



Program Evaluation and Audit

**Procurement Systems Approval and
Permission Processes**

TXbase and WAM

19 April 2012

List of Terms

Access List – In WAM, the list of users authorized to create and approve purchase orders created against a specific Blanket Contract, up to a pre-defined dollar limit

Annual Agreement – In TXbase, an agreement with a vendor setup on an annual basis to allow specific departments to make micro purchases as needed (on rare occasions Annual Agreements can be competitively procured, allowing larger purchases to be made against them)

Approval Authority – The dollar amount in the application (TXbase or WAM) that a user can make approvals up to

Approval Route – In WAM, a predefined list of Approval Titles that need to either review or approve a record/document

Approval Title – In WAM, a list of dollar limits and documents that can be approved that can be assigned to a person or people

Approver – The user that has sufficient approval authority in the application and uses that authority to take responsibility for the validity of the procurement

Blanket Contract – In WAM, used for three different purposes:

- i. Master Contracts – Procurement solicits bids for materials and/or services and sets up a Blanket Contract for the low-price vendor. This has been done for things like insulation repair, excavating, engineering services, process chemicals, and office supplies.
- ii. Sole Source tracking – When an on-going sole source is issued, Procurement sets up a Blanket to the vendor so they can track how much is being spent. The Blanket Contract module includes a dollar limit and an expiration date, so that a sole source does not exceed a dollar value or time duration.
- iii. Micro-purchases – Procurement sets these up so operating departments may quickly and easily buy low dollar value parts, similar to a P-card. It eliminates having to write a Purchase Requisition, routing it for approval, and having Procurement issue a Purchase Order.

Blanket Contracts include a limit amount that caps the total value of all purchase orders issued against the specific blanket, and an expiration date.

Blanket Purchase Order – In WAM, a purchase order issued against an established Blanket Contract

Cost Center – In TXbase, a 4-digit account code to which goods are expensed, accompanied by a list of users who are certified to approve goods purchased for the department

Initiator – In WAM, the user that creates a specific record or document such as a requisition, work order, or in the case of Blanket Purchase Orders, the user that creates the purchase order

Master Purchase Order (MPO) – In TXbase, a purchase order established to remain open for a set length of time to have purchases continually made against it

Master Contract – In TXbase, an agreement with a vendor, that may or may not be bid out depending on the purchase amount, established to allow regular purchases to be made from that vendor

Micro Purchase – A purchase of goods and services valued less than \$2,500 that is not required to be competitively procured

Module - A module is a self-contained component of an application which has a well-defined interface to other components of the system

Owner – In TXbase, the user that creates the requisition

Purchase Order – A binding buyer-generated document that authorizes a purchase transaction when it is issued or released

Requestor – In WAM, the person that establishes the need for a record or document to be created within the application

Requisition – The electronic document created to communicate the procurement need between the users that establish the need, the users approving the need, and the buyer

Requisitioner – In TXbase, the user that establishes the need for the procurement action

Signature Authority – The dollar amount that the Council has authorized a staff person to make approvals up to

INTRODUCTION

Background

In October 2010 the Metropolitan Council (Council) consolidated the procurement functions into the Office of Contracts and Procurement. The Office of Contracts and Procurement uses TXbase and Oracle WAM information systems for the procurement process.

The Council purchased TXbase in 1996 and customized the program to meet the procurement needs for Metro Transit and Metropolitan Transportation Services (MTS). Oracle Work and Asset Management (WAM), was purchased in 1999 for work and asset management, inventory management, and procurement management within Environmental Services (ES), and for procurement management for Regional Administration (RA), and Community Development (CD). MTS is now supported by both systems, with most of their procurements moving over to WAM as of April 2011. TXbase will continue to support MTS for their bus procurement needs. TXbase is supported internally and Oracle continues to supply updates and support for WAM.

Within both systems, users have individual log-ins and specific permissions. Ideally these permissions should correlate with the tasks an individual employee needs to use the system for, and with their signature authority (what they can approve and up to what amount), which is updated daily on the Council's intranet. Employees with more system permissions than required for their duties create risk for the Council as these employees are able to purposefully or accidentally circumvent the respective procurement management systems' controls for their procurement actions. The standard operating procedures for procurements are detailed in the Council's Procurement Policies and Procedures.

Purpose

This audit was conducted to ensure that the Council's delegated signature authorities are accurately reflected in procurement system transactions and identify potential risks and weaknesses in controls, as well as identify solutions to mitigate risks and strengthen controls.

Scope

The audit focused on permissions within the procurement-related modules of both the TXbase and Oracle WAM systems as of the start of testing, July 26, 2011. The audit uses current system information. System transaction data and user rights records were reviewed for the time period from January 1, 2009 to July 26, 2011.

Methodology

To understand the TXbase and Oracle WAM process and practices, the following methods of inquiry were used:

- Personnel who work with the TXbase and Oracle WAM systems were interviewed to gather information about how controls are put in place and how the respective systems function.
- Current employee permissions within the TXbase and Oracle WAM systems were reviewed, comparing permissions to delegated signature authority and user needs.
- The audit trail for individual employee system access permissions was reviewed.
- Individual procurements were reviewed to assure that user permissions in place were enforced within the procurement systems.

Assurances

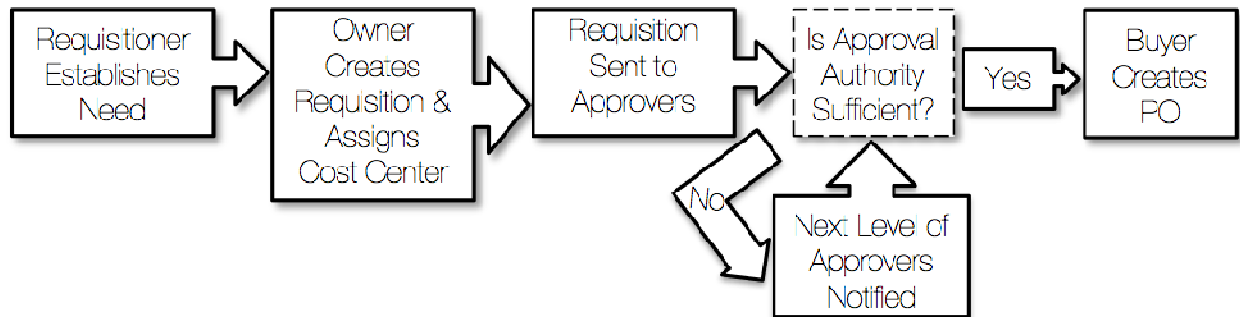
This audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and the U. S. Government Accountability Office's *Government Auditing Standards*.

OBSERVATIONS

Requisition Process

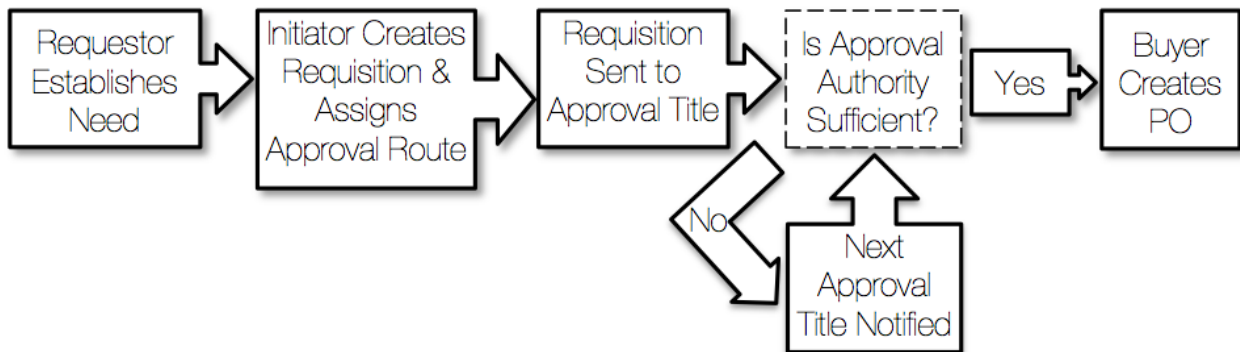
In both WAM and TXbase, a staff person who identifies a business need to procure a good or service can either initiate the requisition themselves, or have another staff member initiate the requisition for them. In WAM, the user that needs the good is the requestor, and the user who inputs the electronic request for the good is the initiator. In TXbase, the user who needs the good or service is the requisitioner, and the user who submits the electronic request is listed in the Owned By field.

TXbase Requisition to PO Process



After the staff member fills out the electronic request they must submit the request for approval before it can move on to a purchasing agent. In TXbase the requisition owner will assign the requisition a Cost Center, which is a set of approvers for different dollar amounts of approval authority in a particular business unit. An alert within the application will be sent to the first approver(s) listed on that requisition's Cost Center. The requisition is automatically sent further up the Cost Center until an approver with sufficient approval dollar limit approves the requisition. Both applications maintain a record of the approvers for each requisition.

WAM Requisition to PO Process



In WAM, the initiator assigns an Approval Route, which is a set of Approval Titles for staff of different approval levels. Approval Titles are not attached to a specific person,

but instead a position to accommodate staffing changes. An alert within the application will be sent to the first approver(s) listed on that requisition's Approval Route. The requisition is automatically sent further up the Approval Route until an approver with sufficient approval dollar limit approves the requisition. An approver with sufficient approval authority may choose to agree to the request rather than approve it; the application will then route the request to the next person in the Approval Route for final approval.

Approval lists were found to have former employees listed, but without user access rights.

Within both systems the business systems administrator maintains the lists of approvers, Cost Centers and Approval Routes, for requisitions.

In TXbase, Cost Centers correspond to specific account strings for a department that have been established by Metro Transit Finance. Once a Cost Center is chosen, the requisition is sent to the list of specific appropriate approvers in order of their approval authority level. All 240 Cost Center approval lists were tested to determine the appropriateness of the approvers and sequencing of approvers. In three instances there were former employees on the Cost Center approval lists. These employees, though, did not have login privileges.

In WAM a requisition is assigned an Approval Routing List. A Routing List directs the sequencing of requisition approvals based upon Routing Titles, rather than by employee usernames as in TXbase. Each Routing Title may have multiple employee usernames assigned. There are 157 Routing Lists active in WAM. Thirteen out of the 157 Routing Lists were found to have had former employees listed as approvers on the Approval Routes. These employees' approval privileges were inactive.

TXbase users did not approve their own requisitions.

A sample, with a Confidence Level of 99% and a sampling error of 5%, of 125 out of 11,936 requisitions in TXbase did not find any instances of the requestor and the approver being the same person. The TXbase system does not allow users to approve their own requisition even if they are on the Cost Center assigned. Instead, the requisition is sent to the next approver in the Cost Center. This testing validated the effectiveness of this system control.

Managers have approved the requisitions of managers at the same hierarchical level, but not in the immediate department.

A random sample, with a Confidence Level of 99% and a sampling error of 5%, of 125 out of 11,936 requisitions approved in TXbase found that five (4%) out of the 125 requisitions were approved by the peer, not the supervisor, of the requestor. The Cost Centers in TXbase may have multiple employees at the same sequence in the chain of requisition approvals, for example, three managers may be notified of an impending requisition during the second round of approvals. Each sequence will group employees within a Cost Center with similar dollar approval limits within TXbase.

A stratified random sample, with a Confidence Level of 99% and a sampling error of 5%, of 151 out of 44,515 requisitions approved and later issued in WAM found that 5 (3%) requisitions – in an amount totaling \$3,813 out of a total \$1,326,058 – were approved by a peer or subordinate, not the supervisor of the requestor. Similar to TXbase the Approval Routes within WAM may have multiple employees with similar approval limits in the chain of requisition approvals.

When requests are approved by a peer or subordinate outside of the immediate department, there is a risk that the person may not be in a capacity to determine the adequacy or appropriateness of the requisition. There is currently nothing in Council policies or procedures that prevents peer or subordinate approval, though best practices recommend against it.

Cost Center code 09999, which is a placeholder value in TXbase, has been used by MTS for coding its capital purchases.

Cost Center code 09999 was originally established in TXbase as a placeholder to be changed by requestors. MTS has used the placeholder for some purchases. MTS staff persons were on the list of approvers for this Cost Center. It is more appropriate for MTS to code purchases to a department code assigned for its use. During the course of the audit, Finance assigned department code 39999 for the use of MTS capital purchases. MTS is in the process of recoding its purchases to the new department / Cost Center code; however the 09999 code will remain active in TXbase.

Signature Authorization

Signature authorization specifies the dollar limit that an employee may approve for procurement on behalf of the Council. The higher an employee is within the organizational hierarchy, then typically, the higher the approval limit will be.

The Contracts and Procurement Unit maintains a signature authorization list on the Council's intranet. The signature authorization list contains the dollar limit authorizations for individual employees. The list also includes within the notes those employees that have temporary delegations of signature authority. Procurement approval limits within TXbase and WAM should never exceed the signature authority listed, nor should employees without signature authority have authorization within the systems to approve procurement transactions.¹ The systems should not allow employees without established approval limits to approve purchases.

¹ Employees without signature authority may approve purchases outside of the TXbase system via pulls from Master Purchase Orders when those employees are authorized signers as project managers on contracts for capital projects. Additionally, purchasing agents for Oracle WAM have approval authority within WAM but no Council signature authority. This is necessary for them to carry out their duties as purchasing agents as business needs often arise that require approval authority within the system.

The Signature Authorization list is not kept up-to-date.

The intranet list that Contracts and Procurement maintains is the official list of employees with signature authority. A comparison of the 135 employees on the signature authorization list to employment status found that five out of 135 employees listed were no longer employed by the Council. One of the former employees had left three weeks prior to the date tested. The other four names had left Council employment prior to 2011.

Requisition approvals are not consistent with signature authority in WAM.

Requisitions approved within the systems were tested to ensure the final approver's signature authorization based on the official list maintained by Contracts and Procurement was sufficient at the time of approval to approve the requisition total dollar amount. A random sample, with a Confidence Level of 99% and a sampling error of 5%, of 125 out of 11,936 requisitions approved within TXbase since 2009 did not find evidence of requisitions exceeding the approver's signature authority.

A random sample stratified by purchase type, with a Confidence Level of 99% and a sampling error of 5%, of 151 out of 44,515 purchase orders approved within WAM since 2009 found 3 (3%) purchase requisitions, and 1 (4%) stock requisition, in which the final approver did not have documentation of sufficient signature authority at the time of purchase. Two of those approvals were given by one employee for whom there was no documentation of ever having signature authority. The other two approvals were given by employees that had been delegated signature authority at other times, but lacked documentation that they had signature authorization at the time that these requisitions were approved. All instances lead to risk of authorization of payments at dollar amounts greater than what the employee has been designated. This is an issue of communication between the department managers, Contracts and Procurement Unit, and the System Administrators.

The Met Council's Procurement Procedures states in section 3.0: requestors will "obtain approval from an individual with formally delegated signature authority equal to or greater than the value of the procurement".

Dollar approval limits within the procurement systems have exceeded signature authority.

A comparison of approval amount limits to signature authorization limits found that in both TXbase and WAM less than 1 percent (1 out of 105 users, and 1 out of 165 users respectively) of system users had approval limits that exceeded signature authority at the time of testing. In one case the employee had signature authority prior to retirement, but after returning to work for the Council during retirement as a PRO (Phased Retirement Option), the approval limit had not been removed. Documentation was not located to confirm whether a request had been made to remove approval rights for that employee. The other case was a newly hired manager that at the time of testing had not, yet, received signature authority, but the approval limits had been established in the system.

The Met Council's Delegation of Procurement and Contract Authority procedures states in subsection 4C: "Authorized names and signatures associated with designated positions must change with personnel changes." Subsection 4B states: "Delegations of authority and/or authorization levels will be reviewed annually and may be revised as appropriate." There are not currently procedures in place that define the process for removing an approver across systems.

Purchase Orders Process

Once a requisition is approved in the purchasing application, it is forwarded to a purchasing agent, who is alerted that a purchase order must be issued. The purchasing agent will determine whether seeking quotes, competitive bidding, or other procurement procedures must be followed. If a purchase is less than the micro purchase limit of \$2,500, competitive bids may not be required. The purchasing agent will issue the purchase order when the procurement requirements have been met.

WAM system users have been found to have approved their own purchase orders, but few instances since April, 2011.

A test of all purchase order approvals within WAM between January 1, 2009 and July 26, 2011 was made to examine to what extent one person performed simultaneously the roles of initiator, approver, and buyer. This segregation of duties is an important control. The value of all non-Purchasing initiated purchase orders was \$6,844,000. The test found that 558 out of 5,533 approvals by non-Purchasing employees were initiated and approved by the same person. These same-person approvals total \$787,000, or 11.5%, of all non-Purchasing initiated approvals. The total value of all purchases initiated in WAM, including those corresponding to contracts, initiated by purchasing agents, over the time period was \$437 million.

Table 1. Self-approved Requisitions in WAM (January 1, 2009 – July 26, 2011)

Position Title	Department	Self Approved Purchase Orders (before April 16, 2011)	Self Approved Purchase Orders (after April 16, 2011)
Warehouse Manager	Assets & Materials Management	420	2
Staff Specialist	Assets & Materials Management	56	0
Assistant Operations Manager	Blue Lake Business Unit	56	0
Drafting & Records Manager	Technical Services Department	14	0
Others		8	2

The Maintenance and Safety Business Unit changed its processes in April, 2011 by requiring initiators within WAM to have a supervisor approve the requisitions and purchase orders. Self-approvals largely ended after April 16, 2011. Two instances were found for stock reorders that were reviewed and approved by the Warehouse Manager.

Council Procurement Policy 2.1.1.19 states that “The initiator or requisitioner of a PR [purchase requisition] is not allowed to be the approver.” WAM does not have the functionality to automatically prevent the initiator of a requisition from approving his or her own requisition.

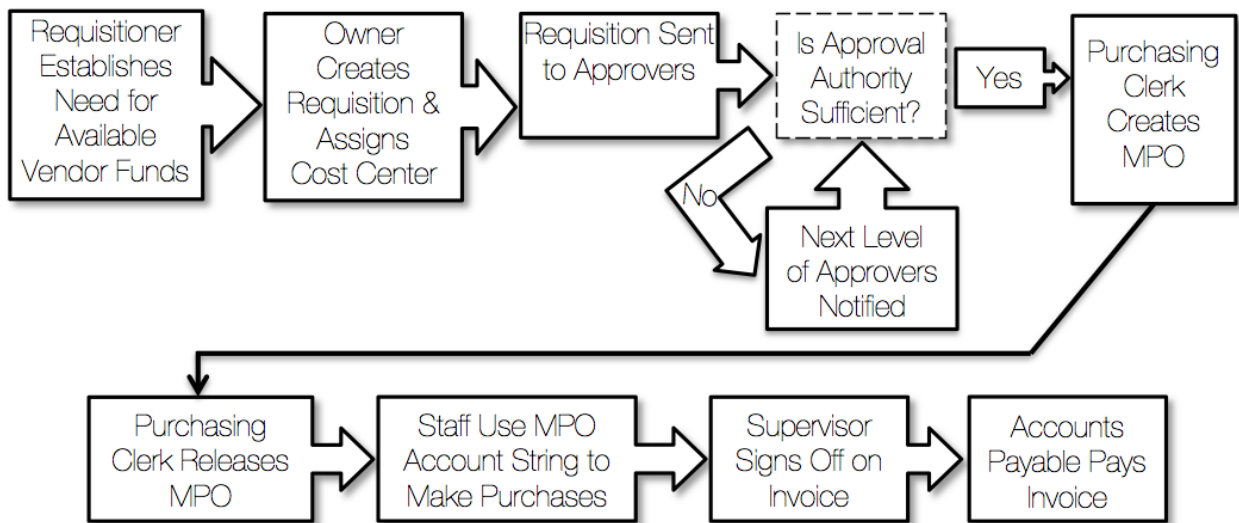
Blanket and Master Contracts

According to Council policy, “*Master Contracts* will be created with vendors to allow the Council to make repetitive purchases of similar types of goods or services on an as-needed basis in an efficient and economical manner. Procurements made through *Master Contracts* will satisfy the Council’s competitive procurement requirements.” Master Purchase Orders (MPOs) in TXbase and Blanket Purchase Orders in WAM are used to make these contract funds available. Council policies require that purchases made using these pre-established purchase orders still be subject to risk controls.

At the Overhaul Base, MPOs are setup to execute a capital contract or take advantage of an Annual Agreement. In the case of Annual Agreements procedures state, “Once Annual Agreements are created, requestors will be allowed to create their own purchase orders for Micro Purchases, which can be issued by staff with sufficient signature authority. **Requestors or Initiators cannot issue their own purchase orders.**” Thus all purchases using Annual Agreements should have an initiator and approver; they just will not have to be released by a purchasing agent in order to make the payment.

Purchases using Blanket and Master Contracts can be made without proper signature authorization.

TXbase Master Purchase Order – Annual Agreement Process



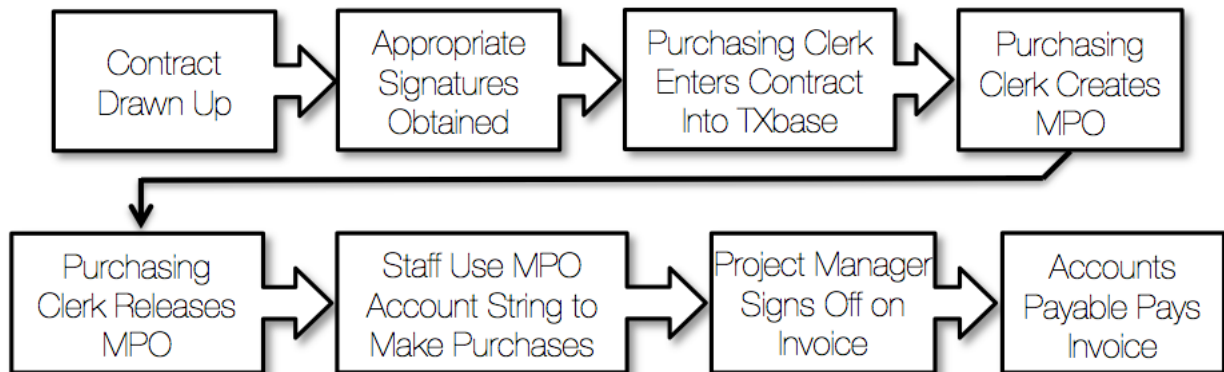
The purchasing clerk releases most Annual Agreement MPOs at the beginning of the year. After an MPO is released, any user that knows the appropriate account string can make purchases with it. Currently the control is the signing of invoices. When an annual agreement is input into TXbase either via the requisition process, or manually by the

purchasing clerk, appropriate staff to approve purchases are listed in the comments section. The staff listed should have signature authority, but are listed to establish who the appropriate approvers for pulls from the MPO are.

A sample, with a Confidence Level of 99% and a sampling error of 5%, of invoices was taken and found 21% of Annuals, which is equivalent to \$28,735,472, are approved by someone who either lacks signature authority, or is otherwise not a designated appropriate invoice signer. Specifically, three invoices (9%) were signed by a user who was neither designated on the MPO nor had signature authority, two invoices (6%) were signed by a user who had signature authority but was an inappropriate approver according to MPO lists, one invoice (3%) was signed by a user who was listed as an appropriate approver on the MPO, but lacked signature authority, and one invoice (3%) lacked a signature.

It is up to department managers, who are also usually the approvers, to ensure that the approvers are appropriate to the purchase, that they are a different user than the initiator, and that they have sufficient signature authority. Looking at the invoices is the only method of tracking these approvals, and the managers and Accounts Payable personnel are the only staff persons that review these. Accounts Payable does not check these invoices to ensure the signatures are from appropriate approvers, as that is outside of the scope of their work. Accounts Payable staff works to ensure the invoices are signed by staff that received the goods or services.

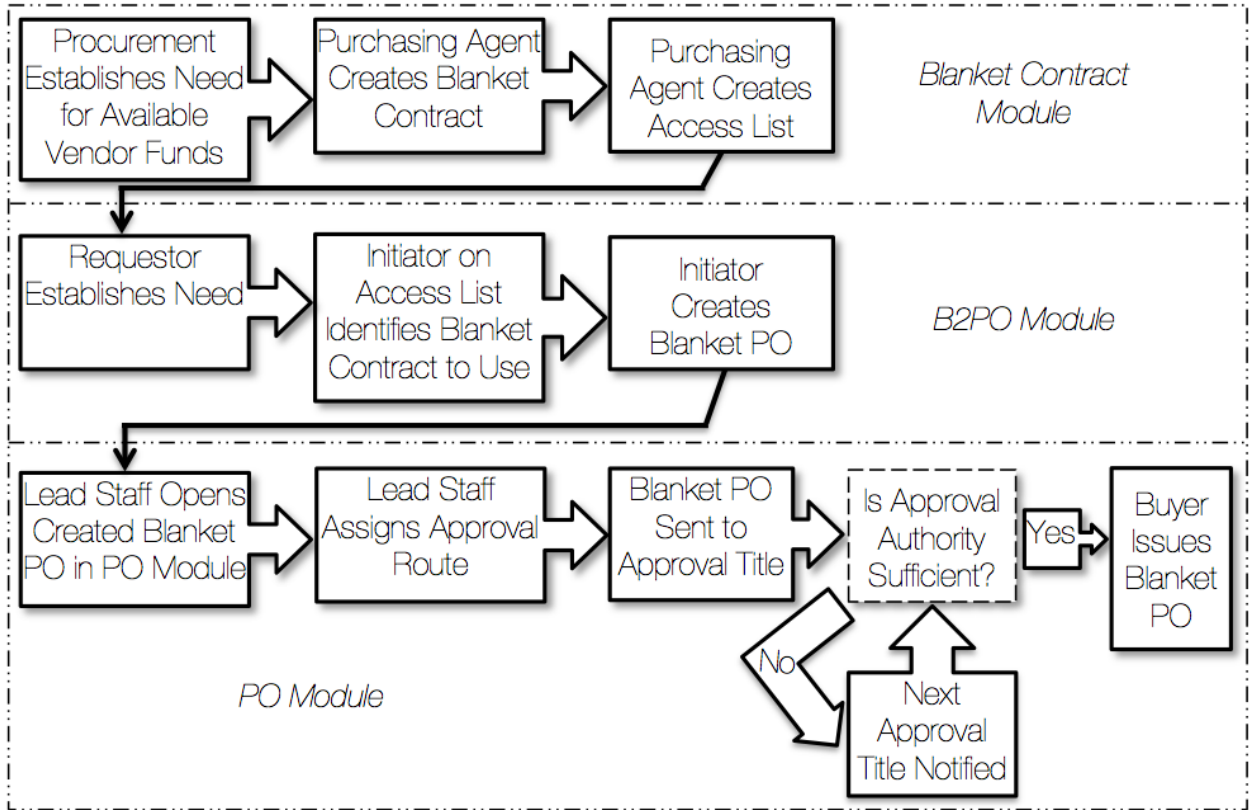
TXbase Master Purchase Order - Contract Process



According to procedures for capital contracts “the contract manager may issue work orders for approved work against the master contract without an additional competitive process.” The current issue is a lack of documentation of who the project manager was at a specific point in time. The project manager may change many times because capital projects go through many phases. Current project managers are listed on the Metro Transit Finance website. However, 29% of Contract pulls which is the equivalent of \$191,840,574, lacked documentation showing that the purchase approver was appropriate. From conversations with Finance staff, it is suspected that all but one of these purchases were approved by an approver that had authority. However, documentation is not available to support this assumption. The one invoice that could not be verified with Finance had an illegible signature that could not be identified by Audit or

Finance staff. This poses considerable risk as the signature is the only form of approval for purchases using MPOs.

WAM Blanket Contract and Purchase Order Process



In WAM, Blanket Contracts (Blanket) are setup by procurement staff.² Each Blanket is assigned an access list that dictates which users can make pulls from the Blanket and at what amount. Users who are on the access list for at least \$1.00 can then create a Blanket PO in the Blanket to Purchase Order (B2PO) module. Currently the Council does not use the Blanket Contract function in WAM as it was intended. As a result, after a Blanket PO is entered into WAM, a lead staff member will open it up in the PO module and assign an Approval Route to it. The Blanket PO is then routed for approval, and after approval must be issued by a buyer. Often the goods or services have already been delivered by the time the Blanket PO is issued, as once it is created status, a PO number is available to give to the vendor. The Blanket PO must be issued before the goods or services can be received and paid for.

The problem with access lists is that they are only enforced within the B2PO module, and the current practice involves opening the Blanket PO in the PO module to allow the purchase to be approved via an Approval Route. According to testing, with a Confidence Level of 99% and a sampling error of 5%, 47% of pulls from Blankets are not approved

² While previously WAM system administrators were responsible for maintaining these lists, it is now the responsibility of CPU to setup and update Blanket purchase order access lists.

appropriately according to access lists. This includes 11% that were not approved before they were released, 11% in which the approver was not on the access list, and 24% in which the approver was on the access list for an insufficient amount to approve the purchase. This does not mean that the user does not have sufficient signature authority to approve the purchase just that the user was not a designated approver for that Blanket at the amount they approved.

Purchase amount limits are enforced but pose risk.

In both systems, some Blanket and Master Contracts are setup to be micro purchase-only. In TXbase, purchases made against most Annual Agreements may not exceed the micro purchase limit, \$2,500. There are some Annual Agreements that are bid out, which is designated on the MPO in TXbase. The Annual Agreements that have been bid out can have purchases made against them exceeding the micro purchase limit. No instances of purchases exceeding \$2,500 were found for Annual Agreements that were not bid out. However, the only control in place to address this risk is the manager's invoice signature.

In WAM micro purchase-only Blankets are designated as such in the comment field of a specific Blanket. No instances of pulls exceeding micro purchase level were found in testing, but instances of this happening were documented for auditors by procurement staff. It is not possible to run a report to find possible offenders because micro purchase only Blankets are only designated as such via the notes section of the Blanket. 25% of micro purchase only Blankets sampled had at least one user listed on the access list with a purchasing limit exceeding \$2,500 for that Blanket.

Competitive Procedures were not followed in the establishment of MPOs in TXbase

In TXbase, Annual Agreement MPOs are setup on a yearly basis by the procurement clerk. Administrative staff submit the requisitions for each MPO and the clerk releases these so that they are available for the next year. According to Council Procurement Procedures, **“Micro purchases of less than \$2,500 should be distributed equitably among qualified vendors.”** Department administrative staff reported submitting the same vendors for Annual Agreements each year, thus business is not being “distributed equitably.” The Manager of Purchasing and Contracts reviewed and approved all MPOs that total an amount that exceeds \$2,500 to ensure that procurement procedures are followed. Procedures were changed during the course of the audit to have the Manager of Purchasing and Contracts ensure that annual agreements that total less than \$2,500 are “distributed equitably” among vendors.

Approval lists are not maintained.

Currently the approval lists used in TXbase and WAM are not enforced, and rarely referenced in the approval of pulls from Blankets. If these lists are to be used as intended they should be regularly updated similar to approval lists for requisitions in both systems.

In TXbase the only purchases that don't get approved via a Cost Center are pulls from MPOs. If a pull is made from an MPO that was setup via an Annual Agreement, the invoice from that purchase should be signed and approved by one of the users listed in

the notes of the original MPO. These lists are submitted with the requisition for the MPO, and are not updated throughout the year as staff changes are made. Administrative staff sometimes fail to make yearly updates to these lists when they submit new requisitions for establishing an Annual Agreement MPO. Thus, the lists do not reflect current staff positions and authorities.

For pulls from Blankets in WAM, access lists identify who can make a purchase and what dollar amount they are limited to. Their dollar amount limitation may be lower than their signature authority depending on the contract setup with the vendor for the Blanket. With each revision to a Blanket, the access list can be updated, leaving the older version of the access list intact. A test of 45 Blankets with a Confidence Level of 99% and a sampling error rate of 5% found that 67 out of 200 (31%) users listed on current access lists are no longer employed by the Council. Among the 77 users listed that can approve pulls exceeding a dollar limit of \$1.00, 4 users (5%) are no longer employed but never had sufficient signature authority for their access list dollar limit when they were, and 2 current users (3%) are listed on at least one access list at a level exceeding their signature authority.

Purchase Type Classifications

When a purchase order is entered into TXbase or WAM it is assigned a type. In TXbase, purchases are Material (M), Vendor (V), or Inventory (I) types. In WAM purchases are Blanket (B), Capital (C), Rental (L), Purchase (P), Reclaim (R), Stores Replenishment (S), Services (V), or Work Orders (W). These designations are used to determine how an item is received or not received in TXBase.

For both Purchase Orders and Master Purchase Orders in TXbase, a substantial amount of purchases are coded as V-type purchases when they could be received by Materials Management.

Requisitions in TXbase of M and V types were tested to determine that accuracy of the purchase type classification. Out of a random sample of 125 requisitions, with a Confidence Level of 99% and a sampling error rate of 5%, between January 2009 and July 2011, 37 out of the 75 V-type requisitions were found to have been purchases that should have been coded as material (M). Most MPOs are coded as V-type purchases. Out of a random sample of 51 pulls, with a Confidence Level of 99% and a sampling error rate of 5%, between January 2009 and July 2011, 23 (45%) of pulls were found to be purchases of goods that could be received by Materials Management coded as V-types. The miscoding of M-type purchases as V-type purchases bypasses the Council's receiving procedures.

All M-type purchases are received by Materials Management receiving clerks and an electronic record is entered into TXbase documenting receipt of goods, thus creating the three-way match of documentation required by Procurement policies. Procurement Policy 11.1 states:

The documentation of receiving goods or services acquired using purchase orders is one part of the three-way match required to issue payment for the goods or services purchased by the Council. The Purchase Order authorizing the purchase of the goods or services, documentation to confirm receipt of the goods or services, and a vendor invoice for the goods or services must match to allow payment without further approvals.

V-type purchases are signed off on the invoice by the requesting department. An electronic record of receipt of the goods or services is not entered into TXbase. The signed packing slip or invoice is used as documentation by Accounts Payable that the goods or services were received. Interviews with Materials Management managers indicate that miscoding of M-type purchases may be an effort by the requesting department to have delivery made directly to the department's location, rather than first being received at the Overhaul Base. By coding these material purchases as Vs, risk is posed to the Council that the goods received may not be able to be tracked to their final use and destination.

A test of 151 non-blanket contract requisitions and purchase orders created in WAM between January 2009 and July 2011 did not discover errors in the classification of purchase types.

Buyer Authority

Buyers in both TXbase and WAM have the right to issue and change purchase orders. Requisitions for goods and services in both systems result in the issuance of a purchase order. In WAM, Blanket POs that allocate an expenditure against a Blanket that has already been established by a purchasing agent must also be issued by a buyer. In TXbase, pulls from Master Contracts do not have to be issued, but requisitions are used for establishing most Master Contracts by allowing a buyer to issue the MPO from the requisition. Only someone with buyer authority has the ability to take these actions.

Within Contracts and Procurement, buyer's rights are given to purchasing agents and purchasing clerks.

In both systems purchasing agents and purchasing managers have buyer authority. Organizationally the five purchasing agents at the Overhaul Base Office, who are responsible for procurements on behalf of Metro Transit and some of Metropolitan Transportation Services' capital purchases, have buyer rights only within TXbase. The four purchasing agents at the Robert Street Office, who are responsible for procurements on behalf of Environmental Services, Regional Administration, Community Development, and Metropolitan Transportation Services have buyer rights only within WAM.

The senior administrative assistant in the Contracts and Procurement Unit has buyer authority within WAM that is necessary to issue purchase orders for contracts that are approved through action of the Metropolitan Council. The senior administrative assistant's rights include creating POs, creating Blanket POs, merging (approving) PO changes, decreasing and increasing the dollar value of a PO. The senior administrative

assistant does not have Council authorized signature authority. The approval limit is intended to allow her to input and release funds that have already been authorized via a contract. The CPU Director reviews the senior administrative assistant's work. One control in place is that the senior administrative assistant may not, unlike purchasing agents, change the vendor code in an existing purchase order. Another control is that the CPU Director, rather than the administrative assistant, will approve requisitions for the purchase of certain hazardous material by Environmental Services.

Two purchasing clerks at the Overhaul Base Office have buyer authority in TXbase. Those rights are necessary for the purchasing clerks to create MPOs for Annual Agreements and Contracts as well as POs for after-the-fact procurements. The purchasing clerks create an MPO upon receiving an approved requisition through TXbase from the originating department, or contracts from Finance. The Purchasing and Contracted Services Manager will review any MPOs exceeding \$2,500 in value before a purchasing clerk releases them. The purchasing clerks do not make purchases nor contact vendors.

The principal contract administrators at the Overhaul Base Office had buyer authority within TXbase, but those rights were removed over the course of the audit. The principal contract administrators at the Robert Street Office do not have buyer rights in either system. The Contracts and Procurement Director stated that there is a conflict of interest for the contract administrators to also have the right to issue POs for the contracts they are responsible for administering.

Buyer's rights are given to Environmental Services Materials Management staff persons.

According to Council Procedures 3-3c, "Managers of Materials/Stores in Metro Transit and Metropolitan Council Environmental Services are delegated authority to replenish standard stock items as required. Standard stock items are defined as inventory items having a uniform division identifier (such as a part number, identification number, or stock-keeping unit designator), which are managed under the central materials management system".

In WAM, Environmental Services' Asset and Materials Management Assistant Business Unit Manager (Warehouse Manager) and the Asset and Materials Management Staff Specialist have buyer authority. In TXbase, the equivalent job titles, Metro Transit's Material Manager and Supervisor Planners, do not have buyer authority. The difference is based on the differences between how the two systems and two operating divisions manage blanket contracts.

At Metro Transit, Materials Management does not use blanket contracts regularly because stock is not purchased via blanket contracts. At Environmental Services, the Warehouse regularly orders non-stock inventory and some stock items via blanket contracts. Furthermore, TXbase does not require a pull from a blanket contract to be issued. MPOs are released when they are setup and there is no reason for someone with buyer's rights to be involved in purchases using MPOs. In contrast, pulls from Blanket

POs in WAM must be approved, and then issued by a user with buyer authority due to the application's work flow process.

The Staff Specialist for the Environmental Services Warehouse has buyer rights for the purpose of backup to the Warehouse Manager. Throughout the course of the audit the Staff Specialist's buyer rights were found to be active.

There is a business need for the Warehouse Manager to issue Purchase Order releases against Blankets.

The Warehouse Manager may only issue a purchase order against a Blanket contract. Purchasing agents setup the Blanket once the procurement process is completed and the contract has been awarded. The Warehouse Manager issues releases against Blankets within WAM for stock items for the Metro Plant Warehouse and stockrooms, as well as pulls from Blankets by Warehouse staff to meet Warehouse business needs. As is the case for all Blanket and Master Purchase Orders at the Council, a purchasing agent does not review Blanket Purchase Orders after their release from the Blanket. Although the Warehouse Manager has the ability within WAM to alone initiate, approve, and release a Blanket PO, business processes have been modified to require another staff member to assume at least one of those roles. The Maintenance and Security Business Unit Manager reviews the Warehouse Manager's work and approves all POs initiated by the Warehouse Manager. This control was implemented in April, 2011.

The Staff Specialist for the Warehouse will issue releases in the absence of the Warehouse Manager. A review of releases showed that Staff Specialist issued 216 (1.2%) of all the Blanket PO releases between January, 2009 and July, 2011. That compares to 11,692 (63.1%) Blanket PO releases issued by the Warehouse Manager during that time period.

Although allowed by Environmental Services' business practices, the Warehouse Manager has rarely issued purchase orders on holidays.

The Warehouse Manager and the Warehouse Staff Specialists are the only staff persons outside of CPU who have the ability to issue purchase orders. Urgent business needs at Environmental Services have required the Warehouse Manager the ability to issue a purchase order if purchasing agents are not available and there is no Blanket.

When Contracts and Procurement staff are not working on a federal holiday, and Warehouse staff are working (Martin Luther King, Jr. Birthday, Presidents' Day, Veterans' Day, Thanksgiving Friday), the Warehouse Manager may issue a Purchase Order if there is an urgent process requirement and the item is not available on a Blanket. Approved requisitions require that a purchasing agent in the Contracts and Procurement Unit issue a purchase order. Interviews with Contracts and Procurement raised questions about the criteria for determining and urgent business need and whether those needs could be met using other means, such as a P-card or a confirming purchase order. The Warehouse Manager will inform Contracts and Procurement staff the next business day if a purchase order is issued on a holiday. The Warehouse Manager issued 10 purchase

orders, but none since November 11, 2010. The Staff Specialist had not issued any purchase orders from January 1, 2009 to July 26, 2011.

Audit Logs

Audit logs and system logs within the procurement systems provide historical information of procurement approvals, changes to purchase orders, and changes to users' system rights, among other actions. These audit logs are important controls for verifying compliance with Council procedures.

TXbase does not record purchase order changes.

TXbase does not record changes to purchase orders. TXbase only displays the most recent revision to a purchase order. Purchasing agents will on occasion need to change information in the purchase order. Any change to the Purchase Order record eliminates the previous version. Purchasing agents can record in the Line Comment fields or Header Comment tabs what the revisions are. TXbase does not retain an audit log of all changes to the purchase order. Reliance is upon the completeness of the purchasing agent's comments.

WAM did not record approval limit changes until December 16, 2011.

WAM had not maintained a record of when approval limits are changed for users. Approval limits are assigned to Approval Titles. A user may have several Approval Titles. A manager, for example, may have two Approval Titles: one Approval Title that is always active to approve requisitions, work orders, and purchase orders for various dollar limits; and a second Approval Title that is only active when delegated temporary signature authorization in the absence of the manager's superior. Each type of document for an Approval Title may have a different approval limit, such as \$5,000 for Purchase Orders and Requisitions, and \$100,000 for Work Orders. Only the system administrators may edit approval limits for the Approval Titles. An audit log of when and how much approval limits are changed was implemented during the course of the audit.

System Administration

TXbase has one System Administrator along with a Database Administrator and two Application Developers with administrative privileges. A Principal Application Developer in the Transit Systems Unit within Information Services (IS) has responsibility for programming of TXbase. TXbase was acquired in 1997 and the Principal Application Developer was hired at the same time to support the system. The Business Systems Manager in Metro Transit's Maintenance and Material Management Department is responsible for managing user accounts and user responsibilities within TXbase. Together the Principal Application Developer and the Business Systems Manager have responsibility for customizing TXbase to meet the business needs of the users.

WAM is overseen by a Business Systems Manager and assisted by a Business Systems Analyst. Their responsibilities include, managing users' accounts, responsibilities, and authorities; implementing functional changes within the application; and developing reports for users. A Senior Application Developer in the Environmental Systems Unit within Information Services has responsibility for support of WAM.

The application developers for both TXbase and WAM are actively training other application developers to serve as backup support. WAM's Business Systems Analyst receives backup support from the Senior Application Developer.

Essential staff lack sufficient backup staff support.

The Business Systems Manager for TXbase does not have an identifiable staff backup. The Business Systems Manager is the sole point of contact for system users. The Business Systems Manager knowledge of the users' business needs and knowledge of the capabilities of TXbase is not replicated among other staff persons. Although the Principal Application Developer is able to assist with the assigning of user responsibilities, the Principal Application Developer is not well versed in the business needs of users. Additionally, the Principal Application Developer at the time of the audit was the sole developer supporting TXbase's purchasing module. The critical roles that the Business Systems Manager and Principal Application Developer perform could be lost without sufficient staff backup.

CONCLUSIONS

1. *Within the two applications the approval processes operate as programmed although there are deficiencies and risks which require additional controls.*
2. *Communication of changes to permissions as well as procurement procedures needs improvement. The involvement of departments across the Council complicates an already complicated process. Improved communication and trust between departments will go a long way in addressing the deficiencies.*

RECOMMENDATIONS

Program Evaluation and Audit recommendations are categorized according to the level of risk they pose for the Council. The categories are:

- **Essential** – Steps must be taken to avoid the emergence of critical risks to the Council or to add great value to the Council and its programs. Essential recommendations are tracked through the Audit Database and status is reported twice annually to the Council’s Audit Committee.
- **Significant** – Adds value to programs or initiatives of the Council, but is not necessary to avoid major control risks or other critical risk exposures. Significant recommendations are also tracked with status reports to the Council’s Audit Committee.
- **Considerations** – Recommendation would be beneficial, but may be subject to being set aside in favor of higher priority activities for the Council, or may require collaboration with another program area or division. Considerations are not tracked or reported. Their implementation is solely at the hands of management.
- **Verbal Recommendation** – An issue was found that bears mentioning, but is not sufficient to constitute a control risk or other repercussions to warrant inclusion in the written report. Verbal recommendations are documented in the file, but are not tracked or reported regularly.

1. (Essential) Processes should be revised to better ensure that TXbase and WAM approval privileges comply with existing signature authority with particular attention to terminated employees and duty changes.

Council procedures require that signature authorization must change with personnel changes. Council policy further requires that the signature authorizations be reviewed annually by department managers. Any changes should be communicated by the operating divisions to Contracts and Procurement.

While procurement system administrators reference the online listing of signature authority and receive written confirmation from the operating divisions of requests to grant approval rights to specific employees, the process to remove those rights and authorities are not uniformly communicated to the system administrators. Termination of employment and change of job duties must be communicated consistently to system administrators. Consideration for creating authorization forms for use by operating divisions directing termination of TXbase and WAM approval rights should be made. Former employees or employees who no longer have approval rights should be removed from the current Approval Routes, access lists, Cost Centers, and annual agreement comments.

Management Response: *Director of Council Contracts and Procurement has already discussed this with the HR department. The divisions of RA and ES utilize an email advisory to update position holding, like hires, promotions, terminations for any reason, etc. and Procurement has already been added to that email list. The HR department has facilitated the notification of all Council HR changes (minus bus drivers) to be transmitted to Admin Staff in Procurement. Procurement will notify the systems administrators of changes regarding the delegation of signature authority (additions, changes, deletions, and temporary delegations).*

Staff Responsible: *Micky Gutzmann, Director Council Contracts and Procurement*

Timetable: *Completed.*

2. (Essential) Departments processing purchases through Master Purchase Orders in TXbase must strengthen review of invoices for appropriate signers.

To ensure that purchases are appropriately approved, departments must ensure that invoices are signed by authorized signers. The signatures must be legibly written to identify the signer. Periodic sampling of invoices for appropriate signatures should be implemented. Finance currently anticipates implementing electronic invoices in a year. This will allow MPO invoice approvers to be reviewed via systematic reporting.

Management Response: *Communicate with staff that initials are to be legible. Management will sample invoices periodically to ensure that the appropriate signatures are on the invoice and that they are legible.*

Staff Responsible: *Ed Petrie, Steve True*

Timetable: *Within one year electronic invoices will allow a more expedient way to do this review.*

3. (Essential) Blanket Contract management should be revised to take into account the limitations of the B2PO module.

Currently the Council does not use the Blanket Contract function in WAM as it was intended. As a result, access lists are setup for each Blanket in the B2PO module, but because requisitions are re-opened in the PO module, limitations of these access lists are not enforced. This process should be re-evaluated for adequacy of controls and business needs.

Management Response: *Staff (Jim Nally, Jody Jacoby and Micky Gutzmann) met to discuss possibilities given how the module works, the built-in controls and the ability to track information. The group agreed that the Blanket contract to PO module functionality as it was designed, where the user creates and issues their own PO is exactly like using the P-Card approval process, except with better control. Basically, we would limit user access to the Blanket contract module only and as a result utilize all the controls inherent in the program. Exceptions would be for the Accounts Payable staff*

that has responsibility for creating P.O.s for subgrants. This approach will be supported by a training program (similar to the P-Card training) that people would need to attend in order to be included on any access list for Blanket Contracts. Training would cover procurement policies, procedures, practices and user's obligations.

Staff Responsible: *Jim Nally, Micky Gutzmann, Leisa Thompson*

Timetable: *Training to start by end of 3rd quarter 2012 with full switch over January 1, 2013.*

4. (Essential) The Staff Specialist for the Metro Plant Warehouse should have limited buyer's rights.

Buyer's rights should be limited to those with a business need. The Staff Specialist infrequently issues Blanket Purchase Order releases in the absence of the Warehouse Manager and has not issued other purchase orders during the time period studied. There is a business need for the Staff Specialist to be able to make stock reorders in the absence of the Warehouse Manager. Full buyer rights are not necessary for the Staff Specialist.

Management Response: *The permissions for the Staff Specialist have been changed to allow for Stores Reorders only.*

Staff Responsible: *Jim Nally, Leisa Thompson, Micky Gutzmann, Cathy Calder*

Timetable: *Completed.*

5. (Essential) There is a need to establish stronger coordination, communication, and accountability between all parties with buyer's rights and Contracts and Procurement.

Buyer rights confer important responsibilities to staff. A formal relationship between buyers and Contracts and Procurement offer better coordination of procurement functions. All staff persons with buyer's rights should be trained in relevant current procurement procedures and be aware of best practices. Awareness by buyers of current procurement procedures will help to ensure the Council's compliance with all procurement laws and policies.

Management Response: *Procurement and Warehouse staff will meet on a regular basis to go over regulations and rules. Procurement will also continue to run reports to self audit and if there are any findings will identify and share them with staff members as appropriate.*

Staff Responsible: *Jim Nally, Leisa Thompson, Micky Gutzmann*

Timetable: *We will meet before the end of the 2nd quarter and reports are ongoing.*

6. (Essential) All essential staff should have trained backup.

The Business Systems Manager for TXbase and systems application developers for TXbase and WAM currently lack backup. Backup staff or other means of backup should be identified and trained now, and in the future as staffing changes occur.

Management Response: *The TXbase Business System Manager is compiling documentation regarding the execution of his job duties. This documentation is designed to guide another individual stepping into his position. In the next month an intern is starting in the Metro Transit applications area of Information Services. The job duties of the intern will be to write technical documentation of current systems which will be designed to guide another developer to step into this position. The first system the intern will document is TXbase. As these projects are implemented we will try to balance existing resources around our current staff and assign a backup person.*

For WAM, a Senior Applications Developer was hired to be backup for the support of WAM. Currently there is “three deep” coverage in WAM with the Business System Analyst, and 2 Senior Application Developers.

Staff Responsible: *Bill Gustafson (TXbase); Ernie Zahradka (TXbase); Sue Hauge (WAM)*

Timetable: *The TXbase Business Systems Manager documentation of job duties began 2 months ago and is ongoing. It is planned to be substantially complete within one year and then maintained as changes are made or necessitated. For the backup of the application developer in TXbase, an intern will be hired in May of this year. Technical documentation will be written within the next year. The documentation will be kept up to date as changes are made to the system. During the 2012 year allocation of resources will be analyzed to determine if there is adequate technical support to meet the needs of TXbase. The WAM process began in August 2011 and is ongoing. A training plan is being developed for any remaining systems not currently covered. It is anticipated to have the training completed by the end of 2012. The training will be ongoing as new functionality is added to WAM and upgrades are done throughout the years.*

7. (Significant) A method needs to be identified to track users approving their own requisitions in WAM should be generated.

WAM lacks the capacity to prevent users from approving their own requisitions. To control for this risk an after-the-fact method should be identified to notify appropriate staff when a user disregards this Council policy.

Management Response: *ES staff will develop a report that will notify Procurement Management when a user is the last approver of a requisition that the user also initiated. (Requisitions that have received additional, subsequent approvals will not be reported.)*

Staff Responsible: *Jim Nally*

Timetable: *June 30, 2012*

8. (Significant) Complete documentation of appropriate approvers for capital contracts in TXbase should be maintained.

Auditing invoices is solely reliant on Metro Transit Finance online records because capital contract approvers often do not have signature authority for operating purchases. These records are currently accurate, but do not show past approvers. Thus, it is not possible to identify whether invoice signers were appropriate at the time of purchase.

Management Response: *Research is being conducted to see what the best methodology to address this issue. It will be presented to senior management for implementation.*

Staff Responsible: *Ed Petrie and Micky Gutzmann*

Timetable: *To be completed and implemented by the end of the year.*

9. (Significant) The recently adopted practice of reviewing all MPO requisitions by a purchasing agent should be continued.

A purchasing clerk, until recently, released MPO requisitions of less than \$2,500 without input from a purchasing agent. This meant that there were no assurances that work is being spread among multiple vendors, as required by Council policy and FTA regulations. A purchasing agent should continue to be involved in setting up all MPOs to ensure that the same vendor is not used every year.

Management Response: *Staff has been trained and will be continually reminded of this fact.*

Staff Responsible: *Micky Gutzmann*

Timetable: *Immediately*

10. (Significant) Procurement procedures for TXbase should properly distinguish between “M” and “V” type procurements, and requestors should be trained on the correct classification types.

V-type purchases made in TXbase that can be received risk avoiding the required 3-way match described in Council procedures. By coding these material purchases as Vs, risk is posed to the Council that the goods received may not be able to be tracked to their final use and destination.

Management Response: *The different types of procurements V versus M etc, should be utilized appropriately for many reasons. Management will continue to communicate this message to staff and will self audit to ensure compliance. Procurement will also educate customers to help them understand if they are impacted by the enforcement of this.*

Staff Responsible: *Micky Gutzmann*

Timetable: *Training was immediate.*

11. (Significant) A method for recording changes to purchase orders should be established in TXbase.

Changes to purchase orders are not recorded in TXbase, and changing the account string results in the account string being changed for all past pulls from a specific PO. This poses risk, as changes can be made that cannot be tracked later.

Management Response: *Although the changes to the accounts used exist in the payment system, PeopleSoft, the desire to maintain a history of other changes as well resulted in this being on our TXbase to-do list for the last year.*

Staff Responsible: *Bill Gustafson*

Timetable: *Priority has been bumped up and we expect to have this in place by end of May.*

12. (Consideration) Procurement procedures should prohibit approval of requisitions by peers.

Metro Transit procedures should explicitly prohibit peers outside of the requesting department from approving purchase requisitions. There may be instances when it is necessary for a peer to approve a purchase requisition and the procedures may include conditions for these exceptions. Staff should be trained on these procedures to ensure compliance.

Management Response: *Procurement Staff will add language to their procedures that clearly state that approval of requisitions by peers is prohibited.*

Staff Responsible: *Micky Gutzmann, Director of Council Contracts and Procurement*

Timetable: *Procedures are being rewritten currently and this language will be added.*

13. (Consideration) The feasibility of tracking changes to user approval authority in WAM should be evaluated.

The capability to track when user approval authorities have changed would allow Contracts and Procurement staff and management to verify compliance with Council authorized signature authority. It is recommended that Environmental Services, Information Services, and Contracts and Procurement staff evaluate the feasibility of tracking changes.

Management Response: *This has already been implemented.*

Staff Responsible: *Jim Nally*

Timetable: *Complete.*