

**Performance Audit 13-04:
Oracle Approval Procedures**

October 2013

City Auditor
Stan Sewell, CPA, CGFM, CFE





OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

October 11, 2013

To: Mayor Andy Berke
City Council Members

Subject: Oracle Approval Procedures (Report #13-04)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of the Oracle Approval Process. Our audit found the current approval process provides excessive control and was not overly efficient. We also noted the current process requires several layers of authority in a department for approval of most purchases.

In order to address the noted areas for improvement, we recommended actions to lessen the number of approvals needed to move a purchase forward and to take steps to further mechanize the approval process. We also recommended reasonable approval limits be given each level of authority and payment not be made for unauthorized purchases.

We thank the management and staff of the Information Services, Finance, General Services, and Human Resources departments for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee
Travis McDonough, Chief of Staff
Andrew Kean, Chief Operating Officer
Doug Eckert, Acting Chief Information Officer
Daisy Madison, Chief Financial Officer
Wade Hinton, City Attorney
David Carmody, Purchasing Manager

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2013 Audit Agenda. The objectives of this audit were to determine if:

- The approval processes provide adequate internal controls; and
- The approval processes are effective and efficient.

BACKGROUND

Enterprise resource planning is a term for software used to accomplish the broad set of activities that help an organization manage important parts of its business. These software applications can be used to manage functions including inventory tracking and management, finance (accounting, payroll, fixed assets), and human resources. The city's enterprise resource planning software vendor is Oracle.

Oracle finance modules allow electronic approvals related to processing transactions to be automated in order to facilitate business flow and provide internal controls. Appropriate approval paths within Oracle enable managers to efficiently manage employee pay and movement, request and approve purchase orders, authorize payments, make accounting entries, apply budgetary controls, as well as closely track inventories.

Purchasing Process

Departments wishing to receive goods or services submit a request (a requisition) to the Purchasing Division to setup a purchase order. Requisitions are electronically completed in the system and routed through an approval workflow.

The Budget Division reviews requisitions for estimated costs vs. available budget, proper fund and accounting distribution and that the purchase is a proper expenditure for the department. The Budget Division then approves each requisition entered in the purchasing system. Requisitions are sometimes returned to the department for additional information regarding the purpose of the purchase, etc.

Once approved, a purchase order is set up by the Purchasing Division on behalf of the department. Purchase orders are approved by Buyer's in Purchasing. Purchase orders exceeding \$25,000 require approval by the Purchasing Manager. All purchase orders are also approved by the Budget Division.

To facilitate purchases and required approvals, the City of Chattanooga uses three types of purchase orders:

- *Open market purchase orders* are used for one-time purchases.
- *Blanket contract purchase orders* are used to purchase high quantity or commonly purchased items. Blanket contracts restrict purchases to specific items. A blanket purchase order is open until an approved amount is expended or a defined time period has passed.
- *Contract purchase orders* contain no individual items, but are used to purchase consulting or items from an entire catalog, etc. Contract purchase orders are open until either a set amount is spent or a defined time period has passed. Contract purchase orders are seldom used.

After a purchase order is established, the department can request a release (requiring approval) against the purchase order for payment.

FINDINGS AND RECOMMENDATIONS

The current requisition and purchase order process is cumbersome, requiring up to 8 approvals.

The current method for approval of requisitions and purchase orders is driven primarily by position titles. Requisition approval normally requires several levels of authority within the initiating department, including the administrator. The dollar amount of the prospective purchase does not factor into approval requirements.

City Code section 2-547 requires all purchases be made pursuant to a written requisition from the head of a department. Approval going up the supervisory chain ensures each level of authority is aware of activities of those who report to them. This implies a lack of trust in supervisory personnel to perform their jobs properly and slows the process.

Each level of approval has up to seven days to approve or disapprove a purchase. If seven days pass with no action, the approval process is reset and returned to the original requestor. This process is time consuming, inefficient, and does not allow for exceptional circumstances for the approver such as time off, sickness, or workload. Some approval strings require up to 8 approvals, with up to 5 approvals within the originating department. If all approvers used the allotted time, the approval process could take up to 56 business days (2 months and 3 weeks).

There are two methods that could be used to approve requisitions/purchase orders within Oracle. The current method is based on position titles to approve items, with approval moving up a chain of progressive authority, regardless of dollar amount. Industry best practices suggest approvals for municipal purchases be dependent on the amount expected to be spent and requiring increased level of approval at certain dollar thresholds. The approval is electronically routed to the individual lowest in the approval chain with adequate authority to approve the requisition or purchase order.

In order to reduce administrative delay in the purchasing process, time allotted for approval at each level should be shortened. In addition, requests not approved within the designated time period should proceed to the next highest approver rather than routed back to the initial requestor.

Recommendation 1:

We recommend the Finance Department and Purchasing Division examine current departmental approval paths and, in conjunction with Administrators, take steps to lessen the number of approvals needed. This could be accomplished by adopting dollar thresholds for approvers within departments.

***Auditee Response (Purchasing):** We agree.*

***Auditee Response (Finance):** We agree.*

Recommendation 2:

We recommend Finance Department and Purchasing Division reduce the time allotted for approval at each level to 2 business days.

***Auditee Response (Purchasing):** We agree.*

***Auditee Response (Finance):** We agree the timeframe for approval should be shortened.*

Recommendation 3:

We recommend the Finance Department and Purchasing Division change procedures to forward requisitions and purchase orders that time out due to inaction to the next highest approver.

***Auditee Response (Purchasing):** We agree.*

***Auditee Response (Finance):** We also agree if the requisition times out due to inaction the approval be moved to the next higher level of departmental authority.*

Budget division approvals of both purchase requisitions and purchase orders appears to be excessive.

City Code 2-68 requires the Budget Officer sign off that funds are available to meet expenditures covered by purchase orders and approve payments made pursuant to a prior purchase order. The Budget Division currently approves requisitions, associated purchase orders, and payments made pursuant to purchase orders. These approvals afford the opportunity to check items are properly coded to budgeted areas and items are for a valid municipal purpose prior to budget approval.

However, since requisitions contain only an estimate of cost, they do not obligate the city to expend funds. A member of the Budget Division approving both the requisition and purchase order appears to be a duplication of effort, slowing the approval process, as well as possibly slowing the delivery of goods and services.

In addition, it would appear departmental management/administrators should provide primary assurance any purchase requested by their department furthers departmental goals, thus lessening the value of a budget analyst determining if a purchase requisition is proper for a department. Also, each department has budget analysts to help the administrator determine the necessity of purchases and ensure any prospective purchase will be within budget.

Recommendation 4:

We recommend the requisition approval process be revised to remove the Budget Division in order to prevent duplication and limit approvers required for a requisition. Maximizing benefit from this recommendation will require accountability at the departmental management level. All expenditures initiated should have a clearly identified lawful municipal purpose to meet departmental goals.

Auditee Response (Finance): We agree.

Many modules of the Oracle ERP system are not implemented, or partially implemented, limiting the effectiveness of the entire system.

Many modules of the Oracle ERP system are not fully implemented, limiting the effectiveness of the entire system. Currently, some processes that ideally would be performed electronically must be performed manually, reducing value provided by the electronic system and increasing staff time being spent performing functions. Included in the modules currently not in use are the user management tools and approvals management module. These modules are currently owned by the City, but not configured for use. User management must be implemented before implementation of the approvals management module.

- *User Management Module* - The user management module describes roles and groups by user type. Currently, with the exception of sensitive human resource information, employees have access to all information in any module they can access, regardless of department. Reports made by users are viewable by everyone in the system.

Implementation of the user management tool would allow limited access to sensitive information. Defined groups would have access to required information for their job responsibilities. Reporting could be shared within departments, and to other individuals as desired, but access would be shielded from all other areas.

In addition, select managers could have the ability to reset employee passwords without Information Services intervention, saving time for all involved.

- *Approvals Management Module* – This module would allow users to set approval paths (e.g., Purchasing or Budget personnel could set approval paths for purchase orders). Currently, manual customizations must be made each time Oracle approval paths are changed. The customized workflows currently in place are not supported by Oracle, and must be updated, debugged and implemented by in-house personnel each time an upgrade is put in place.

Implementation of these modules would allow addition of valuable functionality to the approval process as well as provide improvements in the operations of other areas. These modules would provide greater data security, the ability to control information access to the proper employees, and increase efficiency of personnel throughout the City.

Recommendation 5:

We recommend the Oracle User Management and Approvals Management modules be installed.

***Auditee Response (Finance):** We agree. The 2014 Finance action plan and budget includes funding to implement this programming.*

***Auditee Response (Information Services):** We agree.*

Capability exists to conform to City Code section 2-68 electronically.

City Code Section 2-68 requires the Budget Officer certify funds are available to meet expenditures covered by purchase orders. Currently, available functionality to perform those tasks is not used to speed approval, but instead performed by budget analysts inspecting each purchase requisition and comparing to available budget. This function can be performed electronically by developing a mechanism called purchase order tolerances within the Oracle system. This functionality allows electronic determination if appropriated budget is available for purchases. The determination can be made at varying levels, e.g., line item, groups of line items, cost centers or an entire department.

Purchase order tolerances can be set to refuse purchases that cannot be funded within budgetary limits unless authorization is given by the Budget Division. The implementation of this procedure would free time in the Budget Division, allowing time to be spent on more productive activities. Performing processes manually that can be performed electronically reduces the value provided by the electronic system and increases staff time spent on unproductive functions.

Recommendation 6:

We recommend the Finance Department, with assistance from Information Services, develop and implement the Oracle purchase order tolerance functionality.

***Auditee Response (Finance):** Use of this functionality was discussed during the implementation of the Oracle system, but was abandoned due to time constraints, etc. We will work with Information Services to mechanize the determination of budget availability for purchases.*

***Auditee Response (Information Services):** We agree.*

Purchases are made without proper authorization.

City Code, the City's *Purchasing Manual*, and Finance Department practices regarding small purchases are contradictory. Differences in city code, city purchasing manual and actual practice are confusing to employees who attempt to comply with them.

- *Purchase Cards Not Authorized by City Code* - City Code does not allow for the use of purchase cards because City Code Section 2-563 says all purchases must be certified by the Chief Financial Officer.
- *Finance Requires Purchase Orders for Transactions Less than \$1,000* – The *Purchasing Manual* Section 2.05 states purchases greater than \$1,000 need to be made with a purchase order, thus requiring pre-approval prior to purchases being made. Purchases less than \$1,000 do not fall under this mandate. However, Finance will not process an invoice without a purchase order except under limited circumstances. Finance expects employees to use purchase cards for transactions for small, non-recurring purchases. There is limited distribution of purchase cards and limitations on allowable procurements using a purchase card. Therefore, certain purchases under \$1,000 are required to have a purchase order only for the purpose of facilitating payment.
- *Purchasing Manual Contradicts Purchase Card Policy* – The City's *Purchase Card Policy and Procedures* (issued by the Purchasing Division) allows most purchase card holders to make transactions up to \$1,000 with no approval. Certain employees have authority to make purchases up to \$3,000 per transaction. As stated above, the *Purchasing Manual* Section 2.05 requires a purchase order for all transactions greater than \$1,000.

As a result of complicated procedures, an excessive approval process (see related finding on page 2), and lack of access to a purchase card, employees often order, and receive, items or services from companies prior to a purchase order being developed. Therefore, the purchases have not been subject to the mandated approval process. These purchases are normally for small amounts, yet there are exceptions.

Recommendation 7:

We recommend the City Attorney's Office, Finance Department and the Purchasing Division work to amend the City Code to allow for the use of purchase cards, subject to the *Purchase Card Policies and Procedures*.

Auditee Response (City Attorney): We agree.

Auditee Response (Purchasing): We agree.

Auditee Response (Finance): We agree.

Recommendation 8:

We recommend the Purchasing Division, with input from the Finance Department, establish consistent per transaction thresholds in the *Purchasing Manual* and the *Purchase Card Policy and Procedures*.

Auditee Response (Finance): We agree. Finance will work with the Purchasing division to develop a coordinated policy regarding smaller purchases. Both an expanded use of purchase cards and implementation of the QuickOrder functionality of Oracle will be among procedures considered as part of the process.

Auditee Response (Purchasing): We agree.

Recommendation 9:

We recommend Finance Department align its practices with *Purchasing Manual* thresholds for requiring purchase orders.

Auditee Response (Finance): We agree. Finance will work with the Purchasing Department to develop a coordinated policy regarding smaller purchases. Both an expanded use of purchase cards and implementation of the QuickOrder functionality of Oracle will be among procedures considered as part of the process.

Approvals of requests for items ordered on blanket contracts are not viewable in Oracle.

The City enters into blanket contracts for high quantity or commonly purchased items. When a department wants to purchase items from blanket contracts, a request for the items is entered into Oracle (called a release). Releases follow a similar path as an open market or contract purchase order. However, approvals are not currently visible in the Oracle system.

Recommendation 10:

We recommend Information Services determine the possibility of all approval paths being visible in the Oracle system. If determined possible, we recommend Information Services set the purchase order system inquiry screens to show all approval paths.

Auditee Response (Information Services): We agree

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers setup in the City's Oracle ERP system during the time of this audit. Source documentation was obtained from Information Services, Finance, Personnel and General Services departments. Original records as well as copies were used as evidence and verified through physical examination.

To develop our recommendations, we reviewed industry best practice documents. We took information from the Oracle Corporation website as well as other online sources. We also used the Oracle Release 12 Upgrade Assessment survey conducted by AST Corporation prior to the implementation of Oracle version 12i.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in the City's Oracle ERP system. Information in this system had previously be determined to be sufficiently reliable to be used in meeting the audit's objectives.

We conducted this performance audit from April 2013 to July 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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