted by Internal Audits and Inspections Division
Second Quarter, Fiscal Year 2013/14

PURPOSE

Internal Audits and Inspections Division (IAID) conducted the Supply Procurement and Disbursement Audit during the Second Quarter of Fiscal Year 2013/14, to determine whether the Los Angeles Police Department's (Department) purchasing and vendor payment controls were adequate and adhered to the City of Los Angeles (City) and Department policies and procedures.

PRIOR AUDIT

Internal Audits and Inspections Division previously conducted the Supply Procurement and Disbursement Audit during the Second Quarter of Fiscal Year 2010/11. That audit found the Department's purchasing control environment to be adequate. The prior audit made a couple of recommendations.

First, IAID recommended that Supply Order Form (Form 15.11) require the signer to print his/her name or include his/her title or serial number. The form has been revised, and now includes the serial number and title or rank of person approving the Form 15.11.

Second, IAID, along with the Controller's Office, General Services Department (GSD), and the City's Information Technology Agency, recommended strengthening controls over the Supply Management System (SMS) access. Consequently, a 90-day password expiration feature will be added to the SMS to ensure inactive user IDs will be disabled. The feature was added to the SMS due in part to IAID identifying 31 active SMS user IDs belonging to former Department employees. Also, the Controller's Office in their audit report in February 2010, found a significant number of active SMS user IDs were assigned to employees who were no longer in City service.

AUDIT SCOPE AND METHODOLOGY

Internal Audits and Inspections Division reviewed 68 supply-related expenditures from January 1, 2013 to June 30, 2013. In addition, IAID reviewed 100% of the purchases from January 1, 2013 to June 30, 2013, that were subject to the competitive bid requirement to evaluate whether those requirements were met.

SUMMARY OF FINDINGS

The results of this Audit in comparison to the previous audit, are reflected in the table below:

TABLE – SUMMARY OF FINDINGS

Objectives		2010/11 Met the Standards	2013/14 Met the Standards
Objective No. 1 – Authorization			
1(a)	Purchase Requisitions were Approved	95%	100%
1(b)	Purchase Requisitions were Reviewed for Budget Authorization	98%	100%
1(c)	Purchase Orders were Approved	98%	100%
Objective No. 2 – Vendor Selection			
2(a)	Competitive Bids were Obtained	100%	90% (77/86)
Objective No. 3 – Accuracy			
3(a)	Ordered Products were Received and Confirmed	100%	100%
3(b)	Payments were Supported and Accurate	100%	98% (61/62)
3(c)	Expenditures were Accurately Classified to the Correct Accounts	100%	100%
Objective No. 4 – Segregation of Duties		N/A ¹	99% (67/68)

ACTIONS TAKEN / MANAGEMENT’S RESPONSE

On February 28, 2014, IAID provided a draft copy of the audit report to the Commanding Officer (C/O) of Fiscal Operations Division (FOD)’s management to discuss the audit’s findings and recommendation.

On March 27, 2014, IAID provided a revised draft copy of the audit report to the C/O of FOD and discussed the audit’s findings. Internal Audits and Inspections Division advised the C/O of FOD that a response to the findings reported in the revised draft report was required within ten business days.

On April 3, 2014, IAID received a response from the C/O of FOD. This response indicated general agreement with the audit findings, as well as to document their procurement processes that are in place.

Additionally, the Director of Office of Administrative Services reviewed and was in general agreement.

¹ Segregation of duties was not listed as an objective in Fiscal Year 2010/11.

SUPPLY PROCUREMENT AND DISBURSEMENT AUDIT
Conducted by Internal Audits and Inspections Division
Second Quarter, Fiscal Year 2013/14

PURPOSE

Internal Audits and Inspections Division (IAID) conducted the Supply Procurement and Disbursement Audit during the Second Quarter of Fiscal Year 2013/14, to determine whether the Los Angeles Police Department's (Department) purchasing and vendor payment controls were adequate and adhered to the City of Los Angeles (City) and Department policies and procedures.

BACKGROUND

Fiscal Operations Division (FOD) administers the procurement of the Department's supply, equipment, and service needs and is responsible for generating purchase orders, reviewing budgetary authorization, and, in some cases, selecting vendors. The Department utilizes the City's enterprise application, Supply Management System (SMS), to create purchase orders, confirm receipt, and authorize the payment of orders.² The SMS is administered by General Services Department (GSD).

PRIOR AUDIT

Internal Audits and Inspections Division previously conducted a Supply Procurement and Disbursement Audit during the Second Quarter of Fiscal Year 2010/11. That audit found the Department's purchasing control environment to be adequate. The prior audit made a couple of recommendations.

First, IAID recommended that Supply Order Form (Form 15.11) require the signer to print his/her name or include his/her title or serial number. The form has been revised, and now includes the serial number and title or rank of person approving the Form 15.11.

Second, IAID, along with the Controller's Office, GSD, and the City's Information Technology Agency, recommended strengthening controls over SMS access. Consequently, a 90-day password expiration feature will be added to the SMS to ensure inactive user IDs will be disabled. The feature was added to the SMS due in part to IAID identifying 31 active SMS user IDs belonging to former Department employees. Also, the Controller's Office in their audit report in February 2010, found a significant number of active SMS user IDs were assigned to employees who were no longer in City service.

² General Services Department processes the payment of invoices through the SMS.

AUDIT SCOPE AND METHODOLOGY

Internal Audits and Inspections Division reviewed 68 purchase transactions for the period from January 1, 2013 to June 30, 2013 from the the Fiscal Year 2012/13 Expenditure Report.³ Each expenditure was reviewed for adherence to City and Department policies and procedures. In addition, IAID reviewed 100% of the purchases from January 1, 2013 to June 30, 2013, that were subject to the competitive bid requirements to evaluate whether those requirements were met.

SUMMARY OF FINDINGS

The results of this audit, compared to the previous audit are reflected in Table No. 1.

TABLE – SUMMARY OF FINDINGS

Objectives		2010/11 Met the Standards	2013/14 Met the Standards
Objective No. 1 – Authorization			
1(a)	Purchase Requisitions were Approved	95%	100%
1(b)	Purchase Requisitions were Reviewed for Budget Authorization	98%	100%
1(c)	Purchase Orders were Approved	98%	100%
Objective No. 2 – Vendor Selection			
2(a)	Competitive Bids were Obtained	100%	90% (77/86)
Objective No. 3 – Accuracy			
3(a)	Ordered Products were Received and Confirmed	100%	100%
3(b)	Payments were Supported and Accurate	100%	98% (61/62)
3(c)	Expenditures were Accurately Classified to the Correct Accounts	100%	100%
Objective No. 4 – Segregation of Duties		N/A ⁴	99% (67/68)

³ The sample was calculated based on a 95% confidence level and an expected error rate of 5%. Expenditures recorded to the Contractual Service, Secret Service, and Travel accounts were excluded as the areas were or will be examined in other scheduled audits/inspections. Expenditures for auto parts were not evaluated (Objective Nos. 1c, 3a, and 3b) because the primary responsibility over receipt verification and payments belongs to GSD.

⁴ Segregation of duties was not listed as an objective in Fiscal Year 2010/11.

AUDIT FINDINGS

Objective No. 1 – Authorization

Overview

Department policy requires the following purchase authorizations:

- Form 15.11 shall be signed by the division, Area, or bureau commanding officer (CO) or his/her designee to requisition supply, equipment, or services (Objective No. 1a).⁵ When the Department uses GSD to purchase goods on its behalf, an authorized supervisor must approve the City of Los Angeles Stores Multi-Use Form (SMUF) (Objective No. 1a).
- Fiscal Operations Division shall approve the requisition for budgetary authorization and limits (Objective No. 1b).⁶
- Fiscal Operations Division shall approve all purchase orders prior to dispatching to the vendor (Objective No. 1c).

Objective No. 1(a) – Purchase Requisitions were Approved

Audit Procedures

Internal Audits and Inspections Division examined the supporting documentation for the 68 purchase transaction records to determine whether the purchase requisitions were approved by authorized personnel. The purchases processed by the Department require the use of Form 15.11. Department purchases processed through GSD require the use of the SMUF form. In either case, each purchase requisition must be approved and signed by authorized personnel.

Findings

Each (100%) of the 68 purchase requisitions were approved and signed by authorized personnel.

Objective No. 1(b) – Purchase Requisitions were Reviewed for Budget Authorization

Audit Procedures

Internal Audits and Inspections Division reviewed 68 purchase transaction records for evidence that the records were reviewed by FOD for budgetary authorization and limits prior to the procurement.

⁵ See Department Manual Section 3/508.

⁶ See Department Manual Volume 2, Organization Information Link.

Findings

Each (100%) of the 68 purchase transaction records were reviewed by FOD for budgetary authorization and limits prior to the purchase.

Objective No. 1(c) – Purchase Orders were Approved

Audit Procedures

Of the 68 expenditures in IAID's sample, 62 orders were processed by the Department and six orders were processed by GSD.⁷ Internal Audits and Inspections Division reviewed the 62 purchase transaction records to determine whether the purchase order were approved by authorized personnel from the Supply Section of FOD.⁸

Findings

Each (100%) of the 62 purchase orders were approved by authorized personnel.

Objective No. 2 – Vendor Selection

Overview

The City issues blanket purchase orders (BPOs) for small purchases up to \$1,000.00 to reduce administrative expenses and to more effectively meet Departmental needs. City policy requires three competitive bids to be obtained and documented for BPOs between \$500.00 and \$1,000.00 in the purchase records.⁹ Exceptions to this policy are: only one vendor is available due to the unique and specialized nature of the product; there is a logical follow-up to an original purchase order; or an urgent and compelling need exists; and, following the ordering procedures would result in an unacceptable delay.

Objective No. 2(a) – Competitive Bids were Obtained

Audit Procedures

Internal Audits and Inspections Division reviewed all BPOs between \$500.00 to \$1,000.00 that were dispatched from January 1, 2013 to June 30, 2013, for evidence that competitive bids from three different vendors were obtained, or that justification for not obtaining the required competitive bids was documented. The Department dispatched 130 BPOs during this time period. Of the 130 BPOs, 24 purchases were made through GSD, the City's purchasing agent. Nine BPOs were created to pay for out of state car rentals that would not be subject to competitive bid requirements. Five BPOs were created to pay for repairs. Four BPOs were created to pay for outstanding balances on prior purchases. One BPO was a contract purchase

⁷ Orders processed by GSD do not need approval from Supply Section of FOD and therefore were not tested.

⁸ Authorized positions are the Officer in Charge, Principal Storekeeper, and Management Analyst.

⁹ See City Administrative Code Division 9, Section 9.4.

order, while the other BPO was cancelled. The remaining 86 BPOs were subject to competitive bid requirements.

Findings

Seventy-seven (90%) of the 86 BPOs subject to competitive bid requirements contained evidence of competitive bid or sole-source justification explaining why the competitive bid was not possible. The remaining nine BPOs, five from Motor Transport Division(MTD), three from Scientific Investigation Division (SID), and one from Supply Division, did not contain evidence of a competitive bid or sole source justification explaining why the competitive bid was not possible.

Objective No. 3 – Accuracy

The following objectives were evaluated to assess the accuracy of supply procurement and disbursement processing:

- Ordered products were received and confirmed by the Area/division (Objective No. 3a);
- Payments were supported and verified (Objective No. 3b); and,
- Expenditures were accurately classified to the correct accounts (Objective No. 3c).

Objective No. 3(a) – Ordered Products were Received and Confirmed

Overview

Section 1.5.17 of the City Controller's User Department Manual requires that for goods and services received, "the Supply Stores or other responsible individual verifies and certifies that goods or services covered by the invoice have actually been received and are in accordance with the specifications of the original authority. Staff certifying such receipt must have documentation, which may be in the form of:

- Packing slip or delivery receipt;
- Way-bill or bill of lading;
- Shipping label; and,
- Copy of the purchase order with items received encircled, when applicable.

Upon physical verification of the shipment, an electronic receipt confirmation in SMS is necessary to process payment to the vendor. The receipt confirmation is either entered by the division, Area, or bureau, if SMS access is available, or by Supply Section upon telephonic or written confirmation from the division, Area, or bureau.

Audit Procedures

Internal Audits and Inspections Division reviewed 62 of the 68 purchase transaction records for evidence of receipt verification.¹⁰ The other six purchase transactions were related to purchases of auto parts processed through GSD. Internal Audits and Inspections Division did not evaluate these six purchases for (Objective Nos. 3a or 3b) as GSD is primarily responsible for receipt confirmation and payment authorization.

Findings

Each (100%) of the 62 purchase transaction records tested, contained documented receipt verifications.

Objective No. 3(b) – Payments were Supported and Accurate

Audit Procedures

Internal Audits and Inspections Division performed a five way match of the purchase requisition, purchase order, receipt confirmation, vendor invoice, and payment voucher for 62 of the 68 expenditures to compare and verify the accuracy of the item, quantity, and unit price.

Findings

Sixty-one (98%) of the 62 payments were consistent with the related procurement documents. The expenditure from MTD included a purchase requisition and purchase order that was for labor, which did not match the invoice, which was for parts and labor.

Objective No. 3(c) – Expenditures were Accurately Classified to the Correct Accounts

Audit Procedures

Internal Audits and Inspections Division reviewed the 68 purchase transaction records to determine whether the purchase order was coded to the appropriate expenditure account.

Findings

Each (100%) of the 68 purchase transaction records was coded to the appropriate expenditure account.

¹⁰ The accuracy of the items received, quantity, and unit price were evaluated in Objective No. 3b.

Objective No. 4 – Segregation of Duties

Audit Procedures

Department policy requires the segregation of purchasing, receiving, and accounting duties. Internal Audits and Inspections Division performed a three way match of the purchase requisition, purchase order, and receipt confirmation for all 68 expenditures to compare the name of who approved each form.

Findings

Sixty-seven (99%) of the 68 purchase requisitions, purchase order, and receipt confirmation were not approved by the same person. One of the personnel from MTD's garages approved the purchase requisition and received the inventory.¹¹

OTHER RELATED MATTER

SMS Access

On February 2010, the City Controller's Office released an audit report titled "Review of the Supply Management System (SMS) Controls over Purchasing Authority." The Controller's Office found a significant number of active SMS user IDs were assigned to employees who were not in City service. The Controller's Office recommended that the City require user departments to inform GSD when employees with SMS access no longer need their access due to a change in work function, a transfer, or termination.

In response to audit recommendations made by the City Controller's Office in February 2010, GSD and ITA agreed to strengthen controls over SMS access. Specifically, a 90-day password expiration feature will be added to the SMS feature to further ensure inactive user IDs will be disabled.

For the current audit, IAID verified that the 90-day password expiration feature was added to SMS. This feature was added to the SMS due in part to IAID identifying 31 active SMS user IDs belonging to former Department employees.

As a safeguard to the SMS, a GSD Systems Analyst II, said that their office monitors calls coming in for unusual requests regarding ordering supplies or changing orders. According to the same GSD Systems Analyst II, the SMS will be phased out in a couple of years, sometime in 2016, and incorporated into the Financial Management System (FMS). The SMS passwords will then be replaced by employee identification numbers, while security will be handled by ITA, not GSD. Currently, GSD personnel are attending training classes for incorporating SMS into FMS.

¹¹ According to MTD's Director of Police Transportation, due to personnel shortages and high level of vacancy rates, MTD supervisors occasionally have to order and physically receive the goods.

ACTIONS TAKEN / MANAGEMENT'S RESPONSE

On February 28, 2014, IAID provided a draft copy of the audit report to the Commanding Officer of Fiscal Operations Division (FOD)'s management to discuss the audit's findings and recommendation.

On March 27, 2014, IAID provided a revised draft copy of the audit report to the C/O of FOD and discussed the audit's findings. Internal Audits and Inspections Division advised the C/O of FOD that a response to the findings reported in the revised draft report was required within ten business days.

On April 3, 2014, IAID received a response from the C/O of FOD. This response indicated general agreement with the audit findings, as well as to document their procurement processes that are in place.

Additionally, the Director of Office of Administrative Services reviewed and was in general agreement.

INTRADEPARTMENTAL CORRESPONDENCE

April 2, 2014

3.5

TO: Commanding Officer, Internal Audits and Inspections Division

FROM: Commanding Officer, Fiscal Operations Division

SUBJECT: SUPPLY PROCUREMENT AND DISBURSEMENT AUDIT –
MANAGEMENT RESPONSE

On March 27, 2014, Fiscal Operations Division (FOD) and Motor Transport Division (MTD) met with Internal Audits and Inspections Division (IAID) to discuss its supply procurement and disbursement audit findings and conclusions.

The audit identified two areas within the Los Angeles Police Department's (Department's) procurement and disbursement cycle that need improvement. Although FOD and MTD are in general agreement with the audit report the following response is submitted to document the procurement processes that are in place.

Objective No. 2a – Competitive Bids were Obtained

The audit identified nine Blanket Purchase Orders (BPO) that did not contain evidence of a competitive bid or sole source justification explaining why the competitive bid was not possible. Five of the BPOs were from MTD, three from Scientific and Investigation Division (SID), and one from FOD - Supply. The BPOs from MTD combined six to seven invoices that were under \$100 each for the same vendor. Although combining invoices is acceptable, proper documentation must be on file when it results in a BPO over \$500. The Commanding Officers of MTD, SID and FOD understand this finding and will ensure that staff solicit and document three competitive bids for blanket order purchases.

Objective No. 4 – Segregation of Duties

The audit found that one purchase requisition, purchase order, and receipt confirmation were approved by the same supervisor at MTD. MTD agrees and understands that proper parts ordering and receiving protocols must be adhered. However, due to personnel shortage and a high vacancy rate, MTD supervisors must order and physically receive the goods in very few occasions. While this is not the norm, it is the reality of dealing with unavailable supervisors.

Motor Transport Division has in place a policy and specific procedure to ensure that all purchasing and procurement protocols are followed. This policy ensures a complete reconciliation process to monitor and evaluate every purchase made by authorized supervisors

and identifies the purchased part(s) with the vehicle identification number in the Fleet Management System. Thus, any signed receipts by the ordering supervisors is reviewed and verified by the higher level supervisors during quarterly reconciliations performed by MTD Administration staff.

If you have questions or require further information, please contact me directly at (213) 486-8590.



LAURA LUNA, Police Administrator
Commanding Officer
Fiscal Operations Division