CITY OF WINSTON-SALEM
REPORT ON THE COMMUNITY DEVELOPMENT DEPARTMENT PURCHASING PRACTICES

For the 6 Months Ended October 31, 2022

Submitted by:
Budget and Performance Management Department
Internal Audit Division
March 2023
Overview of Community Development Department Operations

The Community Development Department (CD) is responsible for developing housing and neighborhood revitalization plans and programs that accurately reflect local needs and conditions as well as citizens’ desired strategies and outcomes. The department also conserves and improves the city's existing housing stock, and promotes the stabilization and revitalization of deteriorating disadvantaged neighborhoods.

CD utilizes a formal approval process for all expenditures which is managed via a four-person approval process to include the Director – Marla Newman, Senior Administrative Assistant – Tiffany Harris, Assistant City Manager – Patrice Toney (for purchases above $5,000), and City Manager – Lee Garrity (for purchases above $20,000).

CD purchasing for the audit period is presented in the table below:

<table>
<thead>
<tr>
<th>Purchasing Method</th>
<th>Total Number</th>
<th>Total Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assigned Purchasing Cards</td>
<td>3</td>
<td>N/A</td>
</tr>
<tr>
<td>Purchase Orders*</td>
<td>10</td>
<td>$121,085</td>
</tr>
<tr>
<td>P-Cards</td>
<td>178</td>
<td>$25,667</td>
</tr>
<tr>
<td>Requests for Checks</td>
<td>212</td>
<td>$961,474</td>
</tr>
</tbody>
</table>

*Purchase Orders of $20,000 or greater were excluded from the audit.

Definition of Compliance Requirements

Compliance requirements are presented within the City Administrative Purchasing Policies dated August 27, 2014 and August 25, 2022. The Purchasing Policy provides guidelines for purchasing cards (P-Cards), purchase orders (POs), request for checks (RCs), and related purchasing procedures. Procurements that are greater than $1,000 require a purchase order. Only services or items that cannot be procured on a purchasing card or purchase order should be paid for on a request for check. Informal quotes are required for purchases of $1,000 to $19,999. For all discretionary spending under $20,000, local vendors must be used if available and local Minority/Woman Business Enterprise businesses must be given an opportunity to bid/propose.

Scope of Audit Procedures Performed

The audit concentrated on operations and transactions occurring between May 1, 2022 and October 31, 2022. Emphasis was placed on the testing of P-Card, PO, and RC transactions in accordance with city policies and procedures. Expenditure testing focused on reviewing and verifying purchasing practices were in adherence with the Purchasing Policy. Statistical sampling methods were used (90% confidence level with a 10% margin of error).

For population and testing purposes, only purchases made exclusively by CD were included. Population and sample size tested are presented in the table below:

<table>
<thead>
<tr>
<th>Purchasing Method</th>
<th>Total Population</th>
<th>Total Tested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assigned Purchasing Cards</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Purchasing Cards</td>
<td>178</td>
<td>50</td>
</tr>
<tr>
<td>Purchase Orders</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Requests for Checks</td>
<td>212</td>
<td>52</td>
</tr>
</tbody>
</table>
Findings and Recommendations

1. Twenty-six RC transactions were not paid with the appropriate purchasing method.

Per the Purchasing Policy, only services or items that cannot be procured on a P-Card or PO should be paid for on a RC. The policy also states contracts for services that exceed $5,000 over the life of the contract should not be paid incrementally with RCs or P-Cards unless exceptions have been approved by the City Manager. These contracts should be encumbered by PO for the entire life of the contract or by annual amount, and paid by provisional payment authorization submitted to Accounts Payable. Twenty-four out of the fifty-two RCs tested should have been put on a PO as the need for the service or item arose. Quadient Finance and multiple mowing contractors were procured on a RC instead of PO. Reasoning was provided by CD; however, the policy states approval should be obtained from the City Manager in order to proceed with using a RC instead of a PO. CD also had two vendors, Soul-to Bowl and Transous Rent A Jon, that should have been procured on a P-Card instead of a RC.

It is recommended for CD to only use RCs when services or items cannot be procured on a PO or P-Card.

Management Response: On March 27, 2023, the Community Development Department (CD) conferred with the Purchasing Department for guidance on managing the purchase of postage for the department’s postage meter, which fluctuates monthly per internal division. Based on the guidance received, going forward CD will request a purchase order using the Quadient contract and give an estimate of postage usage for the fiscal year.

The CD Lending Division periodically facilitates the rental of port-o-johns from a vendor for homeowners who are having their homes rehabbed through the department. Because these cases have different timeframes for completion depending on the complexity of the rehab and any construction delays, CD is unable to procure with a PO and is uncomfortable providing the P-Card for the vendor file due to a history of billing mistakes. Going forward, CD will request an exception to the RC policy from the City Manager so that the department can continue paying by RC.

2. Nine P-Card transactions appear to be part of split transactions.

Per the Purchasing Policy, the practice of splitting a single transaction into several smaller pieces so that payments of less than $1,000 can be made by P-Card is a violation of City policy and may result in disciplinary action. There were a total of nine P-Card transactions spanning over three separate dates where purchases were made on a single day with the same vendor totaling over $1,000. In June, there were four Office Depot transactions on the same day totaling $2,493.17. In July, there were two Saf-Gard Safety Shoe transactions made to cover the $1,653.76 invoice. This particular transaction was addressed directly by the Purchasing Division. Lastly, in September, there were six Saf-Gard Winston Store transactions totaling $1,001.43.

It is recommended that management enhance monthly P-Card review and approval activities and more closely scrutinize P-Card transactions. Pre-authorization of P-Card transactions over a certain amount may be appropriate. It is also recommended that if Saf-Gard Safety Shoes is a recurring vendor, CD should consider using a PO for future purchases. For any purchase greater than $1,000, CD must obtain prior approval for exceeding the P-card limit or procure purchases over the limit with a PO.

Management Response: On occasion CD uses a P-Card to purchase supplies and equipment that exceed the $1,000 limit for single transactions. Going forward, the department will plan purchases so that a Pre-authorization of P-Card transactions over the $1,000 limit may be obtained.
3. One PO did not include an explanation for acquiring less than three quotes/bids.

Per the Purchasing Policy and Procedures Manual, for purchases anticipated to be less than $20,000 the requesting department is to make an effort to obtain a minimum of three price quotes/bids or provide explanation for the reason for less than three quotes/bids.

One PO did not obtain informal bids and did not provide an explanation for having less than three bids. It is recommended for CD to attempt to obtain three quotes/bids or document an explanation for having less than three quotes/bids.

Management Response: Current CD staff have used a vendor that was of record at the time of hire. Going forward, staff will independently seek additional quotes/bids from vendors rather than continue to solely use the vendor of record.

4. One PO did not include an explanation of efforts to obtain quotes/bids from M/WBE businesses.

Per the Purchasing Policy, explanation of efforts to obtain quotes/bids from M/WBE businesses shall be included with purchase requests.

One PO did not include an explanation of efforts to obtain quotes/bids from M/WBE businesses. It is recommended for CD to include an explanation of efforts to obtain quotes/bids from M/WBE businesses with all purchase requests within the supporting documentation in e-Works.

Management Response: CD will closely scrutinize all purchase requests before submission into eWorks to ensure sufficient explanations and supporting documentation of efforts to obtain quotes/bids from M/WBE businesses are included.

Observation and Recommendation

1. Four P-Card transactions are not supported by a valid vendor invoice.

Proper internal controls dictate an itemized receipt or invoice be included within the reconciliation supporting documentation for P-Cards. One vendor (Winston-Salem Journal), which accounts for the four transactions, did not include a valid itemized vendor invoice to support the purchase within eWorks.

It is recommended for CD to obtain and include all supporting documentation to the reconciliations within eWorks.

Management Response: Some subscription services have the P-Card number on file and bill regularly without sending an itemized invoice. Going forward, CD will cancel P-Card authorizations for those vendors which bill monthly on the card without sending an invoice, and ensure all other supporting documentation is included in eWorks during reconciliation.

General Recommendation

Due to the aforementioned instances of noncompliance with the City Administrative Purchasing Policy, Internal Audit recommends that review procedures be enhanced to lessen future concerns. All CD staff with purchasing responsibilities should be made aware of the City Purchasing Policy and its compliance requirements.
Respectfully submitted,

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