

Purchasing Division

Department of Administration

Audit Highlights



Highlights of Legislative Auditor report on the Purchasing Division, issued on October 11, 2001. Report # LA02-10.

Purpose of Audit

The purpose of this audit was to determine if the purchasing component of the state's Integrated Financial System has controls to provide reasonable assurance that purchasing transactions are appropriately processed and reports generated by the system provide reliable information. This audit included the online purchasing transactions processed during July 1 to December 31, 2000, for selected budget accounts from the Department of Administration and the Department of Transportation. Both departments are among a small group using the online purchasing functions.

Audit Recommendations

This report contained six recommendations to improve controls over the purchasing component of the Integrated Financial System. Specifically, the Division needs to segregate the responsibilities over vendor payment vouchers and create a report that will identify discounts available and taken. In addition, the Division needs to establish a process to identify users who consistently fail to include proper asset coding. The Division also needs to develop policies and procedures for the extended purchasing component, including approving vendor payment vouchers, ensuring cash discounts are taken, and reviewing purchase orders to ensure fixed assets are properly coded. Furthermore, appropriate staff should be provided the ability to authorize the continued processing of a transaction when the error message occurs that indicates the delivery date is before the transaction date. The Division should also allow appropriate staff to override this message. Finally, Purchasing should request a system edit to control the recording of transactions to the wrong fiscal year.

The Division accepted all six recommendations.

Status of Recommendations

The Department of Administration submitted the six-month report on the status of audit recommendations on April 12, 2002. The report indicated that all six recommendations had been fully implemented.

Results in Brief

The purchasing component of the Integrated Financial System (IFS) contains a number of controls designed to ensure that purchasing transactions are properly recorded and executed. However, we identified areas where internal control weaknesses exist. For example, vendor payments could be better controlled, discounts are not always taken, and fixed asset codes need to be consistently entered. These weaknesses were caused, in part, because the Division's policies and procedures for the online processing of purchasing transactions have not been fully developed. In addition, Purchasing staff must enter incorrect dates to process certain transactions. Further, transactions can be completed in one fiscal year, but recorded as expenditures in the prior year. As a result, the reliability of information and the accuracy of budgetary accounting data could be impacted. The development of sound internal controls is critical to help ensure the integrity of purchasing transactions and that management's directives are carried out.

Principal Findings

Payments to vendors could be controlled better by adequately segregating data entry authority of purchasing staff. In addition, staff responsible for approving these payment vouchers do not have sufficient criteria to assist them with their approvals. This increases the risk that an error, either intentional or unintentional, could be made and go undetected.

Cash discounts offered by vendors for timely payment of goods purchased were not consistently taken. This occurred because payment terms were not included in over 20% of the purchase orders reviewed. In addition, in four purchases where the vendor offered a discount, only one was taken because incorrect discount information was recorded on the purchase order.

NRS 333.220(4) requires the Division to maintain an inventory of the state's fixed assets. However, current procedures do not ensure all assets will be recorded. We found that fixed asset codes were not entered for the eight asset transactions examined. Although these assets were later identified by property management staff, this occurred after the transaction had been completed. On average, it took almost 2 months after the assets were acquired before they were recorded in the system. In one instance, equipment costing \$118,000 had not been recorded in the state's fixed asset inventory until we brought it to the Division's attention.

The Division's policies and procedures do not fully document the purchasing component of the IFS. Although procedures have been developed, they could be improved to ensure better control of Division activities. In addition, we identified several areas where procedures have not been developed.

In order to process certain transactions, incorrect delivery dates must be used. In 9 of 23 transactions we examined, incorrect delivery dates had been entered in the IFS. Staff indicated they had to enter incorrect dates in order to get the IFS to process "confirming" purchase orders. Date inaccuracies could impact the reliability of reports and other information provided to management, the legislature, and the public.

During the period when the State has two fiscal years open, transactions can be completed fully in one fiscal year, but recorded as expenditures in the other fiscal year. We identified three transactions where all the information was entered in July 2000, although these transactions were posted to fiscal year 2000 (the prior fiscal year). This is possible because there is no system control in place to reject purchasing transactions based on the date of an element of the transaction.