REVIEW OF THE PROCUREMENT AND ACCOUNTS PAYABLE PROCESSES

Project # 20130202

Texas Water Development Board

Table of Contents

Project Summary 3

Observations, Recommendations, and Responses 4

Basis of Review 6

Audit Team Information 7

Distribution List 8

PROJECT SUMMARY

Overview

Texas Water Development Board (TWDB) has processes in place to provide reasonable assurance that goods and services are purchased and payments are properly processed, documented, and approved in compliance with state law, and relevant rules, and in a manner that ensures that assets are safeguarded. Key purchasing controls include Certified Texas Procurement Manager (CTPM) accredited staff, comprehensive formal written procedures to ensure individual purchases are appropriately approved. The accounts payable process includes controls designed to ensure payments are only made for goods and services that were ordered and received. Efficiencies could be gained by streamlining the procurement process with the implementation and use of procurement cards for the purchase of small-dollar items. The data analysis performed as part of the review found that it costs the agency an average of $160 to process a purchase transaction, irrespective of size, and that purchases of up to $500 account for 65% of the volume and only 4% of the total value. For fiscal year 2012, individual purchases averaged $3,118 and ranged from $4 to $273,919.

Efficiency improvements could be gained from automating document work-flow for the rest of the purchasing and accounts payable processes. Contract Development and Purchasing management is aware of the need to reduce the cost associated with the current manual and paper-intensive process and is currently performing a cost-benefit analysis of “going green.”

Summary of Management’s Response

Management appreciates Internal Audit’s acknowledgment that the procurement and accounts payable processes provide reasonable assurance for compliance with requirements. Management also appreciates Internal Audit’s suggestions for improvement and is working to implement the recommendations provided in this report. Detailed responses are described in each of the following sections.

Scope

The review focused on the procurement and accounts payable processes, and primarily on the timely and accurate processing of purchasing and accounts payable transactions in compliance with relevant requirements. This included testing transactions against supporting documentation, as well as performing various data analyses. The scope included activities from September 1, 2011, to January 31, 2013. Fieldwork was conducted during March 2013.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Operational Efficiency

1.1 Efficiency of the Purchasing Process – Small-Dollar Purchases

Opportunities for improvement exist to reduce the cost and increase the speed with which low value purchases are processed. The current process has the same requirements for all purchases, regardless of size. For fiscal year 2012, the agency processed 1,790 individual purchasing/payment packages ranging from $4 to $208,884 at an average cost of $160 per package.

As shown on the table on the right, 65% of the agency's purchase payments are below $500 and account for only 4% of the dollar value. The agency staff spends a disproportionate amount of resources on processing small-dollar items. The calculated processing cost of $160 only includes direct labor (approximately 3 full-time equivalents). It does not include overhead, such as the indirect labor and consumables associated with processing the purchasing/payment packages.

Stratification of Purchase Payments (FY 2012)

	Count	$ Value	Process Cost
0-99	378 (21%)	$19,217	$60,480
100 -249	472 (26%)	$82,204	$75,520
250-500	316 (18%)	$115,364	$50,560
>500	623 (35%)	$4,557,020	$99,680

It is the auditor's opinion that savings would be gained by streamlining the procurement process for small-dollar items with the implementation of procurement cards. The key benefits are briefly discussed below:

(i) Procurement cards would provide a streamlined, efficient, cost-effective method of purchasing and paying for small-dollar and high-volume purchases.

(ii) Depending on how they're used, procurement cards can provide considerable savings, significantly reducing the volume of expenditure requisitions, purchase orders, and checks processed. Thus, lowering overall transaction processing costs per purchase.

(iii) Procurement cards offer the convenience of purchasing without an expenditure requisitions and purchase order. They expedite delivery of goods, reduce paper work, provide cost savings from consolidated payment, and improve cash flow.

(iv) Procurement card vendors provide monitoring controls, including reporting and reconciliation tools that are designed to provide accurate, consistent, and timely expenditure, vendor, and employee information. The procurement card vendor tracks and reports (to the state) the entity's business with historically underutilized businesses (HUB). It also provides the entity with a copy of the data (i.e. individual transactions and the high level reports filed with the state). This allows entities to maximize control and ensure compliance while reducing costs.

Procurement cards include built-in controls, such as the ability to set and control purchasing dollar limits, the ability to set flexible authorization controls via the control of purchases to specific merchant categories and vendors, and an electronic means to perform the traditional three-way match (of the purchase order, invoice, and goods received note). For example, the agency could disallow purchases of food, clothing and alcohol. The use of procurement cards increases compliance with the state's Prompt Pay law.

Since the early 1990s, procurement cards have been used to reduce the voluminous paperwork associated with traditional goods acquisition and payment processes. Today, the use of procurement cards is a common practice among state and federal entities.

Recommendation

Consider improving the efficiency of the purchasing process by implementing a simple more streamlined process for individual purchases of up to $500 that takes advantage of the efficiencies of the procurement card. Procurement cards would include appropriate limits per transaction, month and year.

Management Response

Management currently uses procurement cards for certain purchases and will consider the feasibility of expanding the use of these cards.

Target implementation date: September 2013

1.2 Efficiency of the Purchasing Process – The Green Initiative

The review found opportunities to improve the operational efficiency of the current procurement and accounts payable processes. The current processes are manual, and paper-intensive, and do not utilize innovative technology. The key steps in the current processes include the following:

- A paper expenditure requisition (ER) is produced by the requisitioning department.
- The ER is physically routed to multiple individuals for approvals.
- Funds are set aside for future payment.
- A paper purchase order (PO) is produced before the requested item is ordered.
- Purchasing maintains a copy of the ER and PO for its own records.
- A document package (such as ER, PO, invoice, shipping documents) is assembled and delivered to Accounts Payable.

- The document package is processed by Accounts Payable for payment. More disbursement documents are added to the package.
- The document package is scanned and filed.

Consumable cost savings would be made from a more streamlined, automated, document flow process that eliminates the use and routing of manual/paper documents. Management is aware of this issue and indicated it is currently considering a business process redesign (BPR) that would also include "going green."

Recommendation

Management should consider improving operational efficiency by performing business process redesign. As part of the BPR, management should consider taking advantage of new technologies and using document work-flow routing, approval, and storage.

Management Response

Management will review its expenditure requisition process and consider opportunities for streamlining, including the use of technology. Considerations for the utilization of technology will require:

- Approval by the Comptroller to automate as required by Government Code, Chapter 2101 enacted by the 81st Texas Legislature requiring all projects involving financial systems to be consistent with statewide Enterprise Resource Planning (ERP) goals;
- Sufficient capital appropriation budget; and
- Sufficient staff resources to deploy new technology.

Target implementation date: September 2014.

BASIS OF REVIEW

Objective & Scope

The objective of this review was to determine the extent to which TWDB's management of procurement and accounts payable provides assurance that strategic and operational results and outcomes are efficiently and effectively achieved and that payments are properly processed, documented, and approved in compliance with relevant laws, policies and procedures. The review included an analysis of purchasing and accounts payable labor cost data to estimate the cost of processing purchasing packages all the way to payment. The work included testing transactions against supporting documentation as well as performing various data analyses. The review focused on activities from September 1, 2011, to January 31, 2013. Fieldwork was conducted during March 2013.

Criteria

Our review was based upon standards set forth in the Texas Administrative Code, TWDB's rules, and other sound administrative practices. The audit was performed in compliance with the Institute of Internal Auditors' "International Standards for Professional Practice of Internal Auditing."

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

Background

The purchasing function, reporting through the Deputy Executive Administrator for Operations and Administration, is responsible for procuring goods and services, and ensuring that agency purchases comply with state law. The accounts payable function, reporting through the Chief Financial Officer, aims to support agency operations by processing payments in accordance with applicable laws and requirements.

AUDIT TEAM INFORMATION

Amanda Jenami, CPA, CISA, CFE, CIA, CCSA, Director
Robert Sahm, CPA, CISA, Project Manager
Cory Farnham, Team Member
Alexander Reichle, Team Member
Hyunji Yoon, Team Member

Contact Information

For questions regarding this review, contact Amanda Jenami at

E-Mail: Amanda.Jenami@twdb.texas.gov
Phone: (512) 463-7978
Fax: (512) 475-2053

Texas Water Development Board
Internal Audit Division
1700 N. Congress Avenue
Austin, TX 78701-3231

DISTRIBUTION LIST

Ms. Melanie Callahan, Executive Administrator
Ms. Carolyn Brittin, Deputy Executive Administrator, WRPI
Ms. Lisa Glenn, Deputy Executive Administrator, Operations and Administration
Dr. Robert Mace, Deputy Executive Administrator, Water Science & Conservation
Mr. David Mitamura, Deputy Executive Administrator, Program & Policy Development
Mr. Kenneth Petersen, General Counsel
Mr. Steve Rodriguez, Deputy Executive Administrator, Construction Assistance
Ms. Rebecca Trevino, Chief Financial Officer
Mr. Ryan Long, Director, Support Services & Contract Administration
Mr. LeeRoy Lopez, Director, Accounting