



CITY OF WINSTON-SALEM
MARKETING AND COMMUNICATIONS
DEPARTMENT
REPORT ON COMPLIANCE
WITH PURCHASING POLICIES

For the Twelve Months Ending June 30, 2020

Submitted by:
Office of Performance and Accountability
Internal Audit Division
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Overview of Marketing and Communications Department Operations

The Marketing and Communications Department (Marketing) promotes City services, programs, and events to citizens. The department maintains the City's website information, and trains and assists web liaisons in developing their departments' websites. They produce several newsletters, inserts, and advertisements. Marketing organizes and coordinates the City of Winston-Salem University and maintains the City's presence on online social network sites, such as YouTube, Twitter, and Facebook. They serve as media liaison/contact and produce local programs on WSTV 13 that educate and solicit input from citizens about services. Marketing further sells advertising and sponsorship packages for City departments. Marketing also broadcasts City Council and Planning Board meetings and assists in recruiting targeted populations for City departments. Moreover, they provide audio/visual support, photography, graphic design services, and business card layouts for City and City/County departments. Marketing also provides and enforces a City-wide standard and quality check for printed materials. Furthermore, Marketing provides marketing consultation, media placements, event planning, and speech writing services.

The department's purchasing transactions are primarily for general advertising services, sound engineering, music and food vendor services, equipment rental services, and office supplies.

The Marketing environment is characterized by a formal approval process for all purchasing expenditures which is managed via a three-person approval process to include Marketing Director – Ed McNeal, Marketing Deputy Director – Frank Elliott, and City Manager Lee Garrity (for purchases from \$5,000 to \$99,999). This review process does include an exception (to be followed up on) list; a note is created in the note field within eWorks and returned to the originator for correction.

Marketing purchasing activity for the audit period is presented in the table below:

Population Category	Total Population	Total Amount
Assigned Purchasing Cards	3	N/A
Purchasing Cards	288	\$44,547
Purchase Orders*	1	\$3,349
Requests for Checks	220	\$346,383

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

Definition of Compliance Requirements

Compliance requirements are defined in the City's Administrative Policy—dated 4/10/2018 (Purchasing Policy). The policy provides guidelines for purchasing cards (P-Cards), request for check (RC) disbursements, purchase orders (POs), and related purchasing procedures. POs are required for procurement amounts greater than \$1,000. Only services or items that cannot be procured on a P-Card or PO should be paid for on a RC. Depending on the dollar amount of the procurement, the solicitation of informal quotes or formal bids is required for all purchases greater than \$1,000. Local vendors must

be used, if available, for all discretionary spending under \$20,000. Local M/WBE vendors must be given the opportunity to bid/propose.

Scope of Compliance Review Procedures Performed

The audit concentrated on operations and transactions occurring between July 1, 2019 and June 30, 2020. Emphasis was placed on the testing of P-Card, PO, and RC transactions in accordance with City policies and procedures. Expenditure testing focused on reviewing and verifying purchasing practices in adherence to the Purchasing Policy. Statistical sampling methods were used (90% confidence level with a 10% margin of error). A summary of all purchasing activity for the audit period was examined and included a review of P-Card issuance and usage volume. For population and testing purposes, only purchases less than \$20,000 were included as all purchases over \$20,000 are to be handled by the Purchasing Division per policy. Population and sample size tested are presented in the table below:

Population Category	Total Population	Total Tested
Assigned Purchasing Cards	3	3
Purchasing Cards	288	56
Purchase Orders*	1	1
Requests for Checks	220	48

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

Compliance Exceptions and Recommendations

Exception #1: Four P-Card (7%) charges appear to be two single split transactions.

Per the Purchasing Policy, splitting a single transaction into several smaller pieces less than \$1,000 to avoid bid requirements, obtaining authorizations, or using a purchase requisition is in violation of City policy. Two instances where P-Card transactions made on a single day with the same vendor totaled over \$1,000 were noted. It is recommended that management should enhance monthly purchasing card review and approval activities and more closely scrutinize P-Card transactions. Pre-authorization of P-Card transactions over a certain amount may be appropriate.

Management Response: The two payments to Freedman Associates were because there were two different invoices for two different services. Payment was processed for both on the same day. The Telly Awards was purchased using Sue Spainhour's P-Card. There should have been one charge for both entries using a PO instead of a P-Card.

Exception #2: Four P-Card (7%) and one RC transactions' (2%) FROP codes were not appropriate.

Per the Purchasing Policy, P-Card and RC transactions are required to have an accurate FROP code associated with the expenditure. The cardholder (for P-Cards) or originator (RCs), supervisor, and department head are responsible for all transactions including the appropriateness of the purchase. It is recommended that an accurate FROP code is used to clearly show the business purpose justifying the purchase.

Management Response: Will do better at using FROP codes.

Exception #3: Four P-Card (7%) transaction receipts or invoices were not itemized.

Per the Purchasing Policy, supporting receipts or invoices are required to be itemized. For compliance purposes, all vendors accepting a P-Card for payment should be reminded that the credit card receipt or invoice should show each charge as a separate line item.

Management Response: Will make sure all receipts are itemized.

Exception #4: One non-local P-Card (3%) and two RC transactions (5%) were noted in instances where local vendors were available.

Per the Purchasing Policy, local vendors must be used if available for all discretionary spending under \$20,000. Quotes for purchases under \$20,000 should only be obtained from non-local vendors if no qualified local vendor exists. For compliance purposes, it is recommended that Marketing uses local vendors if available for purchases less than \$20,000 and to include an explanation of efforts to obtain local vendors when not available.

Management Response: In the future, local proposals as well as proposals from M/WBE vendors will be solicited first. (Departure from the policy because of timing or quality will require prior approval from the City Manager.)

Exception #5: Twenty-nine RC transactions (60%) should have been procured on a P-Card or PO.

Per the Purchasing Policy, only services or items that cannot be procured on a P-Card or PO should be paid for on a RC. It is recommended to only use RCs when services or items cannot be purchased with POs or P-Cards.

Management Response: Payments will be more closely evaluated to consider creating POs. Since POs tend to be for services that need to go through a bid process, RCs have been used instead since media buying isn't the usual competitive type of service. Media isn't an industry that allows for "lowest bidding" opportunities. We have 2 local newspapers with large subscribers, so those are the newspapers we

advertise in. The digital media service we use is the only company in the region that offers the complex service we utilize. And in the instance of advertising costs with Facebook, there isn't a competitor.

- RCs are used for the Chronicle because they don't give you an option to use a credit card.
- Herc Rental should have been a P-Card.
- Salem One- a PO should have been open at the beginning of the year and use provisional PO for quarterly payments.
- Media Placement Services doesn't accept credit card payments. Purchasing has verbally told us that ad payments do not need to go through the PO process, therefore POs have not been used.
- Freedom Mailing doesn't accept credit card payments. That business is our preferred vendor for mailings since they can turn jobs quickly unlike the other mail service vendors.
- A Daisy A day should have been a P-Card
- Express Graphics doesn't accept credit cards.
- Cloverdale Kitchen doesn't accept credit cards.
- Item 18 for Freedom Mailing was ordered by the City Manager and had to be done quickly as we were in a state of emergency.
- Image 360 should have been a PO.
- The vendor Paschal Promotions, at the time of the purchases, didn't accept credit cards. She does now.
- Segmented Marketing was for advertising and the cost was being split between departments.
- Credit card purchase wasn't an option for WS/FC Schools payment of \$5,000.
- Metal Designs should have been a PO.

Exception #6: RC purchasing requirements were not met for ten transactions (25%).

Per the Purchasing Policy, the best price available should be sought with consideration to spending funds within the local economy. There was no evidence of obtaining the best price available for ten transactions. It is recommended that the best price available be sought with consideration to spending funds locally through the solicitation of informal quotes/bids. Moreover, it is recommended that supporting evidence of these actions be retained.

Management Response: In the future, local proposals as well as proposals from M/WBE vendors will be solicited first. (Departure from the policy because of timing or quality will require prior approval from the City Manager.)

Exception #7: RC purchasing requirements were not met for eight transactions (22%).

Per the Purchasing Policy, the best price available should be sought with consideration to local Minority/Woman Business Enterprise (M/WBE) businesses. There was no evidence of soliciting M/WBE businesses for eight items purchased via RC. It is recommended that the best price available be sought

with consideration to spending funds with local M/WBE businesses. Moreover, it is recommended that supporting evidence of these actions be retained.

Management Response: In the future, local proposals as well as proposals from M/WBE vendors will be solicited first. (Departure from the policy because of timing or quality will require prior approval from the City Manager.)

Exception #8: Seven RC transactions (15%) were not properly approved by the City Manager.

Per the Purchasing Policy, RC transactions above \$5,000 require the approval of the requester, the department head, and the assistant city manager or city manager. For policy compliance purposes, it is recommended that a pre-audit is performed and completed of the electronic work flow process to verify proper approval requirements are being met.

Management Response: They were all approved by the City Manager, however it was through conversations between Director Ed McNeal and City Manager Lee Garrity. There was no documentation attached to those purchases. One way to help with this issue is eWorks should be set up to catch this type of purchase request and not allow them without an ACM or manager's eWorks approval. The department will do better at including backup information, including providing documentation of approval from the manager's office.

Exception #9: One vendor was not paid with the appropriate purchasing method for two transactions (4%).

Per the Former City Treasurer, "[Employees]... are not supposed to use the P-Card for meals during travel. If the Accounts Payable (AP) staff catches it, then the employee is given a warning and depending on the circumstances may require reimbursement." Internal Audit found that two employees were provided cash advances to be used for meals; however, four meal costs were charged to two hotel rooms and ultimately charged to the P-Card. It is recommended that meals charged during travel should be only be paid per Finance Department guidelines.

Management Response: The department will make sure employees traveling understand and follow the purchasing policy.

Exception #10: RC transaction requirements (6%) for supporting documentation were not met.

Per the Purchasing Policy, RC transactions with incomplete documentation may be returned to the originator; moreover, Accounts Payable may not process an RC unless supporting documentation is attached. One RC transaction did not provide an invoice and two RC transactions' supporting invoices did not match the amount of the expenditure. As line item descriptions should clearly describe what is being

purchased and document the appropriateness and business purpose of the purchase, it is recommended that management should enhance the monthly RC review and approval activities and more closely scrutinize RC transactions.

Management Response: AP has contacted the department in these instances and requested the documentation or corrected invoices. Information was emailed per AP's request. Therefore, the information didn't appear in eWorks.

Exception #11: One P-Card (3%) transaction receipt's sales tax was not shown as a separate line item.

Per the Purchasing Policy, supporting receipts or invoices are required to itemize sales tax. For compliance purposes, all vendors accepting a P-Card for payment should be reminded that the supporting receipt or invoice should show sales tax on the transaction as a separate line item.

Management Response: Will make sure merchants' receipts show sales tax.

Observations and Recommendations

Observation #1: Insufficient supporting documentation within e-Works.

The Purchasing Policy requires supporting documentation such as informal quotes and an explanation of efforts to obtain local vendors and M/WBE business. A lack of supporting documentation within e-Works was noted for Marketing. It is recommended for Marketing management to reiterate to staff the Purchasing Policy and the importance of including all necessary documentation within e-Works. It is also recommended for Marketing to ensure staff with purchasing responsibilities understand the City's Purchasing Policy.

Management Response: Will make sure all supporting documentation is attached in e-Works.

Observation #2: Reimbursement of purchasing activity should not be approved by original purchaser.

Although the Purchasing Policy does not require that department heads have their purchases and reimbursements reviewed and signed by their supervisor, approving one's own purchases and reimbursements does not ensure an independent and separate review. Per proper internal controls, it is recommended that purchasing and reimbursement activity for Department Heads be approved by the Assistant City Manager or City Manager. Internal Audit also recommends that the Purchasing Policy be revised to prohibit individuals from approving of their own reimbursements.

Management Response: Purchasing agrees that per proper internal controls the Purchasing Administrative Policy should be revised to prohibit an individual from approving one's own reimbursements and to require approval of such reimbursements by one's own supervisor. Purchasing

will prepare and propose an addition to the Purchasing Administrative Policy to address this situation. Purchasing will also seek to have electronic payment approval routing configured to prevent self-approval of reimbursements.

Respectfully submitted,



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DISTRIBUTION

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