A Report
to the
Board of
Supervisors

Department Audit

Materials Management

Review of the Materials Management Department

September ■ 2006

*Maricopa County
Internal Audit
Department*

Ross L. Tate
County Auditor

The **County Auditor** is appointed by the Board of Supervisors. The mission of the Internal Audit Department is to provide objective, accurate, and meaningful information about County operations so the Board of Supervisors can make informed decisions to better serve County citizens.

The mission of Maricopa County is to provide regional leadership and fiscally responsible, necessary public services so that residents can enjoy living in a healthy and safe community.

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We have completed our review of the Maricopa County Materials Management Department, which was performed in accordance with the annual audit plan approved by the Board of Supervisors. The specific areas reviewed were selected through a risk-assessment process. Our review focused on contract monitoring and procurement card program administration. We also reviewed five of the department's performance measures.

Highlights of this report include the following:

- The County has no single source (automated or manual) that can readily identify all current contracts, total contract dollars awarded, and expenditures against these contracts
- Contracts are not managed uniformly throughout County agencies
- Contracts and Procurement Cards are not being monitored according to department policy and goals
- The County Procurement Card program lacks oversight, internal controls, and documentation

This report contains an executive summary, specific information on the areas reviewed, and Materials Management's response to our recommendations. We reviewed this information with Materials Management and appreciate the excellent cooperation provided by management and staff. The Materials Management Director took action after the completion of the audit fieldwork to address issues noted. If you have any questions, or wish to discuss the information presented in this report, please contact Eve Murillo at 506-7245.

Sincerely,

Ross L. Tate

Ross L. Tate
County Auditor

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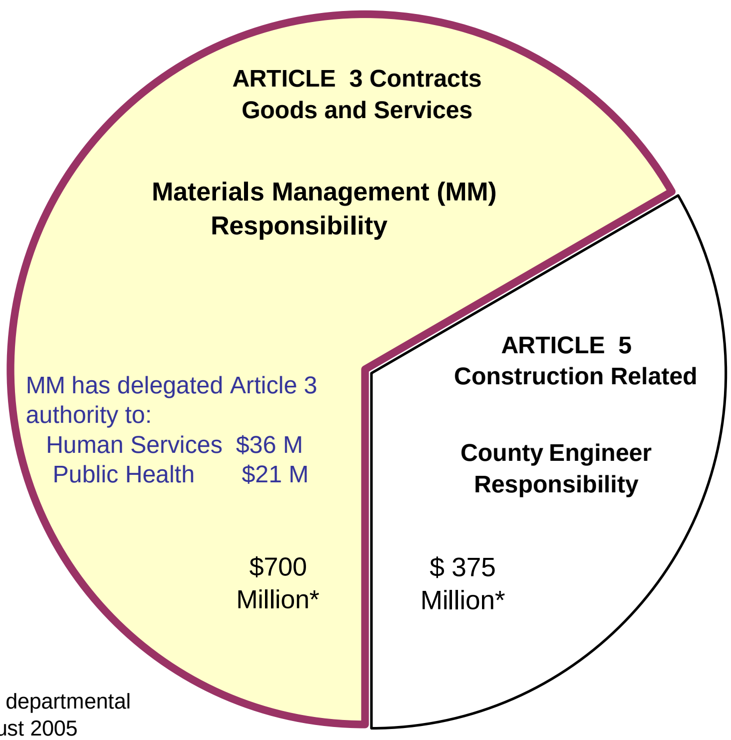
Materials Management has not established effective oversight of countywide Article 3 contracts and cannot validate the total number and dollar amount of these contracts.

- The Materials Management database maintains only those contracts procured by Materials Management, not those delegated to other departments with procurement authority
- The County financial system, maintained by the Department of Finance, has incomplete and inaccurate information on both Article 3 and Article 5 contracts

The lack of combined contract detail and adequate contract monitoring increases the risk of fraud and abuse, and diminishes the ability to assess liabilities and achieve savings economies through improved procurement. Materials Management should address Article 3 contract information capture and reporting, including the need for a shared automated system or database.

Countywide Contract Responsibility



* Note: Amounts are departmental estimates as of August 2005

Countywide Contract Monitoring is Inadequate (Page 9)

Materials Management has not established an effective contract monitoring program for countywide Article 3 contracts and procurement cards (P-cards). A program that provides reasonable and timely review intervals could minimize risk.

- The Materials Management monitoring program includes all County procurement cards, but only 61 percent of the County's contract dollars. Contracts procured by the Sheriff's Office and Courts are not included in this percentage.
- Insufficient staffing and inadequate management oversight hinder achievement of the department's monitoring goals
- The department's monitoring activities lack established methodologies to ensure appropriate sampling

Materials Management should initiate methods to strengthen its contract monitoring program and countywide contract monitoring efforts overall.

P-Card Administration Lacks Controls (Page 12)

Administrative controls over the Procurement Card (P-Card) program are inadequate. Control weaknesses include the following:

- Lack of established policies and procedures
- Inadequate segregation of duties
- Ineffective monitoring of card limits and closed accounts
- Inadequate reconciliations to ensure data accuracy

These missing controls significantly increase the potential for inappropriate or fraudulent card use, and corresponding financial losses. Materials Management should develop written administrative policies and procedures to address control issues.

Accurate Performance Measures (Page 15)

We examined five Managing for Results performance measures, including three key measures, and concluded that Materials Management data collection procedures are reliable and reported results are accurate.

Introduction

Background

Materials Management's (MM) primary function is to provide Article 3 procurement to meet the County's need for quality goods and services at the lowest responsive and responsible bids and prices. MM's responsibility excludes construction-related contracts referred to as Article 5 procurement; these are the responsibility of the County Engineer. MM ensures that procurement is performed in a fair and open competitive process complying with County policies.

MM regularly provides administrative support and training to county departments to ensure that contract development and procurement processes are adequate. Subsequent to procurement, an important part of contract management is monitoring for compliance to executed contracts. Other MM functions are graphic services, information technology, and records management oversight.

Statutory Authority for Materials Management Operation

Materials Management operates under Arizona Revised Statutes (ARS) Title 11 which gives the Board of Supervisors (Board) power to contract for and purchase real and personal property, and services for the County. Procurement is heavily regulated by ARS Title 41 and the Maricopa County Procurement Code, based on the State of Arizona Procurement Code, which the Board adopted as the County standard.

MM became a separate County purchasing department in 1971, with partially delegated procurement authority assigned to the MM Director in July 1973. In 1983, the Board designated the MM Director as the County's purchasing agent. The Board increased the MM Director's procurement authority to $250,000 in December 2004, and the Director also has Emergency Procurement approval up to $50,000. The Director has delegated some Article 3 procurement authority to other county agencies, as deemed necessary. These include Human Services and Public Health.

Contract and Procurement Card Oversight

Historically, MM had 93 positions with a $17 million budget. Positions have been eliminated and reduced over the years. The 1993 County fiscal crisis forced MM to eliminate 19 positions and relinquish control of several functions and positions, such as the warehouse operations. Other positions have been lost over time due to restructuring or budget constraints. In 2004, MM lost 3 additional positions including one dedicated to P-Card monitoring activities.

MM currently has 35 employees and a budget of $2.4 million to handle its major functions. Fourteen positions are dedicated to the graphics and information technology functions, three are responsible for departmental administrative functions, and the remaining 18 positions work on contracts and P-cards. The following table show current staffing assignment levels:

CURRENT MM STAFFING LEVEL	
Administrators	4
Administrative Assistants	3
Strategic Team (Buyers/Consultants)	9
Tactical Team (P-Card/Consultants)	3
P-Card Administration (Note 1)	2
Contract and P-Card Monitor (Note 1)	1
Information Technology	3
Graphics	10
TOTAL	**35**

(1) These positions are also part of the Tactical Team, but are broken out to show detail.

Our audit showed that MM currently has oversight of 538 contracts with a total estimated award value of $690 million, and P-Card transaction volume exceeding $2.5 million per month.

Since 1994, MM has added a countywide Certified Agency Procurement Aide (CAPA) function and a Procurement Card (P-Card) program to facilitate procurement of smaller value, repetitive items. MM trains CAPA employees on P-card usage and monitors usage and limits set by departmental supervisors. Over 1,900 cards have been issued since program inception. The P-Card program transaction volume has grown significantly. P-Card transaction volume ranges from $25-30 million annually. This number will increase again as MM issues separate travel and fuel cards, and approves P-Cards for other type purchases and payments.

Minority and Women Owned Business Enterprise (MWBE)

In 2003, the Board of Supervisors approved a Diversity Plan to bring attention to MWBE issues. The MM Director and the Public Works County Engineer have been given responsibility to provide a structure where MWBE considerations are fairly addressed in County procurement activities.

MWBE information is readily available on County Intranet and Internet sites. One MWBE website Quick-Links access provides much useful information. The City of Phoenix manages the website and provides public access to the application that businesses are required to complete to be certified as an MWBE vendor. Certified businesses are included in the MWBE business directory. In addition, the Flood Control District website links directly to the state Department of Transportation MWBE information. The County Electronic Business Center includes MWBE in its Index. MM staff participated in the County booth at the MWBE fair in August 2005.

Scope and Methodology

In conducting this work, Internal Audit relied primarily on Arizona Revised Statutes (ARS), the Maricopa County Procurement Code, and related MM policies and procedures. We also used America Institute of Certified Professional Accountants (AICPA) guidelines and best practice standards.

The objectives of this audit were to determine if:

- The County has a master list of all existing contracts, and the ability to aggregate and report all awarded, encumbered, and expended amounts to date. This includes the Article 3 contracts within MM's authority, and the Article 5 contracts within the County Engineer's authority. The Courts and the Sheriff's office were excluded from our review
- MM has sufficient resources to effectively monitor contract and P-Card activity, in order to minimize fraud, waste, and abuse
- MM has an established methodology for sample selection and for setting the scope of Article 3 contract monitoring activities
- Departments with delegated Article 3 procurement authority have established their own contract monitoring function
- P-Card administration has established policies and procedures to control P-Card database reconciliation to P-Cards, database file/record maintenance and documentation, billing reconciliation, card limit monitoring and training

The issuance of this report was delayed for six months due to a conflicting, high-priority engagement.

This audit was performed in accordance with generally accepted government auditing standards.

Issue 1 County Lacks Contract Detail for Review and Reporting

Summary

Materials Management has not established effective oversight of countywide Article 3 contracts and cannot validate the total number and dollar amount of these contracts.

- The Materials Management database maintains only those contracts procured by Materials Management, not those delegated to other departments with procurement authority
- The County financial system, maintained by the Department of Finance, has incomplete and inaccurate information on both Article 3 and Article 5 contracts

The lack of combined contract detail and adequate contract monitoring increases the risk of fraud and abuse, and diminishes the ability to assess liabilities and achieve savings economies through improved procurement. Materials Management should address Article 3 contract information capture and reporting, including the need for a shared automated system or database.

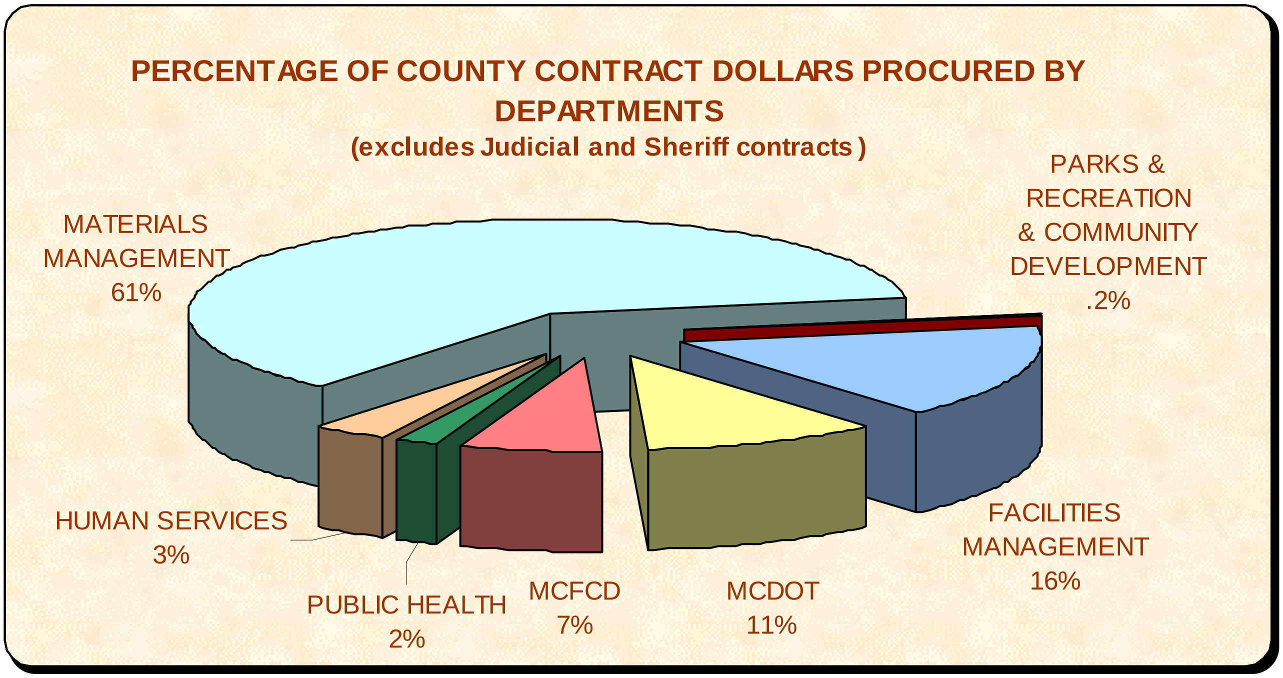
The County Lacks a Complete Contract Inventory to Facilitate Analysis

Because contracting is a function that exposes the County to fraud, waste, and abuse, it is important that systems and controls be in place to minimize such risks. We noted that MM does not maintain a master inventory of all contracts in place throughout the County. Lack of such an inventory significantly hinders effective management and oversight of contract expenditures.

MM lacks a comprehensive contract inventory because it does not track Article 3 contracts in departments with delegated procurement authority. MM also does not track Article 5, construction-related contracts, which are under the authority of the County Engineer. MM has a supplemental database used only for their own contracts; it has not been installed and used in other departments. As MM had no comprehensive list, we obtained information directly from other departments for both Article 3 and Article 5 contracts. Some departments had no comprehensive list and prepared one from their available data sources. Departments use different tracking methodologies and software programs to track contracts.

From summary data compiled, we estimate the County has 1,284 awarded contracts worth $1.1 billion, managed as follows:

- MM procures 42 percent of the 1,284 county contracts, representing 61 percent of all award dollars; MM directly administers 538 contracts, with total awarded value of $690 million
- Other departments administer 746 contracts (Article 3 or Article 5), with total awarded value of $435 million



Note: Any variance to 100% total is due to rounding

Specific Testing Reveals Inaccurate or Incomplete Contract Information

While we found that 355 (28%) of the estimated 1,284 contracts tested could be traced to Board Agendas and Board of Supervisor approvals, we could not trace all items to the county financial system Grant Module (used by the Department of Finance to track all contracts). We attempted to trace 110 sample contracts to the Grant Module with the following results:

- 33 (30%) were found in the module
- 65 (59%) contracts were either not in the module, or the actual award and expenditure amounts did not match contract detail in the module
- 12 (11%) items were identified in one fiscal year, but not in the subsequent year, even though they had not expired

Although the Department of Finance (DOF) uses the county financial Grant Module to track contacts, grants and miscellaneous financial information are commingled in the module. Commingling this data hampers the ability to easily identify and report contract summary information.

After reviewing the sample of contracts for approval and tracking, we downloaded FY 2005 expenditures for various departments. We tested to determine if the expenditures were properly supported by written documentation, such as a contract, a court order, or an authorized purchase request. We tested 55 payments made to 22 vendors. All payments were made in conjunction with approved contracts or other approved documentation, without material exception. We did not test payments for compliance with Not-to-Exceed contract amounts. We noted that some departments lacked an adequate understanding of multiple contract bid award processes.

The County does not have a procurement system that readily provides expended contract dollar totals. A request was submitted to the DOF for the FY 2005-06 contract expenditure totals. The DOF provided an estimated figure of $356 million. Because the County utilizes the Advantage Grant Module to track and monitor contracts, the effort to separate contract information from grant information was very time-consuming. The turn-around time for the information was approximately two weeks, partly because DOF spent a lot of time scoping the request. We did not attempt to verify the total provided us.

Overall Contract Management Control Weaknesses

Our initial review of contract and monitoring information disclosed these control weaknesses:

- MM does not have a complete, documented source or master list showing all Article 3 contracts, award amounts, expenditures, and other data so that they can be verified and reported. The exact contract total dollars awarded and an accurate number of contracts awarded are unknown. Without this information, MM cannot coordinate purchases across departments and achieve savings economies through improved procurement. Lacking comprehensive and reliable information about County contracts diminishes the County's ability to effectively review and state outstanding liability, and to report the information when necessary.
- The County financial system Grant Module does not appear to have complete and accurate contract information
- The County and Materials Management lack an effective automated system for consistently tracking and monitoring contracts countywide and within departments. Lack of one automated system for all users contributes to inconsistent and ineffective reporting of contract data.
- MM does not survey all county departments for new or renewal contract solicitation to determine affected departments that would benefit from contract services and help leverage county procurement.

Recommendations

Materials Management should:

A. Investigate purchasing a countywide automated procurement system with capacity for capturing information and generating reports on Article 3 contract and procurement data to provide consistent and useful countywide financial information.

B. Evaluate the cost and benefits of centralizing procurement in MM or having the buyers for agencies with significant delegated procurement authority installed at Materials Management to ensure effective compliance with the Procurement Code.

C. Provide ongoing contract and contract payables training for departments with delegated procurement.

Issue 2 Countywide Contract Monitoring is Inadequate

Summary

MM has not established an effective contract monitoring program for countywide Article 3 contracts and procurement cards (P-cards). A program that provides reasonable and timely review intervals could minimize risk.

- The MM monitoring program includes all County procurement cards, but only 61 percent of the County's contract dollars. Contracts procured by the Sheriff's Office and Courts are not included.
- Insufficient staffing and inadequate management oversight hinder achievement of the department's monitoring goals
- The department's monitoring activities lack established methodologies to ensure appropriate sampling

Materials Management should initiate methods to strengthen its contract monitoring program and countywide contract monitoring efforts overall.

Countywide Contract Monitoring Has Not Been Established

MM has not established a centralized Article 3 contract monitoring plan. Current monitoring efforts throughout the County are inadequate to prevent potential fraud, waste, and abuse. While departments verify that payments are made and charged according to approved invoices, payments are not reviewed for compliance to the Procurement Code, or to contract terms and conditions. The Article 5 County Procurement Officer performs some periodic Article 5 reviews, but they are not regularly scheduled (MM is not responsible for Article 5 contracts).

Contract Monitoring Is Inadequate

Our initial assessment of compliance monitoring for contracts and P-Cards noted these control inadequacies:

- The current monitoring cycle intervals do not capture processing and documentation problems on a timely basis
- Sampling is not defined and does not address the entire County and P-Card populations. A majority of contract reviews appear to have been special requests.
- Cross training and backup for monitoring positions are not in place

Contract monitoring is a cost-beneficial activity. Monitoring should assure that payments comply with contract terms and conditions, avoiding errors that result in overpayments to vendors. Monitoring can uncover expenses that may be recoverable, may detect clerical and accounting errors, and serve as a deterrent to unwanted activity such as theft or abuse. Audits completed by

Internal Audit and by MM in the recent past illustrate the potential effectiveness of contract monitoring, as shown in the table below. However, these amounts are just a sample of potential recoveries that could be accomplished if monitoring were consistent and effective.

Payment Errors Detected through Internal Audits and Contract Monitoring		
Service Type	**Amount**	**Status/Outcome**
Mail/Postage	$594,700	Recovered
Copier Servicing	$155,261	Recovered
Truck & Trailer Leasing	$9,000	Recovered
Construction	$57,031	Recovery Pending
Patient Transportation	$54,000	Unauthorized claims paid. Not recovered due to management lack of timely follow-up
Personal Computer Maintenance and Support	$12,069	Overcharges (Not pursued by departments)
TOTAL	**$882,061**	

Staffing Level Prevents Compliance to Monitoring Policy Requirements

Currently, MM has only one employee assigned to perform the monitoring function. She divides her time among the following activities: Contract monitoring, P-Card monitoring, Pitney Bowes monitoring, reconciliation and implementation.

Contract monitoring involves verification and accuracy of the extensions and totals on vendor invoices, checking the invoices against the contract terms and conditions and for discounts, and verifying billing rates against those in the contract. The monitor also ensures that transaction receipts adequately document the appropriateness of transactions.

Policy Requirements

Materials Management's Policy for Contract Compliance Review defines two methods for selecting contracts to be monitored:

- Routine Monitoring with a goal of 25 contracts per quarter for review
- Focused Monitoring for specific contract reviews requests from management

Policy indicates that the P-Card Compliance Monitor is responsible for continuous program compliance monitoring.

These current policy goals are neither realistic nor attainable given staffing levels in Materials Management and the current operational workflow. A single employee assigned to monitoring cannot meet these policy goals. Currently, the monitor selects two contracts per month and eight to ten P-Cards to review.

MM should monitor its 538 awarded contracts valued at $690 million. In the 15 months between March 2004 and May 2005, MM reviewed only eight of their 538 contracts, well short of the goal of 25 contracts per quarter. As illustrated below, MM would need 67 years to review their existing contract database alone, without consideration to any of the remaining contracts procured by departments with delegated procurement authority.

A similar situation exists with P-Card monitoring. There are approximately 1,400 issued P-Cards; however, the P-Card database reflects in excess of 1,900 cards. In a recent 21 month period, 72 P-Card reviews were completed, averaging 3.4 reviews per month, short of the eight to 10 planned reviews. As also illustrated in the chart below, it would take 48 years to review all cardholders and related transactions.

MATERIALS MANAGEMENT
MONITORING OF CONTRACTS AND P-CARDS

	CONTRACTS	P-CARDS
Total Volume of Contracts and P-Cards	538	1,955
Number of Reviews Per Month	0.7	3.4
Number of Reviews Per Year	8	41
Percentage of Total Volume Base Reviewed Annually	1.5%	2.1%
Estimated Number of Years for 1 Full Database Review Cycle	67	48

Recommendations

Materials Management should:

A. Develop a centralized policy for monitoring Article 3 contracts throughout the County, to include those departments with delegated procurement authority.

B. Establish uniform standards if departments are to track and monitor their own contracts.

C. Review the contract and P-card compliance policies and goals and establish procedures to address monitoring volumes, intervals, and sampling methodology.

D. Determine the procurement card volume and countywide Article 3 contract volume and assess the staffing requirement needed to provide timely and adequate reviews.

Issue 3 P-Card Administration Lacks Controls

Summary

Administrative controls over the Procurement Card (P-Card) program are inadequate. Control weaknesses include the following:

- Lack of established policies and procedures
- Inadequate segregation of duties
- Ineffective monitoring of card limits and closed accounts
- Inadequate reconciliations to ensure data accuracy

These missing controls significantly increase the potential for inappropriate or fraudulent card use, and corresponding financial losses. Materials Management should develop written administrative policies and procedures to address control issues.

Administrative Duties Are Not Segregated

MM has no written procedures for P-Card statement reconciliation and payment processing; incompatible duties are not segregated.

The Senior P-Card Administrator reviews, reconciles, and approves the P-Card statement for payment. He also corrects general ledger departmental cost allocation account number errors in the county financial system, and prepares the vouchers for payment. Only the Senior Administrator has been trained in this function; there is no backup.

When one individual performs all aspects of payment processing and reconciliation, the lack of segregation of duties increases the potential for misuse of funds. Without backup, the function is at risk of disruption in the event of employee illness or absence. Subsequent to the audit, the Senior Administrator began training another employee.

Transaction Limits Are Not Enforced

Certified Agency Procurement Aides (CAPA) are departmental employees trained to handle minor purchases using an assigned purchase card (P-card). Individual County departments establish CAPA spending limits within maximum limits specified by the County and MM.

MM has not reviewed and monitored CAPA limits. We noted the following discrepancies, which the MM staff could not adequately explain.

- 126 inactive P-Cards show credit limits ranging from $1,000 to $100,000. Inactive accounts should show a maximum $1 limit to hold account history
- 1,244 P-Cards have Daily Purchase Limits greater than the assigned Credit Limits

The vendor explained that a system “bug” allowed vendor representatives to enter inconsistent limits for closed inactive accounts and cards to have Daily Purchase Limits greater than credit limits. The vendor stated the problem has been corrected in their new system to which clients will migrate. MM was unaware of the system problem.

P-Cards Are Not Always Canceled Upon Employee Termination

MM has not regularly obtained lists of terminated employees from Human Resources to ensure that former employees do not hold active P-Cards. Seven percent of employees in our sample who terminated in early to mid 2005 show active P-Cards on file. In a FY 2005 review, auditors found $5,775 in charges to terminated employees' P-Cards. While MM had closed the accounts, the vendor had not been notified to cancel the cards. Although it was determined that the monies were spent for County purchases, the potential for unauthorized purchases existed.

P-Cards should be permanently deactivated to minimize the risk of transactions occurring after employees transfer or leave County employment. Policy requires employees to cut their cards in half and provide copies of the destroyed cards to P-Card Administrator. We found copies of destroyed cards in some cardholder files. MM stated, however, that department management does not always want terminated employees' travel P-Cards canceled; they want to have a card available for travel. New cards are not always issued. MM lacks a definitive policy on use and reissue of travel cards and has not enforced a policy in this area. This creates a risk of misuse or undocumented use.

Inactive P-Cards and Lack of Follow-up Cause Potential Risk

P-Cards that have never been activated, or are temporarily or permanently closed, are designated as inactive. Controlling the location and status of cards that have the potential for activation reduces the risk of errors and fraud. Of the 1,955 Maricopa County P-Card identified in the database, 561 (29%) are inactive. We reviewed 373 of the 561 inactive P-Cards with these results:

- 349 cards (62%) are assigned to the Sheriff's office (MCSO) and appear never to have been activated. MM has not followed-up on any of them.
- 24 cards (4%) were correctly and permanently canceled due to the establishment of a new Special Health Care District

We tested 30 (5%) of the 561 inactive P-Cards. Our results disclosed that MM data reconciliation was not effective and controls and supervision were not in place. Polices and procedures have not been written. Inactive account discrepancies include:

- Eleven inactive cards had credit limits ranging from $500 to $100,000; five of the ten cards were active on the MM internal tracking system

- Four cards for terminated or transferred employees were closed in temporary instead of permanent status; one transferred employee still has an active P-Card from a previous department shown on the vendor system, but the number is not shown on the MM internal tracking system
- Two cardholders identified on MM P-Card listing, but not on the current Human Resources system as current or former County employees, each have an active and inactive P-Card. One cardholder also has an Office Depot ghost card. These documentation errors create potential risk for the County.
- Sixteen cards have name discrepancies on both the vendor database and the internal tracking system. These discrepancies occurred during vendor system migration and went undetected because MM did not review and clear migration exceptions.

Recommendations

Materials Management should:

A. Develop written P-Card administrative policies and procedures to provide controls over monthly statement reconciliation and the periodic reconciliation of the internal tracking system to the vendor database.

B. Establish regular review intervals for CAPA and P-Card limits, for closed and inactive account coding; and, establish a policy for card issuance to non-County employees.

C. Ensure segregation of duties is in place over reconciliation processes.

D. Review current inactive cards and take appropriate action. Request Human Resources to provide employee termination lists on a regular basis for comparison and action.

E. Perform periodic, on-site verification of departments' P-Cards against the vendor and internal database. Validate departmental P-Cards for accurate names, account numbers, and assigned department.

Issue 4 Accurate Performance Measures

Summary

We examined five Managing for Results performance measures, including three key measures, and concluded that Materials Management data collection procedures are reliable and key results are accurately reported.

Results Summary Table

Materials Management Performance Measures Summary Table	Certified	Certified with Qualifications	Not Certified
1. Percent of clients satisfied with Graphic Communications contract services	✓		
2. Percent of clients satisfied with Graphic Communications manufactured products	✓		
3. Percent of clients satisfied with procurement products provided*	✓		
4. Number of work requests completed – Graphic Communications contracts (In-House)	✓		
5. Number of work requests completed – Graphic Communications manufactured products (Out-Sourced)	✓		

* Note: MM originally showed 2 sets of results for measure #3 and would have received "certified with qualification." MM subsequently removed the extraneous data, and achieved a "certified" rating.

County Policy Requirements

Maricopa County Board of Supervisors Policy B6001 (4.D Evaluating Results) requires the Internal Audit Department to review County departments' strategic plans and performance measures and report on results. The following information defines the results categories that are used in the certification process.

Definitions

Certified: The reported performance measurement is accurate (+/-5%) and adequate procedures are in place for collecting/reporting performance data.

Certified with Qualifications: The reported performance measurement is accurate (+/-5%) but adequate procedures are not in place for collecting and reporting performance data.

Not Certified:

1) Actual performance is not within five percent of reported performance and/or the error rate of tested documents is greater than five percent.
2) Actual performance measurement data could not be verified due to inadequate procedures or insufficient documentation. This rating is used when there is a deviation from the department's definition, preventing the auditor from accurately determining the performance measure result.
3) Actual performance measurement data was accurately calculated but not consistently posted to the public database.

Measure Testing

Key Measure #1: **Percent of clients satisfied with Graphic Communications contract services**

Results: **Certified**

Measure #1	FY03	FY04	FY05 Qtr 1	FY05 Qtr 2	FY05 Qtr 3	FY05 Qtr 4	FY05 TOTAL
Reported	--	--	--	--	--	--	**76%**
Actual	--	--	--	--	--	--	**76%**

The measure is accurate. FY 2004 and prior were covered in the last review. This review focused on FY 2005.

Key Measure #2: **Percent of clients satisfied with Graphic Communications contracts**

Results: **Certified**

Measure #2	FY03	FY04	FY05 Qtr 1	FY05 Qtr 2	FY05 Qtr 3	FY05 Qtr 4	FY05 TOTAL
Reported	--	--	--	--	--	--	**95%**
Actual	--	--	--	--	--	--	**95%**

The measure is accurate.

Key Measure #3: **Percent of clients satisfied with procurement products provided**

Results: **Certified**

Measure #3	FY03	FY04	FY05 Qtr 1	FY05 Qtr 2	FY05 Qtr 3	FY05 Qtr 4	FY05 TOTAL
Reported	**--**	**--**	**--**	**--**	**--**	**--**	**83%**
Actual	**--**	**--**	**--**	**--**	**--**	**--**	**83%**

The measure is accurate.

Measure #4: **Number of work requests completed – Graphic Communications contracts (In-House)**

Results: **Certified**

Measure #4	FY03	FY04	FY05 Qtr 1	FY05 Qtr 2	FY05 Qtr 3	FY05 Qtr 4	FY05 TOTAL
Reported	**--**	**--**	**675**	**608**	**830**	**840**	**2,953**
Actual	**--**	**--**	**675**	**608**	**830**	**840**	**2,953**

The measure is accurate.

Measure #5: **Number of work requests completed – Graphic Communications manufactured products (Out-Sourced)**

Results: **Certified**

Measure #5	FY03	FY04	FY05 Qtr 1	FY05 Qtr 2	FY05 Qtr 3	FY05 Qtr 4	FY05 TOTAL
Reported	**--**	**--**	**219**	**171**	**232**	**211**	**833**
Actual	**--**	**--**	**219**	**171**	**229**	**211**	**830**

The measure is accurate. The difference in the 3rd Quarter is less than 5%.

Recommendation

None, for information only.

Department Response

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To: Readers of this Audit Response

From: Wes Baysinger, Director, Materials Management WB

Date: August 7, 2006

Materials Management appreciates the cooperation demonstrated by Internal Audit during this process. We have always attempted to work closely with Internal Audit on contract issues and concerns. Due to the extended period of time between completion of the audit and receipt of the final report, Materials Management has proactively undertaken efforts to resolve many of the recommendations identified in the audit report. Internal Audit has actively supported Materials Management in many of these efforts by providing draft reports and other information that were used in a attempt to justify budgetary requests.

To permit readers of to fully understand Materials Management response, it is important to define procurement authority, as it currently exists in Maricopa County. Under the authority granted by the Maricopa County Procurement Code, Materials Management has authority and responsibility for Article 3 procurement activities, which are generally defined to be non-construction related commodities and services. Under this authority and responsibility, Materials Management can delegate limited, department specific procurement authority to departments and agencies in the County. Currently the Public Health department and Human Services department are the only delegated agencies under Article 3.

Construction and construction related procurement authority is granted to the County Engineer. Like Materials Management, Article 5 has the authority and responsibility to delegate procurement authority to departments and agencies for the purpose of contracting for these services. Article 5 utilizes a decentralized organizational structure where individual's delegated Article 5 authority resides in and report to their respective department directors. Because of this decentralized structure, Article 5 out of necessity must delegate procurement authority to several County departments engaged in construction related activities.

Materials Management shares many of the concerns identified by Internal Audit in their report such as a lack of a countywide master contract list and the absence of a countywide contract administration and monitoring program. Yet while sharing these concerns, the County currently neither has the systems needed to collect and report contract data nor buy-in from all affected parties to participate if such a system was provided. Further, even if contract administration and monitoring policies and procedure were developed, no oversight structure exists to assure compliance. Contracting has not been deemed a strategic budgetary priority by the County and therefore is only given consideration after sufficient funding has been allocated to the adopted priorities.

If there are any questions regarding this response, please contact me.

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Issue #1
County Lacks Contract Detail for Review and Reporting

Response: Concur. The County does not have a central repository that contains a comprehensive list of all County contracts along with detailed information specific to each contract. The division of procurement authority between Article 3 and Article 5 complicates this situation. Under the Procurement Code Article 3 procurement authority resides with the Department of Materials Management while Article 5 authority resides with the County Engineer. The centralized organization structure of Materials Management, with the exception of the Public Health and Human Services who have been delegated limited procurement authority, permits Article 3 to maintain a comprehensive contract master list. The decentralized organizational structure of Article 5 makes this type of tracking more difficult because of a lack of direct control over Article 5 procurement personnel who report to their respective department directors rather than the County Engineer.

Recommendation A.: Investigate purchasing a countywide automated procurement system with the capacity for capturing information and generating reports on contract and procurement data to provide consistent and useful countywide financial information.

Response: Concur – Implementation Currently Not Possible. The potential for implementing a electronic procurement/contracting application has been under investigation since 1999. During the FY 1999/2000 budget process, funding in the amount of $2.1 million was allocated for the acquisition and implementation of a e-procurement application. A solicitation was issued and responses evaluated. The results of the evaluation revealed that the five life cycle cost of acquiring and implementing an e-procurement application would be approximately $9 million dollars. Based on this cost, it was determined that it would not be financially feasible to move forward with this project.

Since 2000 the e-procurement application market has matured and the pricing models for acquiring or using these applications has changed. In retrospect, the County made the correct decision to not proceed with the selection and implementation of this application in 2000.

During the intervening years, Materials Management has followed the evolution of e-procurement applications to determine whether an application existed that would meet the needs of the County at an affordable life cycle cost. At this time, we believe that there are applications available in the market that meets both these criteria. In an effort to reinitiate this process, Materials Management requested funding as part of its FY 2006/07 budget submittal through the RIR process for funding to acquire an implement an e-procurement/contracting application. After careful consideration, the Office of Management and Budget determined that additional analysis was required before a funding decision could be made and the request was not included in the budget recommendation approved by the Board of Supervisors.

The details of the Office of Management and Budgets decision on this matter are shown below.

"OMB at this time, does not recommend the purchase of the requested software and additional staff as requested by the Materials Management Department.

OMB recommends that the Materials Management Department organize and lead a group of County department representatives (stakeholders) in an effort to determine the best E-Procurement/Contract monitoring solution for the County. This group should be composed of the departments with Article 3 and Article 5 contracts delegated to them, Finance Department representatives, OMB and other entities identified in the Procurement process.

The expected output of this group must be:

1. A business plan for an E-Procurement/Contract Management software application.
2. Complete buy-in from all departments to centralize their contracts.
3. A formal, standardized policy providing oversight of all contracts within the County.
4. A positive return on investment within the first three (3) years after implementation.
5. A demonstrated solution to identifying all County contracts.

Upon completion of this task force, Materials Management may submit a request for the implementation of an E-Procurement/Contract Monitoring application to OMB, with the support of the Chief Financial Officer and the Chief Information Officer, for review and consideration."

Target Completion Date: Unknown. Funding request not approved.

Benefit/Costs:

1. Reduced transaction cost.
    - Reduced transaction processing time
    - Reduce number of handoff (User enabled to process order rather than submitting to MM for issuance of PO).
    - Reduced time to receive orders (Faster issuance of PO/faster delivery)
    - Reduced cost in distributing orders (Email, fax v. mail).
        a. Eliminate some printing, sorting, mailing, inter-officing paper
        b. User site on-demand printing of PO's.
    - Automation of manual processes.
2. Increased contract usage – Controls to direct purchase to contracts that provide lower pricing than non-contract purchases.
3. Reduced maverick buying – Controls to limit users ability to purchase outside of established contracts rather than using established contracts that contain volume pricing.
4. Reduced contract pricing due to leveraging requirements and usage – Ability to gather usage data by commodity and leverage contract pricing/negotiations.
5. Increased procurement/contract tracking and reporting capabilities –

- Centralized application containing all contract information that will enable decision makers to determine levels of spend by department/vendor/commodity/business type, etc. Permit County to accurately ascertain contractual liability at any point in time.
- Provide capability to accurately track expenditures against contracts to assure they are appropriate, within established budgets, and have been properly approved.
- Historical procurement information available for budgeting proposes.

6. Increase contract administration/monitoring capabilities –
    - Permit contract activity to be remotely monitored without need to manually pull information.
    - Contracts can be more accurately selected based on actual activity to increase monitoring efficiency.
    - Increase procurement accountability.
7. Reduction in the number of departmental shadow applications used to track and report individual departmental activity – These applications have costs for developing, implementing and maintaining. In many instances there is duplicative data entry that consumes employee time.
8. Potential to control future head count growth in personnel dedicated to procurement activities – Automation and streamlining of processes may increase the efficiency of procurement activities.
9. Application will permit implementation and stabilization to occur before the projected retirement of a significant number of procurement personnel.
10. Implementation will provide an application that will be viable for several years longer than the current Advantage application.
11. Application will use newer hardware technology and move off currently outsourced mainframe./$900,000 Est.

Recommendation B.: Evaluate the costs and benefits of centralizing procurement in MM or having buyers for agencies with significant delegated procurement authority installed at Materials Management to ensure effective compliance with the Procurement Code.

Response: Concur – Implementation Currently Not Possible. County procurement authority is currently split between construction and non-construction related activities. These are commonly referred to within the County as Article 3 procurement (non-construction) and Article 5 (construction), which reference sections from the Maricopa County Procurement Code. Authority and responsibility for Article 3 procurement activities resides with the Director of Materials Management and Article 5 authority and responsibility resides with the County Engineer. This division of procurement authority is not generally practiced by other jurisdictions. For example, the State of Arizona, City of Tucson and Pima County all use a consolidated procurement organization.

In an attempt to consolidate procurement activities into one department and achieve the efficiencies that would result from this consolidation, Materials Management has approached the past three County Engineers with the idea of consolidation. Of those

County Engineers approached, none have supported the idea of consolidation. Without the support of the County Engineer, this recommendation cannot be implemented.

Target Completion Date: As stated in the response to this recommendation, currently there isn't support to implement this recommendation. Materials Management will continue to explore the implementation of this recommendation but at this time no implementation date is contemplated.

Benefit/Costs: Reduces redundancy in procurement resources. Provides increased control over procurement activities to assure compliance with all statutory, policy and procedure requirements. Increases the ability to transfer knowledge and experience for the purpose of cross training and business continuity. Better utilization of resources through countywide focus as opposed to departmental focus. Increased objectivity and independence gained from working in a centralized department verses reporting to a department director who is also the primary contract user./The cost of implementing this recommendation is dependent upon the structure of the new organization. The current Materials Management facility cannot accommodate all employees who would be impacted by this recommendation. If these employees were to remain in their current location, the only cost would be to equalize salaries. If the decision were made to centralize all procurement operations, new office space would be required which would increase costs.

Recommendation C.: Provide ongoing contract and contract payables training for departments with delegated procurement.

Response: Partially Concur – Implementation Currently Not Possible. Materials Management recognizes the benefit of offering contract administration training to County personnel and has made requests through the budget process to acquire the resources necessary to develop and maintain a training curriculum and provide the actual training. As part of the budget submission for this fiscal year, Materials Management requested three additional contract monitors. In addition to supplementing our current contract monitor, it was anticipated that the additional staff would provide the resources necessary to restart this training. This request was not approved and diverting our sole contract monitor's attention to training would effectively eliminate our ability to conduct contract and p-card monitoring activities. Our ability to develop and provide any substantive procurement training was further handicapped by the requirement to reduce our departmental budget by 10% in FY 2003/04, which resulted in the loss of three FTE's.

Materials Management does not concur with the recommendation that it provide contract payables training. Payables is not a function or responsibility of Materials Management and assuming this additional training responsibility will further reduce our ability to concentrate on contract monitoring activities.

Target Completion Date: Unknown. Funding request not approved.

Benefits/Costs: Providing ongoing and reoccurring contract administration training will establish County standards for contract administration activities and reduce problems resulting from contractor non-performance or over expenditures for contract services and commodities. Effective administration of contracts will ensure that expenditures maximize benefit to the County and permit ongoing analysis of contract needs that fulfill the County's actual requirements. /$85,000 Annually.

Issue #2
Countywide Contract Monitoring is Inadequate

Response: Concur. Materials Management through it's own efforts in identifying contracting monitor as a significant issue and making it's internal operations more efficient was able to dedicate one FTE to contract monitoring. This FTE has been very successful in finding and recovering significant over expenditures. Unfortunately, due to additional funding cuts in FY 2003/04, this FTE was required to dedicate half of their time to p-card monitoring that has had a corresponding negative affect on Materials Management ability to conduct contract monitoring activities.

Recommendation A.: Develop a centralized policy for monitoring contracts throughout the County, to include those departments with delegated procurement authority.

Response: Do Not Concur. Materials Management does not have the authority to develop and implement standardized countywide contract monitoring policies. If Materials Management concurred with the recommendation, it could only require that these monitoring policies be implemented in departments' delegated limited Article 3 procurement authority. However, Materials Management does not concur with the recommendation to have this activity performed within these delegated agencies. At this time only two departments currently have delegated Article 3 procurement authority (Public Health and Human Services).

Implementation of Internal Audit's recommendation will increase duplication of effort and place another burden on delegated departments that they are currently not staffed to assume. Taking into consideration the available resources, the proper use of those resources is to administer contract to assure they are used correctly and reduce the issues and problems most frequently found during monitoring activity. Further, with the limited number of departments' delegated limited Article 3 procurement authority, the majority of Materials Management's contracts are for departments without this delegation. Therefore, no appreciable increase in the number of contracts monitored would result. Finally, asking departments to monitor their own contracts presents an inherent conflict for departments. Departments will find themselves torn between finding and reporting contract issues/problems which conflicts with their self-preservation instincts of not publicizing issues and problems.

Materials Management's recommendation is to expand its contract monitoring capabilities. Centralizing the monitoring activity in Materials Management reduces duplication and permits resources to be used on all Article 3 contracts rather than those specific to one department. This arrangement also promotes communication between the contract monitor and the procurement staff responsible for a contract to review the issues and take any required corrective action should contract amendments be required. In addition, if significant contractor performance issues are identified, the assistance of the appropriate Materials Management Procurement Consultant can be enlisted to gain the cooperation of the contractor.

In recognition of the need to increase centralized contract monitoring activity, Materials Management requested additional monitoring resources as part of its FY 2006/07 budget submittal. This request was analyzed and ultimately denied by the Office of Management and Budget (OMB). Instead of providing the additional resources requested, OMB's recommendation was that Internal Audit be tasked with the responsibility of increasing their contract monitoring activities to provide the additional contract analysis identified in this recommendation.

Target Completion Date: Will not be implemented. Funding request not approved.

Benefit/Costs: Studies from nationally recognized organizations estimate that six percent of an average organizations budget is lost to fraud and abuse each year. Based on this information, the County potentially loses $66 million annually. While Maricopa County operates in a more efficient and effective manner than an "average organization", the potential benefit of expanding the contract monitoring activity is significant. In the past year the one contract monitor FTE in Materials Management recovered $749,961 in contract overpayments. This represents a return on investment of 15 times the cost of this single FTE. / Materials Management's annualized budget request totaled $193,644.40. This additional funding was sufficient to increase the contract monitoring staff from one to four.

Recommendation B.: Establish uniform standards if departments are to track and monitor their own contracts.

Response: Concur – Will Implement With Modifications. Materials Management recognizes and supports the need for contract tracking. However, as stated in our response to Issue #2, Recommendation A., Materials Management does not concur with the recommendation for limited delegation Article 3 departments monitoring their own contracts.

In recognition of the need for standardized tracking of Article 3 contracts, Materials Management submitted a funding request for a e-procurement/contracting application as stated in Issue #1, Recommendation A.. As previously stated, that funding request has not been approved.

In an effort to at least partially satisfy this recognized need, Materials Management has worked with the Chief Information Officer staff in an attempt to permit Public Health, which has been delegated limited Article 3 procurement authority, to input contract information into the contract tables available in the AMS Advantage financial application. While this solution is not optimal because it will not capture all Public Health contracts, it will hopefully supplement attempts by the Department of Finance to collect contract data using the Grants Module also found in the Advantage application.

Due to the system limitations of the AMS Advantage application, Public Health will be the last department with limited Article 3 delegation to be added to the Advantage application. In an attempt to provide a list of Article 3 contracts including some high level contract detail, Materials Management will require that Public Health and Human Services maintain a spreadsheet of all contracts they have procured. This will at a minimum provide a basic idea of the County's Article 3 contract liability.

Target Completion Date: January 1, 2007

Benefit/Costs: Provides a means of identifying all Article 3 contracts along with basic contract information for determining the County's contractual liability and for monitoring and auditing purposes. Provides a mechanism to better administer contracts by the applicable using agency./Unknown.

Recommendation C.: Review the contract and p-card compliance policies and goals and establish procedures to address monitoring volumes, intervals, and sampling methodologies.

Response: Concur. The current procedures regarding p-card compliance monitoring cannot be implemented without monitors to perform the necessary duties. Monitoring functions were redefined and reassigned for FY07 in order to utilize the resources currently available. The applicable policies will be updated to reflect procedural changes regarding monitoring. A brief standardized overview of policy requirements for each cardholder will be established to increase the sampling size. Cardholder transaction activity will be electronically monitored and reported to the Contract Compliance monitor for further investigation when required.

Target Completion Date: June 30, 2007.

Benefits/Costs: Monitoring as defined in the Procurement Card Policy cannot be implemented with the limited resources currently allocated to the program. The benefit is having updated policy and procedures reflecting the monitoring goals accomplishable by the resources Materials Management has available for compliance monitoring.

Recommendation D.: Determine the procurement card volume and countywide contract volume and assess the staffing requirement needed to provide timely and adequate review.

Response: Concur – Implementation Currently Not Possible. As part of its FY 2006/07 budget submittal, Materials Management requested two FTE's to adequately resource the existing purchasing card program. However, this request was not approved.

Currently the purchasing card program is staffed with two FTE's. This is a reduction of one FTE from the original staffing allocated to this program due to mandatory budget reductions in FY 2003-04. The position eliminated was responsible for purchasing card usage monitoring activities. Since that time the purchasing card program has grow from \$16.7M in total expenditure and 67,000 transactions to \$23.2M and 142,000 transactions. In addition, the number of purchasing cards in use by County departments and agencies has grown from 1,271 in FY03-04 to 1,452 currently.

The need for additional resources has been recognized for several years but this Internal Audit review of the purchasing card program further substantiated this need and was determined to provide an objective third party perspective that reinforced Materials Management's conclusions. The additional resources requested were intended to satisfy the following audit recommendations specific to this program.

- Segregate the responsibilities for reconciling, preparing the payment vouchers, and approving the P-Card statement for payment. Reconcile the internal tracking system with the vendor database on a periodic basis, observing segregation of duties where possible.
- Determine the volume of procurement card and contract volume countywide and assess the staffing requirement needed to provide timely and adequate reviews. Take action necessary to develop staffing and cross-training necessary to minimize fraud, waste, and abuse in procurement cards and contracts.

Addition of these additional resources would permit Materials Management to segregate duties and responsibilities in accordance with Internal Audits recommendations. Because this request was not approved, there are limited options available to implement the segregation of duties recommendation and assure the financial aspects of the program are conducted in accordance with best financial practices. However, Materials Management has taken action within the limitations of its available resources to implement segregation of responsibilities. See response to Issue #3, Recommendation C.

During the past year Materials Management has been able to complete forty (40) p-card usage reviews. The result was the discovery of one instance of fraudulent use of a p-card by a County employee totaling approximately $50,000. More importantly, these forty (40) reviews represent only 2.75% (40/1,452) of the total p-cards issued. At the current staffing level supplemented part time with the sole contract monitor, it will take approximately thirty-five (35) years to monitor all p-cards with the current resources available.

The p-card programs also presents a significant potential continuity of operations risk because of the lack of adequate resources in the program to cross-train and act as backup to current personnel. The Senior Program Administrator is responsible for reviewing, reconciling and approving the County p-card statement. In addition, this position corrects any general ledger departmental accounting string rejects that occur during upload of transactions to the AMS financial system. This position also conducts all p-card training, reporting, and software application administration. Should this individual leave or become incapable of carrying out these responsibilities, the program would suffer a serious negative impact. As an emergency backup, we have asked our departmental financial administrator to begin cross training in the most critical requirements of this position to lessen the potential impact. However, due to the financial administrators other duties and responsibilities, this would offer only a very short-term solution and does not represent a viable and prudent backup plan.

Target Completion Date: Will not implement. Funding request not approved.

Benefits/Costs: If implemented, this initiative would permit p-card usage to be monitored on a more frequent schedule with the objective of reducing the potential for fraud and abuse and to assure County management and taxpayers that p-card transactions are appropriate and within established policies. Further, the addition of the requested resources would have permitted Materials Management to segregate duties and responsibilities in accordance with Internal Audit's recommendations to reduce the potential or appearance of fraud or abuse. Finally, program continuity could be assured by have sufficient resources to train as backups and enable these employees to be assigned some responsibilities currently the responsibility of the sole Senior Program Administrator./$107,656 Annually.

Issue #3
P-Card Administration Lacks Controls

Response: Concur.

Recommendation A.: Develop written P-Card administrative policies and procedures to provide controls over monthly statement reconciliation and periodic reconciliation of the internal tracking system to vendor database.

Response: Concur. Current Procurement Card Administration procedures are being updated to reflect program changes and position reclassification efforts. Procedures for monthly statement payment, reconciliation, and annual systems tracking processes will be updated and compiled into the Procurement Card Administration Guide.

Target Completion Date: January 2007.

Benefit/Costs: One central repository for program administration procedures will provide quick reference for auditors, program staff, and future staff. The cost is the deduction of time and resources to this project including continual revision.

Recommendation B.: Establish regular review intervals for CAPA and P-Card limits, for closed and inactive account coding; and, establish a policy for card issuance to non-County employees.

Response: Partially Concur – Will Implementation With Modifications. CAPA limits are policy directed dollar limits that set the requirement for selecting the appropriate purchasing method. Procurement Card limits are electronic system controls that limit the amount a card can accept in a single purchase or monthly total. These two limits are not directly associated except for the CAPA $10,000 single purchase cap. Travel Cards and Fuel Cards are not CAPA policy regulated card. Purchasing Card usage and departmental budget sets the specific card limits. An annual review of cards with specialty limits will be established to insure the necessity of such cards.

Addressing the inactive account coding review recommendation, every fiscal year begins with a review and update of accounting codes.

The Procurement card policy is applicable to all Cardholders. Non-County employee cardholders are exclusively MCSO posse members. MCSO identifies these cardholders as sworn officers and subject to the same policies as County employees unlike a traditional volunteer. The risk is considered to be low as there are a total of 36 posse cards out of the approximately 1,400 County cards. If misuse is discovered, the Procurement Card Administrator will cancel the card issued to the alleged offender. Information on any misuse will be forwarded to the responsible cardholders department for appropriate disciplinary action in conjunction with Human Resources and the County Attorney.

Target Completion Date: None.

Benefit/Costs: A separate policy for cardholders with a non-employee status will not reduce the risk of potential misuse. Further, disciplinary action is not within the Procurement Card Program authority. The status of the current group of non-employee cardholders is unique to the MCSO posse members. It is not Materials Management's intention to expand the use of non-employee cards to other departments.

Recommendation C.: Ensure segregation of duties in place for reconciliation processes.

Response: Concur. The Materials Management Financial Services Administrator performs Pend1 in the PV approval process in the Advantage central accounting system. Rejecting accounting codes are defaulted by the Procurement Card Administrator. The Tactical Division Manager applies Pend2 approvals. The Financial Services Administrator in Materials Management's Administration division was identified the best candidate to provide recommended segregation of duties due to the knowledge requirement of accounting codes and a cross divisional position within the Materials Management department. The Systems Business Analyst in the Administration division of Materials Management serves as the backup and can perform the other Pend functions.

Target Completion Date: Completed.

Benefit/Costs: The benefit of implementing this recommendation is to reduce the risk of fraud or abuse. The cost is the additional coordination of schedules that increase the risk of time delays during the payment process. The Procurement Card payment has a due date and potential fees associated with a delayed payment.

Recommendation D.: Review current inactive cards and take appropriate action. Request Human Resources to provide employee termination lists on a regular basis for comparison and action.

Response: Concur. Materials Management is collecting the employee ID's of all p-card holders. This information, along with other employee specific information such as p-card number, name and department, will be tracked in an Excel spreadsheet. Materials Management anticipates that this effort will be completed in the first quarter of FY07.

With the cooperation of Human Resources, Materials Management receives email notification of all employee terminations on a daily basis. With an average of 2,000 terminations per year, this represents a significant number of emails messages per day. With the assistance of Human Resources we are exploring the possibility of using a field within the PeopleSoft application to identify p-card holders that will permit a more targeted approach to identify p-card holders and assuring the continued integrity of the program.

Target Completion Date: It is estimated that all p-card holder employee ID's will be gathered by October 2, 2006. At that point, information on terminated employees will be verified against the p-card holder employee ID spreadsheet and appropriate action taken to terminate cards as required.

Benefit/Costs: Reduces or eliminates the potential for inappropriate use of terminated employees p-card by either the former employee or some in the department they were previously employed. Provides an accurate inventory or all p-cards issued by the County.

Recommendation E.: Perform periodic, on-site verification of departments' P-Cards against the vendor and internal database. Validate department P-Cards for accurate names, account numbers, and assigned department.

Response: Concur. On-site verification of Procurement Card distribution and accuracy is a portion of the standard Procurement Card monitor visitation subject to its resource limitations. The process of reconciling the cardholder list is completed annually. In addition there are projects involving cardholder profile reviews, changes, departmental reorganizations, and card renewals that result in verified department cardholder lists.

Target Completion Date: Completed.

Benefit/Costs: The benefit is a validated master list of cardholders that are maintained in a living document changing as frequently as demanded. This process is already an integral portion of program administration. Continued application of these processes will be documented as recommended.

Approved By :

Department Head/Elected Official	8/8/06 **Date**
Chief Officer	8/8/06 **Date**
County Administrative Officer	8/18/06 **Date**

Maricopa County

Department of Finance

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TO: Ross Tate, County Auditor

FROM: Tom Manos, Chief Financial Officer

DATE: September 12, 2006

RE: **Review of the Materials Management Department**

We have completed our review of the Materials Management Department Report prepared by Internal Audit. Although there were no specific recommendations associated with our department, we have included a document that provides clarification and additional information to be included in the final report.

If you have any questions, please contact Gina Denney at 506-7297.

Cc: Shelby Scharbach

AUDIT RESPONSE

DEPARTMENT OF FINANCE September 12, 2006

Issue 1 County Lacks Contract Detail for Review and Reporting

The County financial system, maintained by the Department of Finance, has incomplete and inaccurate information on both Article 3 and Article 5 contracts.

Response: Concur.

The Department of Finance (DOF) initiated the use of the Advantage Grant Module to track and monitor contract information. The Grant Module provides key fields which ensure the contracts will only be paid during the effective dates of the contract agreement and will not exceed the approved contract amount. However, as evidenced during the audit, the decentralization of the contracts has created inaccurate and/or incomplete information within the Advantage Financial System.

Recommendation: None specific to the DOF. However, the DOF supports all efforts associated with the implementation of a contract monitoring system/program. The DOF will actively participate in the process to identify, review, and implement the following:

- Changes to our current Advantage Financial System to accommodate the required financial monitoring and reporting associated with contracts.
- New contract monitoring solution for the County.
- Contract Management policies and procedures to include specific information regarding the payment of such contracts.

Target Completion Date: None.

Benefits/Costs: The implementation of a new procurement system and/or contract monitoring program will have a direct impact upon the staffing of the DOF. The specific costs cannot be defined until a scope of work has been defined.

Approved By: 9/12/2006

Department Head/Elected Official **Date**

9/12/06

County Manager **Date**