

# FOLLOW-UP REPORT

## *Purchasing and Payment Processes*

## Purchasing and Accounts Payable

December 2019

Office of the Auditor  
Audit Services Division  
City and County of Denver



Timothy M. O'Brien, CPA  
Denver Auditor



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## AUDITOR'S LETTER

In keeping with generally accepted government auditing standards and Auditor's Office policy, as authorized by city ordinance, the Audit Services Division has a responsibility to monitor and follow up on audit recommendations to ensure audit findings are addressed through appropriate corrective action and to aid us in planning future audits.

In our follow-up effort for the Purchasing and Payment Processes audit issued October 2018, we determined the City's Purchasing Division and Accounts Payable team has fully implemented 15 of the 21 recommendations made in the audit report. Despite these efforts, however, we determined the risks associated with the audit team's initial findings have not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

The Highlights page in this report provides background and summary information about the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

I would like to express our sincere appreciation to the City's Purchasing Division and Accounts Payable team personnel who assisted us throughout the audit and the follow-up process. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor's Office

A handwritten signature in black ink, appearing to read "Timothy M. O'Brien".

Timothy M. O'Brien, CPA  
Auditor



## Purchasing and Payment Processes December 2019

### Follow-Up Status

Of the 21 total recommendations we made in our October 2018 report to the Purchasing Division and the Accounts Payable team, 15 have been fully implemented, two have been partially implemented, and four have not been implemented.

### Objective

The objective of this audit was to assess the effectiveness and efficiency of the City's procurement and payment processes.

### Background

The total City's expenditure amount in 2017 was roughly \$1.3 billion. Of this amount, the Purchasing Division procures approximately \$330 million annually of goods and services.

The City has various rules, policies, and procedures agencies must comply with when procuring goods or services. Depending on the needs of the agency and the dollar amount of the goods or services, the City uses different procurement methods: Purchase Order (PO), bidding, Non-PO payments, and credit cards. The City has various controls in place to ensure that payments are valid, accurate, and permitted.

## REPORT HIGHLIGHTS

### Highlights from Original Audit

Our audit of the City's procurement and payment processes found that, although the related policies and procedures are generally well designed, the implementation, monitoring, enforcement, and documentation of the processes needed further improvement. Approval of purchases and payments are controlled and documented by the Workday system of record, ensuring that all transactions are properly approved. However, the documentation and monitoring procedures surrounding the approvals were still manual in nature and at risk of inconsistent application that could result in incomplete or inaccurate data and support. Purchasing could also evaluate the effectiveness of their control processes.

Specifically, we found the following issues in the procurement and payment processes:

#### **Procurement Process – Monitoring and Enforcement Improvements Are Needed**

– We found that bidding documentation and tracking span across several databases, which was causing inconsistent and incomplete data that make tracking bid solicitations inefficient and unreliable. There were also tracking issues with emergency purchase order numbers, change orders, and Master Purchase Order transactions paid with P-cards. Lastly, we found that documentation requirements for bidding exceptions and unauthorized purchases were not being enforced consistently.

#### **Payment Process – Documentation, Monitoring, Enforcement, and System Improvements Are Needed**

– We found that documentation requirements for payments were not being enforced consistently. The Non-PO procurement mechanisms were not always used in compliance with the Non-PO guidance, which is outdated. Also, we found that required reporting on prompt pay interest penalties was not being performed, nor had an analysis of cost and volume of payment methods been performed for several years. Lastly, we noted that Workday lacked certain input validation controls for invoice numbers and that minor improvements were needed in the three-way match exception processing.

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or contact the Auditor's Office at (720) 913-5000.

## RECOMMENDATION — STATUS OF IMPLEMENTATION

**FINDING 1** – Monitoring and Enforcement Improvements Are Needed in the Procurement Process.

### Recommendation

- 1.1 **Create Key Identifier among Databases Used in the Bidding Process** – The Purchasing Division should consider developing a key identifier field that is shared among all procurement-related systems and databases in order to more effectively track the procurements that have gone through the solicitation process and have been awarded.

**Status: Implemented (Original target date for completion: May 2019)**

### Agency Action

The Purchasing Division has considered creating a key identifier for Denver International Airport and the Department of Public Works. Purchasing has agreed that the purchase order number or contract encumbrance number can be used as a common identifier that can be tied back to the solicitation number and entered into the Workday memo field. Both the airport and Public Works have discussed adoption of this new procedure with Purchasing and have been encouraged to now follow this new procedure. Because of these actions, we consider this recommendation fully implemented.

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### Recommendation

- 1.2 **Integrate Key Bid Information** – The Purchasing Division should consider developing a plan and timeline that would better integrate key information from the different bidding systems used across the City in order to enable more visibility and provide access to consistent reports which can facilitate executive and management reviews.

**Status: Implemented (Original target date for completion: January 2019)**

### Agency Action

The Purchasing Division has determined employees of the Purchasing Division, Public Works, and the airport can enter solicitation information in the internal memo field. Purchasing has created a report that collects the information recorded in that field. Purchasing adopted the practice of recording this information in the memo field as of September 2019. This report is available in Workday now and titled “CCD Find Purchase Orders by Internal Memo” and is still being improved by Purchasing. As mentioned in Recommendation 1.1, Purchasing has encouraged both the airport and Public Works to begin following this new procedure of adding the purchase order number or contract encumbrance number to the Workday memo field. Therefore, we consider this recommendation fully implemented.

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## Recommendation

- 1.3 **Improve Request for Proposal Intake Process** – The Purchasing Division should continue making improvements to the Request for Proposal intake process, including the implementation of standardized tools and forms and timely identifying requests that require review by Technology Services.

**Status: Partially Implemented (Original target date for completion: December 2018)**

## Agency Action

In response to this recommendation, the Purchasing Division has designed an intake form and process through a system called Salesforce. The form directs users to submit a help ticket to Technology Services if their request for proposal involves technology. This system should help streamline the request-for-proposal process to ensure timely processing of requests and is expected to go live near the end of this year. This system implementation is happening later than expected because of the turnover of a few crucial Salesforce IT analysts. Once the Technology Services agency ensures the proper functionality of the process in Salesforce, it will go live. Because of Purchasing's actions, we consider this recommendation partially implemented.

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## Recommendation

- 1.4 **Enforce Bidding Exception Documentation Requirements** – The Purchasing Division should develop a plan to better enforce documentation requirements for bidding exceptions.

**Status: Implemented (Original target date for completion: January 2019)**

## Agency Action

The Purchasing Division created standardized forms that instruct users on how to request a bid exception for every bid exception type, including Professional Preference, Sole Source, Standardization, and Manager Exception. Purchasing requires agencies to fill out their applicable exception forms and send them back to Purchasing for approval. Purchasing has also stated it would provide training to agencies on these new forms and procedures. Therefore, we consider this recommendation fully implemented.

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## Recommendation

- 1.5 **Change Order Reporting and Analysis** – The Purchasing Division should develop procedures to analyze purchase order changes to improve process efficiency. The Purchasing Division should consider working with Technology Services as necessary to create a Workday report that facilitates this analysis.

**Status: Implemented (Original target date for completion: January 2019)**

## Agency Action

The Purchasing Division created a new Workday change order form as well as instructions on how to use the form and what is required to be filled out. Purchasing also created a report that tracks all purchase change orders. The agency stated that these improvements should increase consistency, accuracy, and turnaround. This form and report create a structure for Purchasing to be able to perform analysis on change order activity in the future. Because these procedures to analyze purchase order changes and a report facilitating this analysis were developed as stated in the recommendation, we consider it implemented.

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## Recommendation

- 1.6 **Identify P-Card Transactions Associated with Master Purchase Orders** – The Accounts Payable team, in consultation with the Purchasing Division, should work with Technology Services to require that users identify whether a P-card purchase is associated with a Master Purchase Order. Assess the use of Master Purchase Orders for P-card purchases to reduce disallowed splits and recurring purchases. Instead of a technical solution, the Accounts Payable team could reduce splits and recurring purchases made with P-cards by modifying policies and procedures.

**Status: Not Implemented (Original target date for completion: May 2019)**

## Agency Action

The Accounts Payable team was unable to find a technical solution to require users identify when a P-card purchase is associated with a master purchase order. The team said that as a compensating measure, it would change policies and procedures to address this issue. However, current drafted policies and procedures do not address master purchase orders. Therefore, we do not consider this recommendation implemented. Accounts Payable management stated that they will stay committed to implementing this recommendation.

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## Recommendation

- 1.7 **Create Online P-Card Training** – The Accounts Payable team should update the City's P-card policies and procedures, which are used as training material for City employees being issued a P-card and continue to work with the Controller's Office to create an online P-card training program that can be accessed by new P-card holders at any time.

**Status: Partially Implemented (Original target date for completion: March 2019)**

## Agency Action

The Accounts Payable team has responded to this recommendation by updating policies and

procedures, but it has not finalized and published them. The team has also created a script for an online P-card training. Due to turnover, the implementation date of this recommendation has been delayed. Accounts Payable believes the training will be available and the policies and procedures published by the end of the year. Based on these draft policies and procedures and drafted training script, it is evident Accounts Payable has made strides to meet this recommendation, therefore we consider this recommendation partially implemented.

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## Recommendation

- 1.8 **Improve Unauthorized Purchase Document Enforcement** – The Purchasing Division should improve enforcement of unauthorized purchases by developing and implementing a plan to require fully completed unauthorized purchase documentation. Consider updating policies and procedures to allow for additional flexibility in specific instances.

**Status: Implemented (Original target date for completion: December 2018)**

## Agency Action

The Purchasing Division created new policies and procedures and issued them to all general service purchasing buyers to make them aware of the changes made in these new procedures. The new policies and procedures require buyers to stop the processing of unauthorized purchases if proper documentation for the unauthorized purchase has not been provided. Before, if unauthorized purchases were made, Purchasing sometimes still processed them without proper documentation explaining why the unauthorized purchase occurred. These new policies and procedures meet the recommendation requirements, and we consider this recommendation fully implemented.

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## Recommendation

- 1.9 **Create Emergency Purchase Order Tracking Log** – The Purchasing Division should develop, implement, and evaluate an Emergency Purchase Order number tracking log to ensure all emergencies are approved and in accordance with City Charter.

**Status: Implemented (Original target date for completion: December 2018)**

## Agency Action

The Purchasing Division created a new policy surrounding emergency purchases and now requires emergency purchase order numbers to be from Purchasing's emergency log sheet. Purchasing now tracks all emergency purchases in a log sheet and assesses each of them to ensure they have been made in accordance with rules and regulations. These actions have directly addressed the recommendation, and therefore, we consider this recommendation fully implemented.

## RECOMMENDATION — STATUS OF IMPLEMENTATION

**FINDING 2** – Documentation, Monitoring, Enforcement, and System Improvements Are Needed to Address Internal Control Weaknesses in the Payment Process.

### Recommendation

- 2.1 **Update Non-PO Voucher Guidance** – The Accounts Payable team and the Purchasing Division should update and clarify guidance specifying when non-PO vouchers can be used for City agencies as well as for Accounts Payable employees.

**Status: Not Implemented (Original target date for completion: January 2019)**

### Agency Action

Accounts Payable team officials said they are still in the process of clarifying guidance on the appropriateness of purchase orders and non-purchase orders. There was no supporting documentation provided to show that they had implemented this recommendation. Therefore, we consider this recommendation not implemented. However, the Accounts Payable team has stated that they will stay committed to implementing this recommendation.

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### Recommendation

- 2.2 **Analyze Inappropriate Non-PO Voucher Usage**– The Accounts Payable team and the Purchasing Division should analyze inappropriate non-PO voucher usage and work with agencies to reduce noncompliance.

**Status: Implemented (Original target date for completion: January 2019)**

### Agency Action

The Accounts Payable team began recording and analyzing non-PO vouchers as a result of our recommendation. When supplier invoice requests are not for an acceptable non-PO item, the supplier invoice request is denied, comments are added, and the request is sent back to the requesting agency to give them an explanation for the denial. Therefore, we consider this recommendation fully implemented.

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## Recommendation

- 2.3 **Additional Training and Enforcement of Transaction Support Requirements** – The Accounts Payable team should provide additional training and/or guidance for accounts payable specialists and agencies regarding adequate support for transactions. Additionally, the Accounts Payable team should enforce support requirements for all payments by not processing payments until all support is included, as required by Financial Accountability Rules and other policies and procedures.

**Status: Implemented (Original target date for completion: December 2018)**

### Agency Action

The Accounts Payable team held a training for accounts payable specialists to explain what adequate support consists of. The team has also updated current policies and procedures to require adequate backup documentation for invoices. Because of these actions, we consider this recommendation fully implemented.

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## Recommendation

- 2.4 **Create a Process to Verify Confidential Support** – The Accounts Payable team should create and follow a process to ensure that confidential payment support exists and has been properly verified.

**Status: Implemented (Original target date for completion: December 2018)**

### Agency Action

The Accounts Payable team has now created a confidential payments policy to address when backup documentation is confidential and cannot be submitted. The team has also created a form to fill out and submit when situations like this arise, and we saw evidence of the form being used. For these reasons, we consider this recommendation fully implemented.

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## Recommendation

- 2.5 **Implement Additional Input Validation Controls** – The Accounts Payable team should work with Technology Services to implement Workday data validation system controls to prevent exact duplicate ad hoc reference numbers and special characters in invoice numbers.

**Status: Implemented (Original target date for completion: March 2019)**

## Agency Action

The Accounts Payable team worked with the Technology Services agency to create automated validations to prevent special characters in the invoice number field. However, after attempting to prevent duplicate ad hoc payment numbers in Workday, the team was unable to find a technology solution for this. To compensate, a report is run automatically in Workday on a monthly basis and Accounts Payable analyzes it manually. Because the risk has been mitigated through the team's work with Technology Services to create a report and analyze it monthly, we consider this recommendation fully implemented.

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## Recommendation

- 2.6 **Prevent Duplicate Ad Hoc payments** – The Accounts Payable team should design and implement additional controls to detect and rectify duplicate ad hoc payments when an invoice number is created by the Accounts Payable team. Consider designing, generating, and periodically reviewing a report, which facilitates the identification of similar invoice numbers and other indicators of duplicate payments.

**Status: Implemented (Original target date for completion: December 2018)**

## Agency Action

The Accounts Payable team has begun running an automated monthly report and performing analysis to identify duplicate ad hoc payments. After identifying ad hoc payments, the team notifies the agencies with duplicate ad hoc payments and has them correct the errors. Therefore, we consider this recommendation fully implemented.

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## Recommendation

- 2.7 **Create and Analyze a Historic Report for Three-way Match Exceptions** – The Accounts Payable team should collaborate with Workday consultants to create a historic report of all three-way match exceptions and periodically generate and analyze this report to identify trends and major issues.

**Status: Implemented (Original target date for completion: December 2018)**

## Agency Action

The Accounts Payable team is running a report that enables tracking of every three-way match exception. This report is run daily and is saved in case historical data is needed later. As evidence, we received all three-way exceptions from 2018 and for a few months of 2019 with some trend analysis of the agencies having these exceptions. Therefore, we consider this recommendation fully implemented.

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## Recommendation

- 2.8 **Resolve Workday Receipt Application Limitations** – The Accounts Payable team should work with Technology Services to resolve limitations related to receipt application and exception identification. If a technical resolution is not feasible, Accounts Payable should implement monitoring controls to mitigate the risk of overpayment.

**Status: Not Implemented (Original target date for completion: May 2019)**

### Agency Action

The Accounts Payable team has developed a configuration for Workday to mitigate the risk of overpayments. However, the risk of using the same receipt twice when a transaction is entered into Workday by the purchase order number still remains. After discussion with Accounts Payable management, they recommitted to finding a solution to solve this issue. However, we still consider this recommendation not implemented.

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## Recommendation

- 2.9 **Resolve Three-way Match System Anomalies** – The Accounts Payable team should work with Technology Services to resolve the three-way match system anomalies.

**Status: Not Implemented (Original target date for completion: May 2019)**

### Agency Action

The Accounts Payable team has created detailed plans for a new system configuration in Workday that would help identify three-way match anomalies, which occur when Workday incorrectly flags invoices as exceptions. This configuration still needs further work and testing and has been not implemented into Workday. Accounts Payable said this new configuration should be in Workday by the end of 2019. However, in its current state, we consider this recommendation not implemented.

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## Recommendation

- 2.10 **Report Prompt Pay Interest to City Council** – The Accounts Payable team should continue to prepare the 2018 annual report of prompt pay interest by each department or agency as required by the Prompt Pay Ordinance, Section 20-115, and continue to do so annually in the future. As part of this effort, Accounts Payable should consider the need to confirm its interpretation of this section regarding what to do with the annual report and how to use it if City Council does not request a presentation of the results. Additionally, Accounts Payable should consider working with City Council on revising the prompt pay interest rate to better align it with the market rate.

**Status: Implemented (Original target date for completion: November 2018)**

### **Agency Action**

The Accounts Payable team prepared annual reports for 2017 and 2018 showing the prompt pay interest paid out by each department. Accounts Payable also discussed the appropriateness of the prompt pay interest rate. They concluded the rate should not be lowered because this may send the wrong message and will not be as strong a deterrent for city agencies to stop them from paying late interest penalties. Therefore, we consider this recommendation fully implemented.

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### **Recommendation**

- 2.11 **Analyze and Reduce Checks Held for Pick Up** – The Accounting and Financial Reporting Division should analyze the volume and type of checks held for pick up and work to reduce the number of checks held.

**Status: Implemented (Original target date for completion: December 2018)**

### **Agency Action**

The Accounts Payable team is a part of the Accounting and Financial Reporting Division and was delegated to implement this recommendation. In response to the recommendation, the Accounts Payable team began conversations with agencies around the city to require direct deposit for employee reimbursements. Accounts Payable examined the total of checks held for pickup in 2018 and has compared them with the first half of 2019. There has been a significant drop-off in the numbers of checks held for pickup. The Accounts Payable team has pledged to continue its efforts to reduce the number of checks held for pickup. Therefore, we consider this recommendation fully implemented.

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### **Recommendation**

- 2.12 **Reduce Payment Processing Costs by Increasing Electronic Payments** – The Accounts Payable team should analyze the cost of payment methods and create a plan for payment processing cost reduction.

**Status: Implemented (Original target date for completion: December 2018)**

### **Agency Action**

Accounts Payable calculated the annual cost of writing checks and continues to encourage check reduction through email communication. It does this by attaching to emails a letter explaining the benefits of ACH payments and how to sign up for them. Accounts Payable staff have also added “ask me about electronic payment” in their email signature lines. For these reasons, we consider this recommendation fully implemented.

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## CONCLUSION

While the Purchasing Division and the Accounts Payable Team have implemented most recommendations made in the Purchasing and Payment Processes Audit Report, others have yet to be acted upon or fully implemented. Despite the agencies' efforts, we determined the risks associated with the audit team's initial findings have not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from the Purchasing Department and the Accounts Payable Team for their cooperation during our follow-up effort and for their dedicated public service.

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## Office of the Auditor

The **Auditor** of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies and contractors for the purpose of ensuring the proper and efficient use of City resources. He also provides other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver's government.

The **Audit Committee** is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities regarding the integrity of the City's finances and operations, including the reliability of the City's financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.



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