

**Finding #2 Internal controls over purchasing were inadequate.**

Review of the 999 purchase orders and 2730 invoices totaling \$2,947,137.26 processed for 88 different vendors during 1998 revealed the following:

In 348 instances (13%) totaling \$345,109.63 (12%) no purchase order was referenced on the invoice or was found in the accounting files.

In 538 instances (54%) no prices were listed on the purchase order. A total \$622,582.46 of the dollar volume reviewed (21%) was paid without any price documentation on the purchase order.

Freight terms were negotiated on only 4 of the 999 purchase orders.

Of the 88 vendors in the sample, 13 were noted which charged freight sometime during 1998. For 11 of the 13 vendors, freight payments were inconsistently applied. Freight totaling \$2,537.86 was charged and paid for 60 of a total 656 invoices submitted by these vendors based only upon departmental approval. No invoices were noted where freight charges were not approved and paid.

A refrigerator was purchased for \$4,666.90 from the Tucker Co. Three quotes were on file without documentation of any freight negotiations. Based on incomplete pricing information, the selected quote appeared to be the lowest. However, by adding the \$120.64 in freight, which was billed separately, the total price actually exceeded the other two quotes. Without a clear determination of the freight implications, accurate evaluation of price quotes was not possible.

No payment terms were negotiated on any purchase orders. A possible savings could have been realized for the center by negotiating payment discounts on the 999 purchase orders. For 3 vendors, payment discounts were listed on 132 invoices, however, no discounts were taken. For two vendors, discounts were offered on 99 invoices, however, were only taken in 11 instances. Total discount lost was \$1,906.09 on 220 invoices.

Review of payments totaling \$361,954.24 which referenced 15 standing orders revealed that numerous additions and deletions were made to the orders during 1998 without any change orders being processed. These changes involved both quantities and types of items being purchased as well as price fluctuations.

In 42 instances (9% of the 461 purchase orders with prices) the prices listed on the purchase order were found to be different than those invoiced (net calculated differences totaled \$252.84 underpaid).

Additionally, in 56 instances (6% of purchase orders reviewed), other miscellaneous errors were noted in purchase order preparation. [i.e.; purchase orders not dated, signed, or properly totaled; not all prices, quantities or items listed]

**Recommendations:**

We recommend that:

A purchasing policy and procedure manual be created to provide general guidelines as well as specific procedures for the control of procurement of merchandise and services.

All individuals responsible to make purchases be properly authorized.

Assurances be made that individuals with the authority to prepare purchase orders be educated in the requirements and procedures needed for the complete and accurate preparation of such orders. This should include an understanding of the legal requirements of the County Code as well as the necessity for documentation of negotiated payment terms, freight terms, item descriptions, quantities, and prices.

Payment terms, freight terms, accurate item descriptions, quantities, and prices for purchases be negotiated, established and documented on the purchase order prior to placing an order. These established terms, items, and amounts need to be independently verified to the invoice by accounts payable personnel prior to the payment of any bill.

Any changes to existing purchase orders be documented prior to payment authorization.