



# WASHOE COUNTY

"Dedicated To Excellence in Public Service"

www.washoecounty.us

CM/ACM DME  
Finance EC  
DA N/A  
Risk Mgt. N/A  
HR N/A  
Other N/A

## STAFF REPORT

BOARD MEETING DATE: January 13, 2009

**DATE:** December 24, 2008  
**TO:** Board of County Commissioners  
**FROM:** Bill Mikawa, Manager Internal Audit *Bill Mikawa*  
(775) 328-3639, bmikawa@washoecounty.us

**THROUGH:** Katy Simon, County Manager

**SUBJECT:** Acknowledge Receipt of Washoe County SAP Purchasing Audit Report from the Internal Audit Division (All Commission Districts).

### SUMMARY

The SAP Purchasing module was one of the priority applications implemented with the new enterprise system. The objectives of this new module was to eliminate the manual processing of purchase requisitions, improve accountability, and incorporate internal controls to prevent misuse of governmental funds. The first of these objectives was met in that the manual processing of paper purchase requisitions has been totally eliminated. All purchase requisitions are entered online at the department level and transmitted electronically to the Purchasing Department for processing. The second objective to improve accountability has also been accomplished. An audit trail is established from the time a purchase requisition is initiated, to the time a purchase order is issued, and through the time the invoice for the product or service is received, approved, and paid. The objective of this audit was to determine if the third objective, incorporation of internal controls to prevent misuse of governmental funds was established.

The results of our review indicated:

- The initial set-up of the SAP Purchasing module workflow process was flawed. Departments were allowed to designate individuals on their staff as authorized approvers of purchase requisitions and the dollar amount of the purchase requisition they were designated to approve. Many departments designated several individuals with authority to approve all purchase requisitions >\$.01 with little or no oversight resulting in high risk of inappropriate expenditures. Other departments over-controlled workflow approvals and required several levels of approval on all purchase requisitions regardless of dollar value thereby creating inefficiencies.
- Individuals who were designated by their departments to approve purchase requisitions were allowed to assign substitutes to approve requisitions in their absence. The SAP Purchasing module, however, allows substitutes to be assigned for any time period including until 12/31/9999 or indefinitely. Many of these

AGENDA ITEM # 8N(3)

for any time period including until 12/31/9999 or indefinitely. Many of these substitutes assigned for indefinite periods were not authorized by the department in writing and at least one has subsequently retired and another was transferred to a different department. Since these substitutes had the same authorization level as the individual they were replacing, they also had their same approval level.

- Segregation of duties internal control was violated when those individuals who were assigned to enter purchase requisitions into the system were also authorized to approve them.
- Additional ways to circumvent SAP workflow controls were also reported but could not be substantiated. Some department heads, supervisors, and managers were delegating approval of purchase requisitions, journal entries, etc. to their staff by sharing their personal passwords thereby effectively overriding this control.
- The governance, risk and compliance (GRC) internal controls clean-up program is effectively addressing these control issues regarding unlimited approvals and over-controlling. In the departments where GRC has been implemented, at least three layers of approvers have been designated. Those at the first layer of approval have been authorized to approve low dollar, low risk purchase requisitions. As the dollar amount and risk increase, additional layers of approvers are now required. However, we recommend that GRC also address the indefinite substitute issue previously discussed.

County Priority supported by this item: Government Efficiency and Financial Stability

### **PREVIOUS ACTION**

No previous action has been taken on this Board item.

### **BACKGROUND**

Washoe County Code 15.530 requires all purchases of supplies, materials, equipment, and contractual services in excess of \$50,000 and all agreements for consultant services of \$25,000 or more be submitted to the Board of County Commissioners for award. In addition, the Purchasing and Contracts Administrator requires purchase requests of \$25,000 or more, not supported by competitive quotes, to be supported by a staff report signed by the department head.

Purchase requisitions up to \$24,999 were the most susceptible to malfeasance, although past history has indicated purchases over \$25,000 have passed scrutiny even though staff reports were submitted through proper channels for review and approval. Overall, however, those purchases under \$25,000 were most vulnerable to fraud since in many cases, only one level of authorization was required both internally and externally to the department.

The SAP Purchasing module was implemented with the intent that a sufficient level of internal controls would be established by the departments to insure adequate oversight of purchases. Some departments took this requirement seriously and designated individuals to approve at specific dollar levels and added layers of approvers as the dollar amount of

the purchase requisition increased thereby establishing sufficient internal controls while maintaining efficiency. Other departments were not so diligent and assigned staff with an unlimited approval level, i.e. >\$.01. On the other end of the pendulum, some departments added multiple layers of individual approvers for even the smallest purchase, i.e. 3 approvers required for \$10 purchase and/or required one individual to approve all requisitions regardless of the number of previous approvers assigned. This resulted in tight internal controls but was highly inefficient.

Recent changes in auditing standards required the County's external auditors to review and comment on the effectiveness of internal controls and their impact on our financial reports. As a result, the County implemented the SAP Governance, Risk, and Compliance (GRC) module to review and reinforce the internal controls of our enterprise system. In addition, WINnet began working with individual departments to review and clean up internal control problems in workflow.

### **FISCAL IMPACT**

This report has no fiscal impact. However, implementation of some recommendations may have fiscal impact.

### **RECOMMENDATION**

It is recommended that the Board of County Commissioners acknowledge receipt of this audit report of the SAP Purchasing module.

### **POSSIBLE MOTION**

Should the Board of County Commissioners acknowledge receipt of this audit report, a possible motion would be:

*Move to acknowledge receipt of the SAP Purchasing Audit report from the Internal Audit Division.*

bm

Attachment

# **WASHOE COUNTY SAP PURCHASING**

## **INTERNAL AUDIT REPORT**

December 24, 2008

## Executive Summary

### Best Practices

1. The SAP Purchasing module has improved the efficiency in the processing of purchase requisitions.
2. Better internal controls exist utilizing the approval process (workflow) in the SAP Purchasing module.
3. The purchasing cycle is faster and more efficient utilizing the SAP Purchasing module.
4. The governance, risk and compliance (GRC) internal controls clean-up program is effectively addressing segregation of duties, reducing risk levels, and increasing efficiencies where it has been implemented.

### Observations

1. There were 114 individuals in the County authorized to approve purchase requisitions up to \$24,999 without any other approvals inside or outside the department.
2. There were 63 individuals assigned as permanent substitutes who could approve purchase requisitions.
3. There were 74 individuals who could initiate and approve purchase requisitions.
4. Some departments over-controlled approval of purchase requisitions by requiring multiple levels of approvers regardless of the dollar amount of the purchase requisition.

## Observations & Recommendations

### 1. SAP Workflow

Workflow is a process utilized by SAP to automate the approval paths for various application processes including purchase requisitions. It is a key component of internal controls in segregating duties such as initiating and approving processes; in establishing levels of approval by the dollar value of transactions; and in providing an “audit trail” of who initiates and approves various transactions. Department heads have the prerogative on how the approval levels are established for various types of transactions in their department. Further internal controls are established by County policies that require approval by the Purchasing and Contracting Administrator for purchases over \$25,000 and by the Board of County Commissioners for purchases over \$50,000 (\$25,000 for consultant services).

- a. There were 114 individuals authorized to approve purchase requisitions up to \$24,999 without any other approvals inside or outside the department. This included those who could approve purchase requisitions >\$.01 (93 individuals), >\$100 (1 individual), >\$500.01 (5 individuals), >\$5000.01 (14 individuals), >\$10k (1 individual). Thirty permanent substitutes were included in this total (see item b below).
- b. The SAP purchasing module allows individuals to be designated as substitutes to perform functions in place of the assigned person in that person’s absence. The substitutes can be designated for specific time periods, however, 63 individuals were designated as substitutes until 12/31/9999 or indefinitely. In many cases, these were beyond those originally designated and approved by department heads. Three of these indefinite substitutes have retired or have transferred to other positions in the County. Several of the substitutes were assigned for vacant positions out of necessity of operations.
- c. There were 74 individuals who were authorized to both initiate and approve purchase requisitions. Thirty-four of these individuals had >\$.01 approval authority. This violated internal controls in that these individuals could initiate and approve their own purchase requisitions up to \$24,999 without any oversight.
- d. Some departments over-controlled approval of purchase requisitions by requiring every requisition, regardless of dollar amount, to be approved by multiple approvers. In one department, one individual had been assigned to be the final approver on all requisitions. This resulted in delays in approval of requisitions in some cases and caused unnecessary work when the purchase amount was small. We tested 74 purchase requisitions for number of approvals and timelines in one department that was extremely over-controlled. There were 227 line items on the 74 requisitions that required 760 approvals (each line item on a requisition requires approval in SAP). This averaged out

to 10.2 approvals per requisition or 3.3 approvals per line item. It also took an average of 6.7 days to approve each requisition from the day it was initiated till it received final approval (none of the requisitions tested included a requirement for Technology Services approval).

These averages could be misleading, however, since not all requisitions required the same number of approvals. Release strategies determined by the department for various types of transactions dictated whether a requisition required 2 approvals to 5 approvals per line item. For instance, one requisition for office supplies totaling \$17,400 had 29 line items (of various release strategies) that required 90 approvals (12 approvers) which took 5 days. In contrast, another requisition for \$27.76 had 2 line items requiring 6 approvals (3 approvers) that took 15 days.

- e. The Sheriff's Office was one of the first departments addressed under the governance, risk and compliance (GRC) internal controls clean-up program. Prior to GRC restructuring one individual could approve purchase requisitions >\$.01 in 4 separate release strategies without any other approvals within the department. In addition, this individual was required to approve all purchase requisitions regardless of release strategy or dollar amount. There were also several release strategies that required more than three levels of approvers under the old structure.

After GRC restructuring, the dollar amount of the risk levels were greatly diminished while increasing efficiency in the approval process. This was accomplished by assigning 9 individuals with single level authority to approve purchase requisitions in the \$.01-2,500 range. As the requisitions increased in value, the number of approvers also increased, i.e. at least two approvers were required for requisitions in the \$2,500-10k range. Higher level supervisory staff members were given single level authority to approve requisitions in the \$.01-10k range and at least two approvers were required for requisitions >\$10k. The Undersheriff retained single level authorization to approve requisitions >\$.01 in three release strategies.

*Recommendation: The GRC restructuring program is effectively impacting segregation of duties, reducing risk levels, and increasing efficiencies where it has been implemented, therefore, it should be expedited as much as possible to address those departments still at risk. The practice of assigning permanent substitutes should also be addressed in this process.*

bm