



# Procurement Compliance



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**April 6, 2023**

# Procurement Compliance Audit

## Executive Summary

### Objective

This audit was conducted to review the effectiveness of the compliance reports prepared by City Procurement, to identify transactions processed incorrectly by departments in MUNIS, and to determine the root cause of the errors.

### Background

City Procurement produces and distributes several compliance reports including the After the Fact (ATF) Report, Blanket Purchase Order (BPO) Report, and Expiring Contracts Report.

These compliance reports identify procurement transactions that are potentially out of compliance with NC General Statutes and/or the Citywide procurement policy. Departments are responsible for identifying their transactions and remediating any issues.

The City processed 24,573 purchase orders during FY 2022. Of those purchase orders, 1,589 (6%) were identified as ATF and 388 (1.6%) were flagged as a potential BPO.

### Conclusion

Opportunities exist to improve the effectiveness of procurement compliance reports through analysis, training, and monitoring. City Procurement and the Finance Department require additional resources and continued support from city leadership to reaffirm their authority and hold departments accountable for the proper execution of workflow responsibilities.

### Highlights

#### Procurement Procedures

- *Non-compliance with City Procurement policies creates workflow inefficiencies and increases risk of unapproved purchases.*
- *Opportunities exist to improve blanket purchase order management and processing controls.*

City Procurement and City Finance should:

- Collaborate to refine the City's policies and procedures for the procure to pay process, including accountability for workflow users. Procurement guidance should be updated.
- Re-affirm to departments that they have authority over procurement and payment activities.
- Mandate periodic training sessions covering the City's policies and procedures for the procure to pay process.
- Be provided the resources necessary to actively monitor and enforce compliance.

City Procurement should:

- Review ATF and BPO transactions on a test basis to determine the cause of non-compliance, follow up with the departments on those transactions, and implement solutions. This should include holding workflow users accountable for non-compliance.
- Require that Department Directors designate staff that are responsible for reviewing the compliance reports and providing an action plan to City Procurement to minimize reoccurrence.

## Procurement Compliance Audit Executive Summary - continued

### Expired Contracts

- *Decisions to renew, close, or amend contracts were not completed timely.*
- *Opportunity exists to improve analysis of expired contracts.*

City Procurement, City Finance, and Information & Technology (I&T) should:

- Collaborate to establish a formal policy that prohibits the use of expired contracts and create procedures that will allow for proper contract management.
- Consider implementation of the 'soft close' control for expired contracts in Munis, granting override roles as needed to ensure the continuity of the procure to pay process.

City Procurement should implement a process that requires departments to periodically review the report to determine the proper disposition of listed contracts and provide a response to indicate that they have addressed the contract(s). City Procurement may require additional resources to provide training, actively monitor contracts, and enforce compliance.

### Action Taken

Beginning with the February 2023 Expired Contract Report, all expired contracts in MUNIS are reflected.

## Contents

Highlights .....	1
Contents .....	2
Objective .....	3
Background .....	3
Scope, Methodology, and Compliance .....	3
Findings and Recommendations .....	6
A. Procurement Procedures .....	6
B. Expired Contracts .....	12
Conclusion .....	15
Distribution of Report .....	15
Appendix A .....	16

## Objective

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This audit was conducted to review the effectiveness of the compliance reports prepared by City Procurement, to identify transactions processed incorrectly by departments in MUNIS, and to determine the root cause of the errors.

## Background

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City Procurement, a division of the General Services Department, is the City of Charlotte's consolidated procurement authority and is predominantly responsible for leading procurement policy, standards, and best practices across the organization. North Carolina General Statute §143-131 and the Citywide Procurement Policy (MFS 24) regulate the timing and form of procurements undertaken by the City. Recognizing the complexities and challenges with correct application of statutory requirements, City Procurement developed a series of compliance reports which are periodically distributed to the departments in the City. This audit focused on three of those reports:

- After The Fact (ATF) Report
- Blanket Purchase Order (BPO) Report
- Expiring Contracts Report

The frequency of these reports is based on the report type. For instance, the ATF and BPO Reports are run quarterly, while the Expiring Contract Report is run monthly. These compliance reports identify transactions that are potentially out of compliance with NC General Statutes and/or the Citywide Procurement Policy and are provided to departments to promote compliance efforts through specific action steps outlined in each report. Departments are responsible for addressing the issues noted on the report.

## Scope, Methodology, and Compliance

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### Scope

This audit focused on determining the root cause of non-compliant transactions on the After the Fact (ATF) Report, the BPO Report, and the Expiring Contracts Report for the period July 1, 2021 through June 30, 2022. The audit's scope included transactions from three departments with a material number of ATF POs and potential BPOs identified on these reports - CATS, Charlotte Water and General Services – Fleet Division. Our test of expired contracts was not restricted to specific departments.

The following tables detail the four departments with the highest number of ATF and potential BPO transactions for each quarter in FY 2022, with the remaining departments consolidated into "Other."

After the Fact (ATF) POs											
Q1			Q2			Q3			Q4		
CATS	228	\$1.8M	CATS	156	\$533k	CATS	64	\$504k	CATS	49	\$442k
Charlotte Water	118	\$2M	General Services	85	\$295k	Housing	39	\$43k	General Services	45	\$758k
CMPD	80	\$207k	Charlotte Water	71	\$309k	General Services	37	\$1.4M	Housing	40	\$29k
General Services	65	\$427k	Housing	22	\$8k	Charlotte Water	36	\$116k	Charlotte Water	33	\$86k
Other*	183	\$5.4M	Other*	79	\$3.8M	Other*	97	\$852k	Other*	62	\$1.8M
<b>TOTAL</b>	<b>674</b>	<b>\$9.8M</b>	<b>TOTAL</b>	<b>413</b>	<b>\$5M</b>	<b>TOTAL</b>	<b>273</b>	<b>\$3M</b>	<b>TOTAL</b>	<b>229</b>	<b>\$3M</b>

\*These totals include some large, one-time payments which increase the overall amount per ATF transaction.

Number of Potential Blanket POs Entered as Normal POs											
Q1			Q2			Q3			Q4		
Charlotte Water	59	\$1.49M	General Services	32	\$422k	Charlotte Water	18	\$275k	CATS	11	\$129k
Aviation	22	\$668k	Charlotte Water	31	\$90k	CATS	17	\$85k	Charlotte Water	11	\$48k
General Services	22	\$312k	CATS	19	\$93k	CMPD	10	\$17k	Finance	7	\$297k
CDOT	14	\$151k	CDOT	7	\$50k	I&T	8	\$84k	General Services	6	\$30k
Other	38	\$2.67M	Other	19	\$743k	Other	20	\$877k	Other	17	\$630k
<b>TOTAL</b>	<b>155</b>	<b>\$5.29M</b>	<b>TOTAL</b>	<b>108</b>	<b>\$1.4M</b>	<b>TOTAL</b>	<b>73</b>	<b>\$1.34M</b>	<b>TOTAL</b>	<b>52</b>	<b>\$1.13M</b>

## Methodology

To achieve the audit objectives, auditors performed the following:

- Interviewed City Procurement staff
- Reviewed the Citywide Procurement Policy
- Reviewed various procurement compliance reports
- Reviewed the monitoring process for these procurement compliance reports
- Reviewed the supporting documentation for a selection of possible non-compliant transactions
- Performed root cause analyses for non-compliance

## Compliance

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

Government auditing standards require that we determine which internal controls are material to the audit objective and obtain an understanding of those controls. To evaluate internal controls, the City Auditor's Office follows the Committee of Sponsoring Organizations of the Treadway Commission's Internal Control – Integrated Framework (COSO Framework) as included in Standards for Internal Control in the Federal Government (GAO Green Book).

In planning and performing the audit, auditors obtained an understanding of the City's processes related to the creation of the procurement compliance reports and the associated internal controls; assessed the internal control risks; and determined the following internal control components were significant:

- Control Environment – The set of standards, processes and structures that provide the basis for carrying out internal controls
- Information & Communication – The quality of information which management and personnel communicate and use to support the internal control system
- Monitoring – The activities management uses to assess the quality of performance over time

As our audit was specific to the procurement compliance controls and determining the root cause of non-compliance, we determined that the following internal control components were not as significant to our audit:

- Risk Assessment – The process for identifying and assessing risks that may limit the achievement of objectives
- Control Activities – The actions management establishes through policies and procedures to achieve objectives and respond to risks

The internal control deficiencies that are significant within the context of the audit objective are discussed in the Findings and Recommendations section of this report. For additional information regarding internal control components and the related principles of internal control, please see Appendix A.

## Findings and Recommendations

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Audit findings and recommendations are organized into two sections, as follows:

- A. Procurement Procedures
- B. Expired Contracts

### A. Procurement Procedures

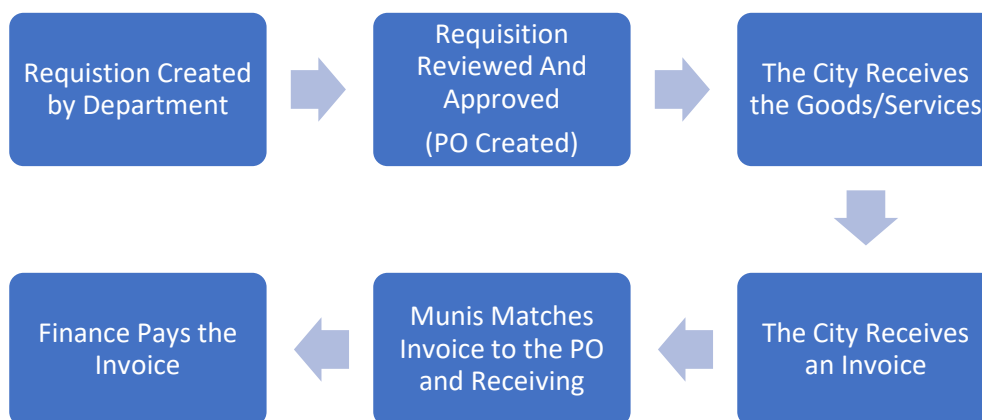
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#### Finding A1

***Non-compliance with City Procurement policies creates workflow inefficiencies and increases risk of unapproved purchases.***

Tasked with centralized oversight of procurement, City Procurement manages the procurement of services, commodities, technology, and construction, as well as the administration of corporate programs (e.g., procurement card, vendor administration, asset recovery and disposal). Additionally, City Procurement authorizes procurement exemptions, monitors compliance and related reporting, and system administration. City Procurement predominantly performs formal and citywide procurement initiatives, allowing for decentralized execution of other procurement needs at the discretion of departments. Charlotte Water and Aviation are not a consolidated member of City Procurement and maintain responsibility for their procurement workload including compliance with city procurement policies and procedures.

City Finance – Financial Services (FS) division is responsible for paying invoices received. The following flowchart illustrates the general process for procuring and paying for goods/services.



State statute (NCGS 159-28) and City policy dictates the creation of requisitions/purchase orders prior to the physical receipts of goods or delivery of services followed by receipt in the financial system and finally, submission of the vendor's invoice. This practice authorizes the purchase (as required by law and policy) and is a vital purchasing control. City Procurement has termed POs



created after the invoice is received as “After the Fact” (ATF) POs. In addition to being inefficient as it creates extra work for Procurement and Finance staff, processing ATF transactions violates established statutes and policies, exposes the City to risk by creating a financial obligation before purchases are approved, and increases the backlog of vendor payments waiting to be processed.

Quarterly, City Procurement sends a report to departments which identifies all the ATF POs processed during the previous quarter. Using statistical random sampling, auditors selected and reviewed 208 ATF transactions (15.3%) totaling \$3,708,056 from the first, second, and third quarters of FY 2022 to determine the root cause of non-compliance. This sampling included transactions from CATS, Charlotte Water, and General Services – Fleet Division. While the specific reasons for non-compliance varied, we consolidated our findings into the following categories:

- Training on Policies and Procedures
- Need for Department-Specific Procurement Procedures

The following table summarizes the results of our review. In some instances, we noted two issues for one transaction, resulting in 257 total exceptions.

Department	Training on Policies and Procedures	Need for Department-Specific Procurement Procedures	Total
CATS	76	59	135
Charlotte Water	38	60	98
General Services – Fleet	16	8	24
<b>TOTAL</b>	<b>130</b>	<b>127</b>	<b>257</b>

#### Training on Policies and Procedures

Auditors identified 130 ATF transactions totaling \$3,025,794 where the non-compliance resulted from the department(s) misapplication of the City policy requiring purchase orders and/or having standard operating procedures that violated City procurement policies and procedures. For example, we identified instances where departments unnecessarily closed out purchase orders at year end, causing an ATF PO to be created when an invoice was subsequently received. While City Procurement provides training prior to granting access to Munis, users require periodic training to maintain necessary knowledge of City policy.

#### Need For Department-Specific Procurement Procedures

Auditors identified 127 ATF transactions totaling \$1,075,789 where inadequate communication within the department and lack of consistent purchasing protocols caused non-compliance with Citywide Procurement Policy. Among the test items, we identified instances where:

- the requisitioner was unaware that a purchase had occurred
- the requisitioner was unaware that the purchase order had run out of funding

- the requisition was not approved prior to purchase
- a purchase order was created timely but closed before the invoice was received

Development of department-specific workflows, in collaboration with City Procurement and City Finance, to address these issues would reduce the number of ATF POs and the associated risks.

## **Finding A2**

### ***Opportunities exist to improve blanket purchase order management and processing controls.***

In the MUNIS system, purchase orders are either coded as normal or as a blanket. Blanket Purchase Orders (BPOs) have advantages but must be managed in a way that does not compromise purchasing controls. According to the City's Blanket PO Request Guide, purchases must meet one or more of the following combinations of standards to be submitted for review to City Procurement.

- a. Unit price cannot be identified or defined at time of purchase (e.g., commodity with extremely variable pricing), and anticipated quantity cannot be easily estimated.
- b. Items or services purchased may be needed on a routine basis, but:
  - represent a minute portion of aggregate purchases (e.g., fasteners, bolts, MRO supplies, other small and low-dollar parts and supplies), and
  - system requirements and process for entering a regular PO and receiving purchased items or services are cumbersome, and
  - the data required for entry would not provide benefits for reporting and future consolidation of aggregate purchases to ensure solicitation accuracy and/or obtain pricing discounts.
- c. The items or services being purchased are all under a single 5 digit commodity code, and purchasing and reporting data is easily accessible either through another system (e.g., Inventory System data) and/or through the vendor.

Recording blanket purchase orders as normal purchase orders circumvents inherent controls within the procure to pay process. Given the uncertain quantity and/or price associated with blanket purchase orders, they have more flexibility when recording goods received and paying invoices. This flexibility increases the City's vulnerability to incorrect billing. To reduce the likelihood that blanket purchase orders are used incorrectly, requisitioners should complete a justification form for approval by the department designee before the BPO is routed through Munis for Procurement's approval.

The Blanket POs Report identifies purchase orders that have been coded as normal purchase orders but are structured like blanket purchase orders – with a unit price of \$1. Using statistical random sampling, auditors selected and reviewed 70 out of 336 (21%) purchase orders consisting

of 89 line items totaling \$1,796,457 for compliance with Citywide Procurement Policy. One transaction was properly classified as a normal PO. We grouped the remaining 88 test items into two categories as shown below:

- The transaction should have been identified as a BPO
- The PO details were entered into Munis incorrectly

Department	Not identified as a BPO	Normal PO Incorrectly Entered	Total
CATS	16	4	20
Charlotte Water	39	11	50
General Services – Fleet	16	2	18
<b>TOTAL</b>	<b>71</b>	<b>17</b>	<b>88</b>

#### Transactions Should Have Been Identified as a BPO

Auditors identified 71 line items totaling \$1.4 million where the PO was not routed through the BPO approval process. The POs associated with the 71 line items would have been approved as BPOs if the correct PO type had been selected and the justification form had been submitted, as required. We selected 23 of the 71 line items to trace prices to a contract.

- Twelve of the 23 POs included contract information.
  - For two of those 12, the invoices didn't include enough information to determine if the prices charged matched the contract price list. For the remaining ten POs, the invoice and contract prices matched.
- Four of the 23 POs had contracts available, but the purchase was not made using the contract, i.e., the PO did not include contract information.
  - For two of the four, the city paid slightly less than the contract rate. For the remaining two there was not enough information to determine if the city paid the contract price.

These exceptions demonstrate the need for improvement in the management of BPOs and the overall procure to pay process. In most instances, City staff noted that they were unaware of the proper procedure for creating a BPO. Auditors identified conflicting BPO procurement guidance on the City's intranet which may have contributed to staff confusion. As staff appeared unaware that the purchase order had been processed incorrectly, periodic training and updated guidance are required.

#### The PO Details Were Entered Incorrectly

Auditors identified 17 line items totaling approximately \$375,000 where the PO details were entered incorrectly. Of these 17, we determined that 12 line items totaling approximately \$282,000 appeared on the compliance report because the quantity and price information were switched in Munis. The remaining 5 line items totaling approximately \$93,000 appear to have been intentionally structured like a blanket despite being a normal PO to circumvent the BPO approval process. Proper reviews and approvals of these transactions would have prevented these non-compliant transactions.

**Recommendation A1:** City Procurement and City Finance should collaborate to refine the City's policies and procedures for the procure to pay process including creating requisitions and purchase orders, receiving transactions in Munis, invoice requirements, and discipline for non-compliance. Procurement guidance should be updated regularly to reflect current policies, procedures, and practices.

City Procurement and City Finance should re-affirm to all departments that they have authority over citywide procurement and payment activities and should be provided the resources necessary to actively monitor and enforce compliance.

**Value Added:** Compliance; Efficiency; Risk reduction

**City Procurement Response:** Agree. City Procurement and Finance have spent nearly a decade collaborating to improve procure to pay process and compliance challenges that are multi-faceted. Whether through fundamental lack of effective system controls, accidental or purposeful misapplication of policies, procedures, and training, or access to creative work arounds that the system will allow, there are several weaknesses that can lead to non-compliance in ATFs and BPOs. While policy non-compliance is a critical factor and should not be overlooked, the lack of effective technology with supporting controls and safeguards, as well as the lack of data and automation, makes ATF and BPO challenges more complex to solve for, especially with resource constraints. Requests for technical modifications to MUNIS which might shore up these conditions have all been rejected by Tyler Technologies since implementation in 2014.

As the City moves forward with ERP implementation over the next 28 months, it will be imperative for City Procurement and Finance to collaborate on future state improvements in ATFs and BPOs and necessary controls that can be managed in the new system without the need for additional resources. Both of our teams are committed to ensuring effective controls and compliance but require an effective system capable of supporting these efforts through workflow automation and with access to data.

To shore up current and ongoing concerns about the impact of ATFs and BPO, City Procurement proposes the following:

- provide additional authoritative and refined guidance to all departments regarding policy and procedures for ATFs and BPOs;
- develop and implement necessary disciplinary actions for departments regarding ATF and BPO non-compliance in line with the existing quarterly compliance plan that holds department users more accountable and requires specific remedies;
- create and provide additional training or guidance for department requisitioners and approvers with a mandatory annual refresher course assigned through MySuccess/Success Factors; and
- collaborate with Finance and City leadership to enforce procurement and payment standards that both comply with policy, statute, and best practice.

**City Finance Response:** City Finance agrees with the recommendation and will continue to review, refine, and develop our financial policies, procedures, and monitoring strategies to

provide improved oversight and compliance in the procure to pay process. We will work collaboratively with City Procurement to ensure consistency in policies and procedures and to enforce procurement and payment standards that both comply with policy, statute, and best practice. When identified, resources will be requested to accomplish this recommendation.

**Recommendation A2:** City Procurement and City Finance should mandate periodic training sessions covering the City's policies and procedures for the procure to pay process. All department requisitioners, receivers, and employees with requisition/purchase order approval authority should be required to attend. Training should emphasize the importance of utilizing contracts appropriately, including price verification prior to processing invoices for payment. Analysis should be performed to determine if additional resources are needed to provide the training.

**Value Added:** Compliance; Efficiency; Risk Reduction

**City Procurement Response:** Agree. City Procurement will evaluate additional mandatory training opportunities and assignments related to procure to pay processes in MySuccess/Success Factors based on functional role (e.g., requisitioner, receiver, approver, etc.) as well as where MUNIS training is readily available on demand. Annual procure to pay guidance is collaboratively developed and made available by City Procurement and Finance to support compliance objectives. The need for additional training resources will be assessed.

**City Finance Response:** City Finance agrees with the recommendation, and currently offers guidance specific to year-end through a variety of communication channels to support departments with year-end activities like PO closeout. We will partner with City Procurement to evaluate additional training and support opportunities for city staff including mandatory training. Additional resources are currently planned in the Internal Controls Division to support training and communication around new/revised citywide Finance policies and procedures. When identified, additional resources will be requested to accomplish this recommendation.

**Recommendation A3:** City Procurement should periodically research and review ATF and BPO transactions on a test basis to determine the cause of non-compliance, follow up with the departments on those transactions, and implement solutions to address the issue(s). If necessary, departments and City Procurement should collaborate to establish procurement workflows that support the department's nuances while adhering to City policy.

City Procurement should require that Department Directors designate staff that are responsible for reviewing these reports and providing an action plan to City Procurement to minimize reoccurrence.

**Value Added:** Compliance; Efficiency; Risk Reduction

**City Procurement Response:** Agree. City Procurement already performs periodic reviews of ATFs and BPOs informally but will increase the scope of our review. All quarterly and monthly compliance reports will be directed to a to be determined / designated department representative or representatives in an appropriately accountable leadership role (e.g.,

Deputy Director, Senior Business Manager, Senior Procurement Officer, Chief Admin Officer) for review, improved compliance, issue remediation, disciplinary action as necessary, and formal response to City Procurement and Finance on final disposition. Nuanced procurement workflows will need to be researched against system capabilities and resource challenges.

**City Finance Response:** Finance will collaborate with City Procurement to support their response to this recommendation.

## B. Expired Contracts

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### Finding B1

#### *Decisions to renew, close, or amend contracts were not completed timely.*

Each month, City Procurement publishes a report of contracts that are about to or have already expired. The intent of this report is to:

1. Provide departments with information regarding contract expiration status in Munis to assist with contract management activities;
2. Provide departments with direction on how to address expirations and missing data;
3. Support ongoing maintenance and prevent unintentional expiration of contracts; and
4. Encourage regular monitoring and cleanup of records to aid in streamlining the procurement process and support procurements forecasting needs and procurements workload management.

Best business practices prescribe the timely review of a contract's terms and performance and an intentional decision to renew, amend, or allow the contract to expire. Purchases of goods or services utilizing expired contracts:

- Increases the risk that the City will pay an unfavorable price
- Potentially negatively impacts the enforcement of all contractual terms and conditions
- Exposes the City to legal ramifications
- Circumvents the competitive procurement solicitation process and inclusion efforts
- Exposes the City to unnecessary risk if the vendor's insurance has lapsed due to the contract's expiration

Using statistical random sampling, auditors tested 74 of 380 (19.5%) expired contracts with contract values totaling \$116 million. We noted that all these contracts were either not closed or not updated timely to show renewed status in Munis. Of the contracts tested, we noted 26 (35%) instances where a purchase was made after the contract's expiration or before the contract was renewed.

- Sixteen purchases were for goods or services procured after contract expiration.

- Ten purchases lacked adequate documentation in Munis to determine when goods or services were ordered.

Munis does not restrict users from creating or paying Pos after a contract has expired, even though the system can do so if a “soft close” control is activated. A soft close control prohibits user transactions (ex. Requisitions, purchase orders, invoice payments, etc.) after the expiration of a contract unless a user has been granted an override role. Implementing the soft close control with proper receiving and invoice review would enhance the overall procure to pay process by preventing the use of an expired contract, and result in contracts being renewed, extended, or closed timely.

As of 11/29/2022, 50 of the 74 expired contracts tested were still open in Munis. Of these 50 contracts, open PO balances totaled \$5.8 million and encumbered available balances totaled \$1.7 million.

Expired Contracts Reviewed, by Department		
Department	June 2022 Compliance Report	Updated as of 11/29/22
Aviation	2	1
CATS	6	3
CDOT	4	2
Charlotte Water	4	1
City Manager’s Office	1	0
Citywide	12	5
CMPD	2	1
Economic Development	4	1
Fire	1	1
General Services	32	31
Housing & Neighborhood Services	6	4
<b>TOTALS</b>	<b>74</b>	<b>50</b>

## **Finding B2**

### ***Opportunity exists to improve analysis of expired contracts.***

The Expiring Contracts Report only includes contracts that have been expired for less than one year. We obtained a report of all contracts that were expired for over one year as of 12/19/2022 and noted the following:

- 642 contracts with no balance – these contracts can be closed.
- 127 encumbered contracts that contained approximately \$56,000 in open purchase orders and approximately \$7 million in available total;
- 221 non-encumbered contracts (a combination of 1 unencumbered contract and 220 not to exceed contracts) that contained approximately \$2.5 million in open purchase orders.



Prior to a contract being closed, the open POs encumbering the contract are closed. Generally, this results in those PO balances reverting to the original funding sources. There are other circumstances where additional funds may be reverted or repurposed for contracts that are classified as an encumbered, which can only be determined on a case-by-case basis. Analysis of this information would identify funds on expired contracts that could potentially be reverted to the funding source (i.e., grantor) or repurposed for other City use if the contracts were closed.

**Recommendation B1:** City Procurement, City Finance, and Information & Technology (I&T) should collaborate to establish a formal policy that prohibits the use of expired contracts and create procedures that will allow for proper contract management. This should include considering implementation of the 'soft close' control for expired contracts in Munis and granting override roles as needed to ensure the continuity of the procure to pay process.

**Value Added:** Compliance; Cost Savings; Efficiency; Risk Reduction

**City Procurement, City Finance, and I&T Response:** After evaluation, the team is not recommending implementation of the soft close process due to several factors:

- End users creating POs not tied to contracts and continuing to spend regardless of the contract expiration date.
- Departments will continue to spend against expired contracts.
- Soft close does not stop an existing PO from being modified.

Our solution is to require departments to proactively manage the expiration of contracts and refocus efforts on the front-end work of the Expiring Contracts Report. This includes implementing a collaborative communication effort with modifications to the Expiring Contract Payment compliance urgency and including disciplinary actions as may be needed.

City Procurement is also considering opportunities to put in place additional monitoring strategies and controls that could be provided by a Contracts Administration group within City Procurement. This effort is dependent upon access to resources and/or restructuring of current staff.

**Recommendation B2:** The Expired Contracts Report should include contracts that have been expired for more than one year. City Procurement should implement a process that requires departments to periodically review the report to determine the proper disposition of listed contracts and provide a response to indicate that they have addressed the contract(s).

**Value Added:** Compliance; Cost Savings; Risk Reduction

**City Procurement Response:** Agree. City Procurement will modify the current compliance protocol to require monthly compliance reports be directed to a to be determined / designated department representative or representatives in an appropriately accountable leadership role (e.g., Deputy Director, Senior Business Manager, Senior Procurement Officer, Chief Admin Officer) for review of the Expired Contracts Report. City Procurement will require a formal response from each non-compliant department, detailing remediation and proper disposition of all contracts appearing on the Expired Contracts Report.



**Action Taken:** Beginning with the February 2023 Expired Contract Report, all expired contracts in MUNIS are reflected.

## Conclusion

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Opportunities exist to improve the effectiveness of procurement compliance reports through analysis, training, and monitoring. City Procurement and the Finance Department require additional resources and continued support from city leadership to reaffirm their authority and hold departments accountable for the proper execution of workflow responsibilities.

## Distribution of Report

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This report is intended for the use of the City Manager's Office, City Council, and I&T. Following issuance, audit reports are sent to City Council and subsequently posted to the [Internal Audit website](#).

## Appendix A

### The Five Components and 17 Principles of Internal Control

#### Control Environment

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
2. The oversight body should oversee the entity's internal control system.
3. Management should establish an organizational structure, assign responsibility and delegate authority to achieve the entity's objectives.
4. Management should demonstrate a commitment to recruit, develop and retain competent individuals.
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

#### Risk Assessment

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
8. Management should consider the potential for fraud when identifying, analyzing and responding to risks.
9. Management should identify, analyze and respond to significant changes that could impact the internal control system.

#### Control Activities

10. Management should design control activities to achieve objectives and respond to risks.
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
12. Management should implement control activities through policies.

#### Information & Communication

13. Management should use quality information to achieve the entity's objectives.
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

#### Monitoring

16. Management should establish and operate a monitoring mechanism that monitors both internal and external activities that impact the control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.