U T A

INTERNAL AUDIT REPORT

Procurement Management Internal Audit

R-17-11

October 9, 2017

Executive Summary

Introduction
Internal Audit (IA) has been directed by the Board to perform an internal audit on the Procurement Management to determine if controls are designed adequately and operating effectively to ensure compliance with Utah Transit Authority (UTA) policy and goals. The initial stage of the audit was concluded on October 31, 2016 and the audit report was finalized in September 2017.

Objectives and Scope
The primary objective of the audit was to assess whether adequate controls are in place and have been operating effectively for the following areas:

- Bidding process
- Contract management
- Procurement process

The period of the preliminary audit work was from November 1, 2015, through May 31, 2016 with completion of the audit work focusing on the period of March 31, 2017 through July 31, 2017.

Audit Conclusion

Audit Report Rating*	
The audit revealed that significant progress had been made in addressing initial audit findings, including an expansion of user access review and updates to standard operating procedures (SOPs) to clarify acceptable practices. Procurement also worked to enhance the system of monitoring and review to include monitoring of vendor performance, monitoring of purchase requisitions and purchase orders, and an independent review for inclusion of critical elements in the procurement process. Additional opportunities exist to further update SOPs to both reflect current processes and clarify best practices for purchase requisitions including approvals where purchase orders exceed requisition amounts by certain thresholds, requisition requirements for blanket purchase orders, and negotiated price discounts. Management should also consider the creation of a corporate policy for Procurement to guide employees in complying with UTA's procurement standards and reserve the SOPs for processes. While this report details the results of the audit based on limited sample testing, the responsibility for the maintenance of an effective system of internal control and the prevention and detection of irregularities and fraud rests with management.	

*Rating is defined in Appendix 2

Internal Audit would like to thank the management and staff for their co-operation and assistance during the audit.

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1. Access to procurement data

Finding R-16-7-1	High
- From an ERP access report generated by the Information Technology (IT) team, users have been identified that have inappropriate access to Procurement data (e.g. employees from Projects, Planning and Light Rail). These users have access to create, amend and delete purchase orders (PO), which should be limited to buyers in the Procurement department. - The quarterly access report distributed to the Materials Supervisor (Super User for Procurement) is limited to Supply Chain employees, increasing the risk that inappropriate access by users will not be identified by the Super User.	

Recommendation	
- The Procurement Super User should provide IT with a list of the critical access roles, which should form the basis for IT to redirect ERP access requests for these roles to the Procurement Super User prior to implementing the request. - The quarterly ERP access report to the Procurement Super User should incorporate all users that have access to Procurement data as opposed to only Procurement employees.	

Management Agreement	Owner	Target Completion Date
Yes	Application Support Team Leader	October 18, 2016

In reviewing the finding, we (IT) find it to be valid, and have initiated the following steps aimed at mitigating this risk in the future:

- The ERP Developers have been tasked with providing "Super Users" a list of all roles in each area, and having the users identify which fall in the "Critical" category. (Due September 30, 2016).
- Based on the provided list, IT will then provide the Super Users each a list of employees in these critical roles, regardless of department. Super Users must then identify any changes needed. (Due October 14, 2016).
- IT will make the recommended changes by October 18, 2016.

Final Status	Implemented
Employees with access to Procurement functions in ERP outside of the department have been included in a subsequent quarterly access review performed by the Procurement Super User.	

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A

N/A

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2. Super User Access

Finding R-16-7-2	High
A buyer in the Procurement department has Super User access due to his former responsibilities but based on his current role, this access is no longer appropriate.	

Recommendation	
Considering the buyer's role and responsibilities, his Super User access should be removed.	

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	January 13, 2017
This employee is a Purchasing Technology Specialist and therefore requires different ERP access than other buyers. The ability to provide specific system access is an issue with a limited number of "user access" options within ERP. IT has been notified of the issue and we will work with IT to create "read-only" or other access options for areas that may require it for specific employees. By the target completion date the buyer's access will be reduced to only those items required for his "Technology Specialist" role.		

Final Status	Implemented
The Purchasing Technology Specialist's ERP role was reduced from a Super User role to a Buyer role with some limited additional abilities that do not conflict with his job responsibilities.	

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A		

3. Validity of orders placed

Finding R-16-7-3	High
The procurement process requires that a purchase requisition (PR) is created and approved and then a PO created in ERP that is sent to the appropriate vendor. Once the order is delivered by the vendor and the invoice is received by Accounts Payable (AP), the AP team matches the information on the PO, packing slip and invoice with each other to assess the validity and accuracy of the invoice before AP proceeds with processing and payment of the invoice. Considering that buyers can create a PO without an approved PR, the risk exists that unauthorized invoices may be processed and paid as AP does not match to the PR but rather to the PO.	

Recommendation	
Procurement management should review a monthly report on POs created without PRs to assess the validity of those POs created and sent to vendors.	

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Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	January 13,2017

By the target date we will create a report to identify POs with no associated PR. This report will be reviewed monthly by the Procurement Manager to the assess validity of the PO.

Final Status	**Implemented**

A monthly report of "POs Not Linked with a Requisition" is generated by the Senior Supply Chain Manager. POs without requisitions are highlighted and buyers are given until the end of the week to enter all requisitions, which will then be approved by the appropriate manager. Follow up notices are also sent to ensure that all items are addressed.

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A

N/A

4. Purchase requisition creation

Finding R-16-7-4	**High**

Based on a sample of transactions tested, it was noted that a PR is not created when Procurement identifies a need.

Recommendation

A PR should always be created to align with the SOP, and also it would support a more consistent process, resulting in less exceptions identified for management review.

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	January 13, 2017

Immediately and going forward the contract buyer will submit a requisition to be approved through the normal systematic process according to approval levels prior to creating a solicitation for blanket PO type items/services. This process will be clarified in the new revision SOP to be released by the target completion date.

Final Status	**Medium**

Supply Chain Management determined that the Blanket Purchase Orders (BPOs) in this finding were effectively negotiated discounts and not a commitment to purchase. Procurement stated that they would therefore be exempt from requiring a requisition. Over time, as these agreements expire and are updated they will be assigned a new order type in the ERP, called "Negotiated Price Discount" (NPD).

IA reviewed SOP No. 1.2.5, "Procurement Procedures for UTA Employees with the Job Title of "Buyer" as well as Corporate Standard Operating Procedures, No. 1.2.2, "Procurement Standard Operating Procedures" and did not find a reference to NPD within either SOPs.

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In practice, the agreement with a vendor that is regarded as an NPD would not require a PR. However, any resulting procurements through the Procurement Department should have an approved PR prior to the order placed. From a sample of 23 items, 9 invoices were identified that had no purchase requisition on file, which were identified as NPD transactions. This means that these 9 invoices were not in compliance with the SOP nor with the business practice.

For 1 (out of 23) items reviewed the invoice price was different than the agreed upon price, as per the contract.

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	April 15, 2018

The 9 purchases cited are Micro purchases (currently under $3,500) which do not require a Purchase Requisition. Micro purchases may be purchased by the end-user directly from the supplier and paid for via P-card or invoice. The responsibility to ensure pricing on the invoice matches the NPD price resides with the invoice approving manager. Per accounting policy the budget manager signature is required on the invoice as an approval to pay. NPD prices are posted on the intranet by purchasing for requisitioner/manager viewing.

By the target date Purchasing will add reference for Negotiated Price Discounts to the SOP where applicable.

5. Invoice approvals

Finding R-16-7-5	High

From a sample of 25 transactions tested, the following was noted:
- A vendor's invoices (Veolia Es Technical Solutions) are paid subsequent to review by Procurement of the price noted on the invoice but approval of quantity is not obtained from the end-user.
- One invoice was identified where the invoice notes the buyer's signature as he obtained verbal approval from the originator of the transaction.
- Fastenal invoices for the vending machines are not approved by the end-users as the invoices are sent to Accounts Payable directly. The value of these invoices can be ~$16,000 per month.

Recommendation
- Accounts Payable should obtain approval for the invoice from the end-user prior to processing of these invoices.
- The Procurement SOP should incorporate the roles and responsibilities of Procurement, Accounts Payable and the end-user with regards to the approval and processing of invoices to prevent misunderstandings.

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	January 13, 2017

It is the policy of AP to always receive signature approval from the end user on an invoice indicating receipt of the item/service. Immediately and going forward AP will be reminded of this procedure and buyers will be told not to approve invoice receipt quantities. If necessary buyers will obtain a

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written email from the end user for proof of delivery. This will be added to the new revision buyer's SOP and released by the target date.

Final Status	**Low**

IA inspected Corporate Standard Operating Procedures, No. 1.2.2, "Procurement Standard Operating Procedures" and noted the following in SOP Section 14.3, "Contract invoices shall be reviewed and approved by both the Project Manager (or designated end user of the applicable Good or Service) and the Procurement Representative prior to submission for payment. The Project Manager… shall be responsible for verifying receipt and acceptance of the applicable Goods or Services."

Out of 23 invoices examined, IA found 1 invoice that did not have end user approval of the goods or services received.

Management Agreement	Owner	Target Completion Date
Yes	Comptroller	October 2, 2017

Spoke with Accounts Payable Clerks the last week of September about the practice of verifying approval and clarified on invoices that are associated with a Purchase Order need to show 2 approvals (Buyer approval of price per contract, and the departments approval commodity received). On invoices not associated with Purchase Order only the department approval is needed.

6. Compliance with procurement practices

Finding R-16-7-6	**High**

From a sample of 25 transactions tested, the following issues of non-compliance with Procurement practices have been identified
- Three POs, valued at less than $3,000, were identified where the buyer did not use a timely previous price (1 PO) or did not obtain 2 quotes (2 POs).
- Two POs exceeding $3,000 were identified where the buyer bought at the last price paid instead of requesting 2 quotes.
- One PO was identified where the buyer could only procure from one vendor but a sole supplier motivation was not completed and approved.

Recommendation

The Procurement practices should be documented in the SOP and where necessary, the relevant Procurement employees should be trained on the policies and procedures.

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	January 13, 2017

Purchases of items under $3,000 are considered "micro" purchases and do not require multiple quotes. Purchases of items over $3,000 must have multiple quotes, or a sole source approval.
By the target completion date a "quote valid" timeframe will be identified and outlined in the new revision buyer's SOP.

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Final Status	Implemented
Standard Operating Procedure No. 1.2.5, "Procurement Procedures for UTA Employees with the Job Title of 'Buyer' was updated to include the following in Section 2, Small Purchases – Informal Competition, subsection .e, "A previous quote for the applicable item may be considered in an informal competitive process provided that such quote was obtained no more than 180 days prior to consideration."	

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A			

7. Repairs

Finding R-16-7-7	High
From a sample of 25, one PO was identified where the buyer only obtained one quote instead of two. However, this approach was regarded as acceptable as an additional quote would have required shipping fees and potentially additional cost as the vendor that quoted would have had to reassemble the item and ship to a second vendor for a quote.	

Recommendation
Procurement management should assess what an acceptable process is for the repair of items and include the process in the SOP.

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	January 13, 2017
It is cost-prohibitive and inefficient for parts or items that must be torn-down in order to evaluate the remanufacturing cost to send the item to multiple suppliers to evaluate. However, where possible we send similar parts to various suppliers to create competition, evaluate quality of work and compare average pricing to repair the items. By the target completion date this best practice will be clarified and added to the new revision buyer's SOP.			

Final Status	Implemented
Standard Operating Procedure No. 1.2.5, "Procurement Procedures for UTA Employees with the Job Title of " Buyer" was updated to include the following in Section 4. "Buyers should employee strategies to maximize competition... For example, where an item must be disassembled and inspected to determine a scope and obtain a quote for repairs, Buyers should consider whether: (i) it is more cost effective to separate the disassembly/ inspection and repair scopes into multiple contracts; and (ii) if hourly rates and/or unit prices could be used to competitively aware the repair scope under one solicitation."	

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A			

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8. Monitoring of overdue reports

Finding R-16-7-8	High

From a sample of five buyers, it was noted that
- one of the buyers does not maintain an audit trail of overdue orders followed up with vendors;
- one of the buyers could not provide evidence of follow-up with a vendor for the month of March 2016; and
- one of the buyers follows-up on outstanding orders as and when she is aware of such an order as opposed to following up on orders in a periodic manner.

Recommendation

The monitoring of overdue reports should be formalized and included in the SOP, with specific reference to:
- the frequency and timing that overdue reports have to be followed up by buyers
- the retention of an audit trail on monitoring of overdue reports

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	January 13, 2017

Immediately and going forward a review of past due purchase orders will be conducted weekly and reported to the Supply Chain Manager. By the target date this process and the expectations will be added to the new revision buyer's SOP.

Final Status	Implemented

The purchase order report review process has been documented in the Procurement SOP No. 1.2.2. A weekly review of past due orders is being performed by the newly established Purchasing Expeditor and periodically monitored by management.

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A

N/A

9. Compliance with business practices

Finding R-16-7-9	High

From a sample of 25 transactions, the following anomalies were found:
- Four instances were identified where the Chief approved a purchase requisition in both the capacity as Manager and Executive.
- Four instances were found where the Contracts and Grants administrator did not sign the invoice as evidence of review of the invoice for coding.

Recommendation

The Spending Authority Corporate Policy, No 3.1.1, is silent on this matter, which creates the risk that inconsistent practices could be followed by business. It is therefore recommended that the

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Spending Authority Corporate Policy is amended to clarify whether an individual can approve expenditure in more than one capacity.

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	January 13, 2017

By the target completion date we will review the intent of the spending authority policy with Legal Counsel and Corporate Staff. The policy regarding "acting manager" and cross-department requisition approvals will be decided by the Corporate Staff and updated in both the policy and the procurement new revision SOP.

Final Status	**Implemented**

UTA Policy 3.1.1 "Spending Authority" documents the limitation that where more than one approval is required by policy for a requisition, disbursement, or other expenditure an employee may not approve in more than one capacity. UTA Policy 3.1.6 "Contracting Authority" also documents the requirement that all contracts must be signed by at least two duly authorized employees and no employee may sign in more than one capacity.

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A

N/A

10. Contract ownership, tracking, and reporting

Finding R-16-7-10	**High**

- Contract ownership is not documented in the SOP and it is not clear who owns the contracts.
- Contracts are tracked by contract administrators individually rather than in a central repository.
- Contract Administrator duties are not formally reassigned in the system when a Contract Administrator leaves the employment of UTA.
- No policy exists for how signed contracts are to be secured.

Recommendation

- Management should consider creating a policy for procurement matters that apply to all of UTA and update the SOP for current and new procurement procedures.
- The policy should document the roles and responsibilities for contract management, including the ownership of contracts.
- Management should establish a tracking system for contracts that includes the required information to be reported for each contract.
- Reassignment of contracts to Contract Administrator should be formally documented in the system.
- The SOP should document the retention, storage, and security procedures for signed contracts.

Management Agreement	Owner	Target Completion Date
Yes	Mgr Procurement Grants-Contract	January 13, 2017

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A meeting will be conducted with Procurement, Accounting, Legal, and others to define/clarify the contract management process going forward. If necessary, a revision to the Contracting Authority policy 3.1.6 will be completed subsequent to the meeting. Reassignment of Procurement contracts will be completed by 12/15/16. Grants & Contracts Administrators own and manage the process for procurement contracts and the central repository for Procurement contracts will continue to be SIRE. This process excludes Real Estate, Van Pool, and Legal contracts. Contract ownership and process will be clarified/added to the new revision SOP by the target date.

Final Status	Medium

Corporate SOP 1.2.2 "Procurement SOP" notes that contract administration is defined as a shared responsibility between the procurement representative and the Project Manager, with the procurement representative primarily responsible for the initial procurement and for contract documentation and the Project Manager responsible for ongoing management, budget control, and direction of the Contractor. The SOP also includes the requirement for contract administration responsibilities to be reassigned when Procurement personnel currently assigned are reassigned or separated. However, the SOP does not include the retention, storage, and security procedures for signed contracts.

Although Contract Buyers do track and report expiring contracts assigned to them, the Grants and Contracts Administrators are still in the process of establishing a tracking procedure. However, new contracts software is expected to be in place next year that will include tracking features for identification of expiring contracts. Management should consider incorporating the processes, once established, in the SOP.

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	April 15, 2018

Records Retention is currently working to implement a new retention software. Once the new software is implemented and the processes in place Procurement will update the SOP with the process to retain, store and sign-out contracts.

11. Documenting of contract procedures

Finding R-16-7-11	Medium

- Contract procedures are not documented.
- There is no documented process for Legal department's review of contracts to describe what the review consists of.
- SOP does not reflect requirement for sole source procurements over $50,000 to be advertised for seven days.

Recommendation

- Management should document the procedures for contract creation in the SOP.
- Management should work with the Legal department to document the extent of the Legal department's review of procurement contracts.

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- Management should update the SOP for the newly established state requirement for sole source procurements over $50,000 to be advertised publicly for seven days.

Management Agreement	Owner	Target Completion Date
Yes	Mgr Procurement Grants-Contract	January 13, 2017

A meeting will be held with Legal to define the legal review requirements of contracts. Contract review requirements will then be incorporated into the new SOP which Procurement is currently in the process of revising. Contract creation procedures will be reorganized in the new SOP to be more fluent. Document templates that have been created by Legal will also be identified in the new SOP. Language has already been included in the new SOP covering the $50K advertising requirement. The new revision SOP will be released by the target completion date.

Final Status	**Implemented**

Section 13 "Contracts" was added to SOP 1.2.2 Procurement, which reorganizes contract creation procedures formerly found throughout the SOP, into one section. The new "Contracts" section also includes the extent of Legal Department's review and approval "as to form" which consists of verifying that the terms and conditions of the contract are commercially reasonable and suitable for the Goods or Services procured.

Additionally, the SOP documents the advertising requirement for all formal procurements including any non-competitive procurement exceeding $50,000 for at least seven days prior to the deadline.

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A

N/A

12. Review of solicitation document

Finding R-16-7-12	**Medium**

- The solicitation document is not reviewed prior to publication
- The Procurement History Checklist for procurement 16-1703AB did not document the procurement number or otherwise indicate which procurement it was related to, which a review should have identified.

Recommendation

Management should establish an independent review process for the Solicitation document prior to publishing.

Management Agreement	Owner	Target Completion Date
Yes	Mgr Procurement Grants-Contract	April 10, 2017

Using the provided contract templates provided by Legal eliminates many potential issues, and is approved by Legal as to form. By the target date we will have a review signature of the critical solicitation items that are listed on the cover sheet by a fellow contract administrator or contract buyer.

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Final Status	Implemented
The requirement for review of critical solicitation items was added to the Procurement History Checklist and for the two formal procurements tested, evidence of review by a Contract Administrator or Contract Buyer was retained.	

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A		

13. Vendor performance tracking

Finding R-16-7-13	Medium
A central list of performance issues by vendors is not maintained to ensure the timely termination of contracts or for consideration in evaluating future bids.	

Recommendation
• Management should establish a vendor issue tracking system for the recording and reporting of vendor issues. • Management should incorporate the vendor issue tracking list into the bid evaluation process.

Management Agreement	Owner	Target Completion Date
Yes	Mgr Procurement Grants-Contract	April 10, 2017
Supply Chain is in the process of establishing inventory vendor KPIs (Key Performance Indicators) to track inventory vendor performance. To start with, by the target completion date Supply Chain will begin tracking supplier delivery performance of inventory suppliers. We will continue to expand supplier performance tracking into other metrics as necessary system and process enhancements are completed.		

Final Status	Implemented
A report has been created which tracks past due lines by vendor and is shared with the Supply Chain Department. Procurement SOP 1.2.5 documents buyers' responsibilities to monitor and follow up on overdue orders until final delivery or performance is complete as well as to work with suppliers to address performance issues. Additionally, the SOP also requires Buyers and Purchasing Expeditors to keep Supply Chain updated regarding the status of overdue orders.	

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A		

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14. Bid tracking

Finding R-16-7-14		**Medium**
Reception receives bids but does not create an independent tracking list of the bids received to confirm that all bids received were considered in the adjudication process.		

Recommendation		
Management should establish a process for reception to independently record a listing of the bids delivered to the front desk.		

Management Agreement	Owner	Target Completion Date
Yes	Mgr Procurement Grants-Contract	October 13, 2016
By the target completion date Procurement will implement a process with Reception to begin recording procurement bids and/or proposal deliveries received at the FLHQ front desk.		

Final Status		**Implemented**
For the one procurement identified with hard copy proposal/bid submission a Bid Tracking Form was maintained by the Receptionist at the front desk and the form was included in the Procurement file.		

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A		

15. Audit trail for procurement transactions

Finding R-16-7-15		**Medium**
A practice is followed to group PRs for the same vendor into one PO to make the process more streamlined. While this is an acceptable practice, the audit trail linking the multiple PRs with the PO is weak.		

Recommendation		
Management should explore the possibility of ERP linking the PRs with the related PO or alternatively, the buyers should add to the PO all the PRs that relates to the order.		

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	January 13,2017
Going forward buyers will note all related PRs on a PO in the PO Notes field. This process will be added to the new revision buyer's SOP by the target date.		

Final Status		**Low**
A review was put in place and performed monthly to identify and correct POs not linked to requisitions but the process was not added to the SOP.		

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Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	April 15, 2018
By the target date Procurement and Legal Counsel will update the SOP to include instruction for consolidating PRs to one PO.		

16. Formalization of processes

Finding R-16-7-16	**Medium**
The following two processes have been identified that are not designed formally • Emergency orders for non-inventory • Pre-payments	

Recommendation
• Management should design a process to track these type of transactions to improve monitoring. • The designed process should then be included in the SOP.

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	January 13, 2017
By the target completion date we will meet with all groups involved to determine a best practice. Once identified this will be incorporated in the new revision SOP.		

Final Status	**Medium**
IA inspected Corporate SOP No. 1.2.2, "Procurement SOP" and noted in section 3.1 a provision requiring a properly approved purchase requisition be received prior to commencing a purchase, unless there is a compelling, urgent or emergency need. Section 13.5 requires that any pre-payments be authorized by the Procurement Manager. Additionally, the SOP noted that a sole source procurement may be utilized in case of emergency. Other than the reference to requisitions and sole source procurements, there were no emergency order procedures noted or additional information regarding the management of pre-payments to vendors. Management should consider including in the SOP procedures to guide users in appropriate procurement procedures in an emergency, defining what constitutes an emergency, as well as identifying appropriate authority for invoking those procedures.	

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	April 15, 2018
By the target completion date we will meet with all groups involved, review the state definition of an emergency, and determine a best practice. Once identified this will be incorporated in the new revision SOP.		

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17. Business practices defined in SOP

Finding R-16-7-17	Medium

- The Procurement SOP (No. 1.2.2) prescribes, as part of the Responsibilities for Small Procurements and Micro Procurements that signatures should be obtained on purchase orders according to the delegation of authority. However, the business process does not include the approval of purchase orders as part of the procurement process.
- In the event that a contract is in place with a vendor, the Project Manager is the only employee that has to sign the invoice as evidence that the service was delivered. This process has not been incorporated in the Procurement SOP.

Recommendation

By the target completion date the new revision SOP will be modified to include and clarify these issues.

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	January 13, 2017

By the target completion date the new revision of the SOP will be modified to include and clarify these issues.

Final Status	Low

IA reviewed Procurement SOP, No. 1.2.2, and noted that it had been updated to remove provisions requiring signatures on purchase orders for small or micro purchase orders.

In addition, section 14.3, "Contract invoices shall be reviewed and approved by both the Project Manager (or designated end user of the applicable Good or Service) and the Procurement Representative prior to submission for payment. The Project Manager… shall be responsible for verifying receipt and acceptance of the applicable Goods or Services. The Procurement Representative shall also be responsible for ensuring the correct accounting coding is specified on the invoice."

As noted above in this finding, in the event that a contract is in place with a vendor, the Project Manager is the only employee that has to sign the invoice as evidence that the service was delivered. The SOP also states that the Procurement representative is responsible for ensuring the correct accounting code is specified. However, we noted that not all invoices covered under a contract were reviewed by Procurement. The SOP language should be reviewed to determine if all invoicing procedures have been reviewed and included.

For 4 out of 9 Micro Procurements reviewed, price was not certified as fair and reasonable, per requirement of Procurement SOP 1.2.2 section 5.5.

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	April 15, 2018

By the target date Procurement will update the SOP to include acceptable practices where Procurement would not review a contract invoice.

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The 4 Micro procurements were found to be a specific buyer training issue that has since been corrected.

18. Tolerance level

Finding R-16-7-18	**Low**
A tolerance level has not been set for the variance between the value of an approved PR and the rolled/ created PO, which increases the transaction turnaround time.	

Recommendation
It is recommended that a tolerance level is set and built into ERP to serve as a system control, which would result in a more efficient process.

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	January 13, 2017

Going forward we will use the tolerance level of <= 5%, up to $25,000. By the target date this will be updated in the new revision SOP.

Final Status	**Medium**

A tolerance level had been documented in the SOP but testing revealed that:
- For 2 of the 6 POs reviewed, no system approval existed for the related purchase requisitions.
- For the same 2 POs identified above, the approvals obtained were consequently not in line with existing delegations of authority.
- 3 out of 6 POs were approved by a user other than the original approver of the purchase requisition, which is not in line with the SOP.

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	April 15, 2018

IT has created a new nightly report for Purchasing Manager review which identifies requisitions that did not generate any approvals. This issue was caused by a new business unit set up by accounting, but where Procurement was not notified to create an approval routing for the new unit in the ERP system. Any requisitions identified on the new report will be re-routed for approval once the correct approval routing has been established.

By the target date Purchasing will add to the SOP clarification regarding approval of POs outside of the requisition tolerances. This will establish that further approvals are required by the cost-center budget manager.

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19. Recurring expenditure review for Supply Chain value creation

Finding R-16-7-19	**Low**
• Inventory Even though a recurring expenditure review was performed for bus, a similar review for light rail and commuter rail has not yet been performed. • Non-inventory Monitoring of non-inventory expenditures are performed on an ad-hoc basis by the buyers but not in a formal manner.	

Recommendation
The review of recurring expenditure should be formalized and incorporated in the SOP.

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	January 13, 2017

Inventory – Plans were already in place to perform the same review and contract for light rail and commuter rail parts, as was done for bus parts. Once the contracts are in place all parts will be reviewed as part of an annual review. This process will be referenced in the new revision SOP.
The contract for light rail will be complete by the end of the year. Commuter rail is TBD at a later date.

Non-Inventory – We will continue to look for methods to be able to perform a review of non-inventory items/services. Currently the system does not have this capability.

Final Status	**Low**
A review of repetitive parts for bus, light rail, and commuter rail identified as potential contract items was performed. However, the process was not referenced in the SOP.	

Management Agreement	Owner	Target Completion Date
Yes	Senior Supply Chain Manager	April 15, 2018

By the target date Purchasing will add to the SOP.

APPENDIX 2

* REPORT RATING MATRICES

OVERALL REPORT RATING

The overall report ratings are defined as follows, applicable to the audit scope as defined

Descriptor	Guide
Fully effective	Controls are as good as realistically possible, both well-designed and operating as well as they can be.
Substantially effective	Controls are generally well designed and operating well but some improvement is possible in their design or operation.
Partially effective	Controls are well designed but are not operating that well. OR While the operation is diligent, it is clear that better controls could be devised.
Largely ineffective	There are significant gaps in the design or in the effective operation of controls – more could be done.
Totally ineffective	Virtually no credible controls relative to what could be done.

DETAILED FINDING PRIORITY RATING

Descriptor	Guide
High	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
Medium	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
Low	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.
Implemented	Adequate and effective management action taken to address the finding noted in the audit report.

APPENDIX 3

DISTRIBUTION LIST			
Name	**For Action¹**	**For Information**	**Reviewed prior to release**
President/CEO		*	*
General Counsel		*	
Vice President of Finance	*		*
Senior Supply Chain Manager	*		*
Comptroller	*		*
Manager of Procurement Grants and Contracts	*		*
Materials Supervisor	*		*
Sr Legal Counsel	*		
Chief Safety, Security & Technology Officer		*	
Information Technology Director		*	
Application Support Team Lead		*	

¹For Action indicates that a person is responsible, either directly or indirectly depending on their role in the process, for addressing an audit finding.