City Auditor's Office

Financial Services Procurement Process

Report Issued: June 29, 2020

Audit Report No. 19-07

Auditor: Andrea R. Russell, CPA, CFE, CIA, CGMA

P O Box 150027
815 Nicholas Pkwy.
Cape Coral, FL 33915-0027
Phone 239-242-3383 Fax 239-242-3384

TO: Mayor and Council Members

FROM: Andrea R. Russell, City Auditor

DATE: June 29, 2020

SUBJECT: Financial Services Procurement Division Audit

The City Auditor's Office completed the audit of Financial Services procurement process. The audit was conducted in conformance with Generally Accepted Government Auditing Standards by the authority granted through City Ordinances 28-02 and 79-10.

We would like to express our sincere appreciation to City management and staff for the courtesy, cooperation and proactive attitude extended to the team members during the audit. If you have any questions or comments regarding this audit, please contact Andrea Russell at 242-3380.

C: John Szerlag, City Manager
Connie Barron, Assistant City Manager
Chris Phillips, Acting Financial Services Director
Dolores Menendez, City Attorney
Kimberly Bruns, City Clerk
Wanda Roop, Procurement Manager
Audit Committee

TABLE OF CONTENTS

EXECUTIVE SUMMARY 4
BACKGROUND 4
AUDIT OBJECTIVES 5
STATEMENT OF AUDITING STANDARDS 5
FINDINGS AND RECOMMENDATIONS 5
SCOPE AND METHODOLOGY 18
APPENDIX A 19

EXECUTIVE SUMMARY

The City Auditor's Office conducted an audit of the Financial Services procurement process. This audit is included in the City Auditor's FY20 approved Audit Plan.

Although many procurement responsibilities reside with individual departments due to the decentralized nature of procurement, the review of procurement transactions and processes confirms that controls are in place and operating effectively to ensure material compliance with State and City regulations, ordinances and policies and procedures. Audit testing also revealed several opportunities for improvement in the procurement process including clarification of guidance, potential for increased efficiency for certain processes and the need for a more robust and centralized monitoring process.

For details on the findings and recommendations, see Findings and Recommendations. No material control deficiencies were noted.

BACKGROUND

The Procurement Division is part of Financial Services and consists of a Procurement Manager who reports directly to the Financial Services Director; one Administrative Assistant; three Senior Buyers and five Procurement Specialists. Much of the process is decentralized with the Department Certified Agency Buyers (CAB's) entering requisitions for procurement. Purchases under $5,000 are made entirely by the Departments. Procurement Ordinance 52-19 was revised and approved by council on December 2, 2019. The main purpose of the revisions was to increase thresholds that require City Manager and Council approval to streamline the process. Approval limits for quotes, both verbal and written, and when an item goes out to bid were increased. The revisions increased the purchase amount for Council approval from $50,000 and over to $100,000 and over. Details of City purchase order (PO) processing for FY18 and FY19 are shown in Exhibit 1. The Procurement Division processed 30% and 32% of the PO transactions which represented 99% and 97% of the total dollars shown in Exhibit 1 for FY18 and 19 respectively.

Exhibit 1

	FY18	FY19
Number of transactions	6,692	6,192
Dollar Value	$333,046,450	$111,409,453
Procurement Division % of total number of purchases processed	30%	32%
Procurement Division % of total Dollars processed	99%	97%

AUDIT OBJECTIVES

The overall audit objectives were:

- Are procurements made in accordance with City policies?
- Is the procurement process streamlined to meet the division's operational goals and City Departments' procurement needs?
- Does the Procurement Division perform monitoring procedures to ensure Department purchases are accurate and made in accordance with policies and procedures?

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit 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.

FINDINGS AND RECOMMENDATIONS

FINDING 2019-01: Updates necessary to procurement documents

Rank: (High)

The procurement process is decentralized and handled mostly by individual Department's Certified Agency Buyers (CABs) for purchases less than $5,000. Currently, guidance and policies for procurement are communicated through multiple outlets, including emails; verbally; the Procurement Policies and Procedures Manual (Manual); *Administrative Regulation (AR) 16- Competition for Delivery of City Service; Administrative Regulation 23 – Purchasing; AR 9 – Selection and Acquisition of Computer Software and Hardware*; *Navigating through the City of Cape Coral's Procurement Rules and Regulations*; and annual CAB training materials. A comparison of the available guidance identified instances of inconsistency between the various sources. In addition, *AR 23* is lengthy, contains duplicative information and was last updated in 2007. At one point, there were three memos regarding signature designation that were confusing and resulted in inconsistent processes. For example, one of these memos still referred to the Interim Assistant City Manager and needed updating to reflect the permanent appointment made in January 2019. In addition to the Manual, AR's and other guidance, a

yearly email reminder from Procurement outlines comprehensive procedures that are not found in the Manual thereby adding to the confusion[1].

The Government Accountability Office (GAO) Standards for Internal Control in Federal Government 12.04 states policies should be documented "in the appropriate level of detail to allow management to effectively monitor the control activity." Also, Section 12.05 states "management periodically reviews policies, procedures and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks."

Frequently, many different locations and versions of guidance can lead to increased process time to procure goods or a delay in project start due to confusion over requirements. Sometimes this confusion can also lead to noncompliance with policies and procedures. A comprehensive, all-inclusive manual would assist to reduce confusion and help department's comply with procurement requirements.

RECOMMENDATIONS:

2019-01a. Compile one comprehensive Procurement Manual that includes all policies, procedures, user responsibilities, and detailed documentation requirements.

2019-01b. Consolidate and update the City Manager's "signature authorization" memos and review annually for necessary changes.

Management Response and Corrective Action Plan:

2019-01a. Review and update as applicable – with the new Tyler Financial software implementation, all procedures are being reviewed. The goal would be to have a comprehensive manual completed to reflect the information that is been given at the CAB training, emails, and any other documentation. The manual will be reviewed periodically for updates, at a minimum annually.
2019-01a. Responsible Person: Gina Lanzilotta, Senior Buyer
2019-01a. DRAFT Anticipated Completion Date: Preliminary Manual Draft 9/30/2020
2019-01a FINAL Anticipated Completion Date: Final Manual Draft 12/31/2020

2019-01 b. The City Manager's "signature authorization" memo has been updated as of 02/28/20 and will be updated as applicable. Going forward with the implementation of the new financial software, the signature routing will be electronic.
2019-01 b. Responsible People: Wanda Roop, Procurement Manager
2019-01 b. **Anticipated Completion Date:** 3/2/2020 IMPLEMENTED

[1] See Recommendation 2019-02c for recommendation regarding update of applicable AR's.

FINDING 2019-02: Compliance with Procurement Procedures

Rank: (High)
We sampled 62 requisitions, totaling $6,811,048. Overall, seven of the 62 (11%) requisitions did not comply with one or more procurement procedures in the Procurement Policies and Procedures Manual (Manual) and/or related requirements included in Administrative Regulation (AR) #23. In addition, the unit price invoiced and paid for one requisition did not agree with contract pricing. Of the seven requisitions considered exceptions, all were for purchase amounts under $2,500. This is indicative that more monitoring should be considered for smaller dollar purchases to ensure compliance with procurement policies and procedures.

As mentioned in Finding 2019-01, there are several different sources for proper procedures for procurement including: the Manual dated February 2019 (Sections 2, 10 and 14), AR's 16 and 23 and individual pricing details in individual vendor contracts. These documents provide detail on requisitions to purchase, procurement responsibilities, types of procurements including Piggyback purchases and non-purchase order transactions. Frequently, due to the decentralized nature, a lack of comprehensive guidance and unclear or undefined roles and responsibilities, result in overpayments; noncompliance with policies and procedures; increased processing time and decreased process efficiency. In addition, the City could incur liability if certain insurance documents aren't obtained when necessary.

RECOMMENDATIONS:

2019-02a. Utilize Saba to provide annual CAB training and host live sessions to introduce and discuss any updates to procurement manuals and applicable AR's and provide detailed examples.

2019-02b. Utilize Lean techniques to streamline and reorganize the procurement process to eliminate unclear requirements and increase efficiency.

2019-02c. Perform a review of applicable Administrative Regulations (AR 16 and 23) to update or remove guidance that conflicts with the Procurement Policies and Procedures Manual to better align the AR with the current purchasing manual. This AR should be updated when the Manual is revised.

Management Response and Corrective Action Plan:

2019-02 a. The current annual CAB training will be enhanced with pertinent testing questions to determine the effectiveness and assist the trainees with added training and clarification. Procurement will work with Human Resources to utilize SABA as a training tool for all employees.

2019-02 a. Responsible Person: Wanda Roop, Procurement Manager
2019-02 a. Anticipated Completion Date: January 31, 2021

2019-02 b. The different procurement processes will be reviewed utilizing all techniques available to streamline the process while maintaining the integrity of said process and following all Federal, State and Local laws and requirements. A plan with a timeline will be developed, including stakeholders, to review pertinent processes such as but not limited to the following: Requisitions/Purchase Orders; Invitation to Bids (ITB), Request for Proposals (RFP), Formal Quotes, Service Contracts, Vendor contracts. After initial review, the processes will be reviewed periodically, at a minimum annually.
2019-02 b. Responsible People: Wanda Roop, Procurement Manager
2019-02 b. Anticipated Completion Date: (for Plan) September 1, 2020

2019-02 c. Perform a review of applicable Administrative Regulations to update or remove guidance that conflicts with the Procurement Policies and Procedures Manual to better align the AR with the current procurement manual. This AR will be updated when the manual is revised.
2019-02 c. Responsible People: Wanda Roop, Procurement Manager
2019-02 c. Anticipated Completion Date: November 30, 2020

FINDING 2019-03: Procurement Process Timeline Improvements

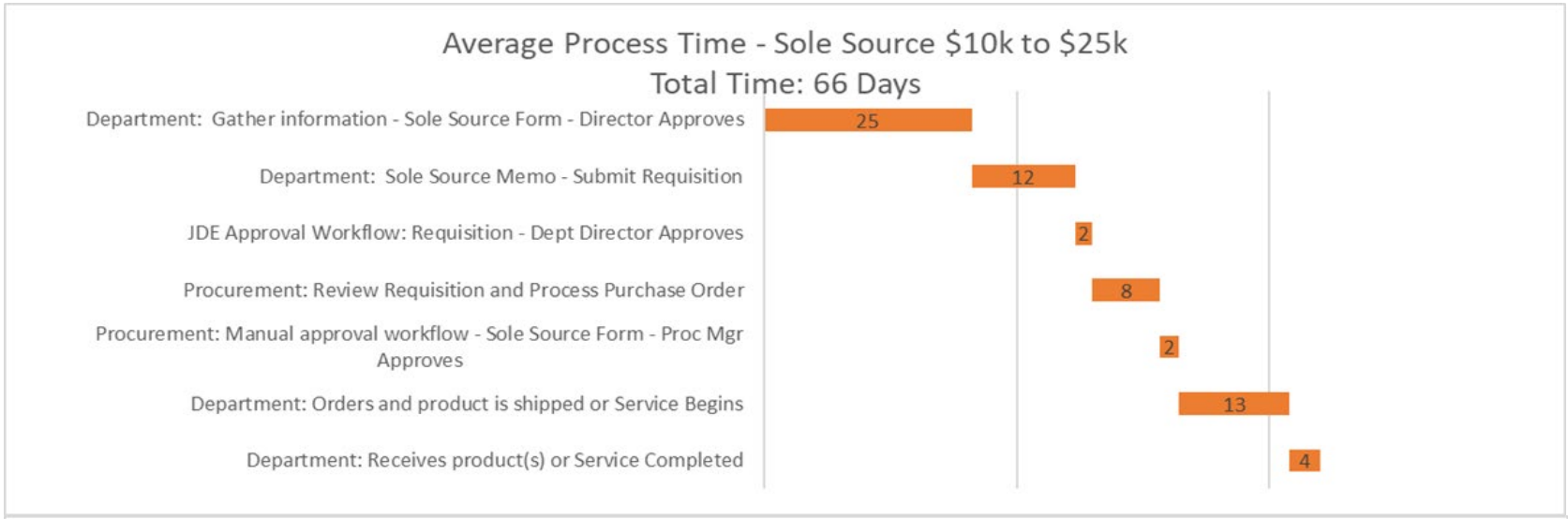
Rank: Medium

Based on our audit walkthrough discussions it appeared that parts of certain procurement processes can take an excessive amount of time to complete. From our discussions with CAB's completing the procurements, we identified the following processes:

- Sole Source $10k-$25k
- Sole Source $25k-$50k
- Professional Engineering Services requiring RFP (over $200k)
- Professional Engineering Services between $35k and $200k
- Quotes $10k to $25k
- Quotes $25k-$50k
- Invitations to Bid (ITB)

We judgmentally selected three invoices from different vendors for the categories noted above and identified milestones within each process. We then developed Gannt charts to determine a timeline for average processing times for each milestone as well as the entire process. Based on our Gannt charts, we noted several areas that took on average 20 business days or more to complete. These are shown in **Exhibit 2.**

Exhibit 2


Average Process Time - Sole Source $10k to $25k
Total Time: 66 Days
Department: Gather information - Sole Source Form - Director Approves
25
Department: Sole Source Memo - Submit Requisition
12
JDE Approval Workflow: Requisition - Dept Director Approves
2
Procurement: Review Requisition and Process Purchase Order
8
Procurement: Manual approval workflow - Sole Source Form - Proc Mgr Approves
2
Department: Orders and product is shipped or Service Begins
13
Department: Receives product(s) or Service Completed
4

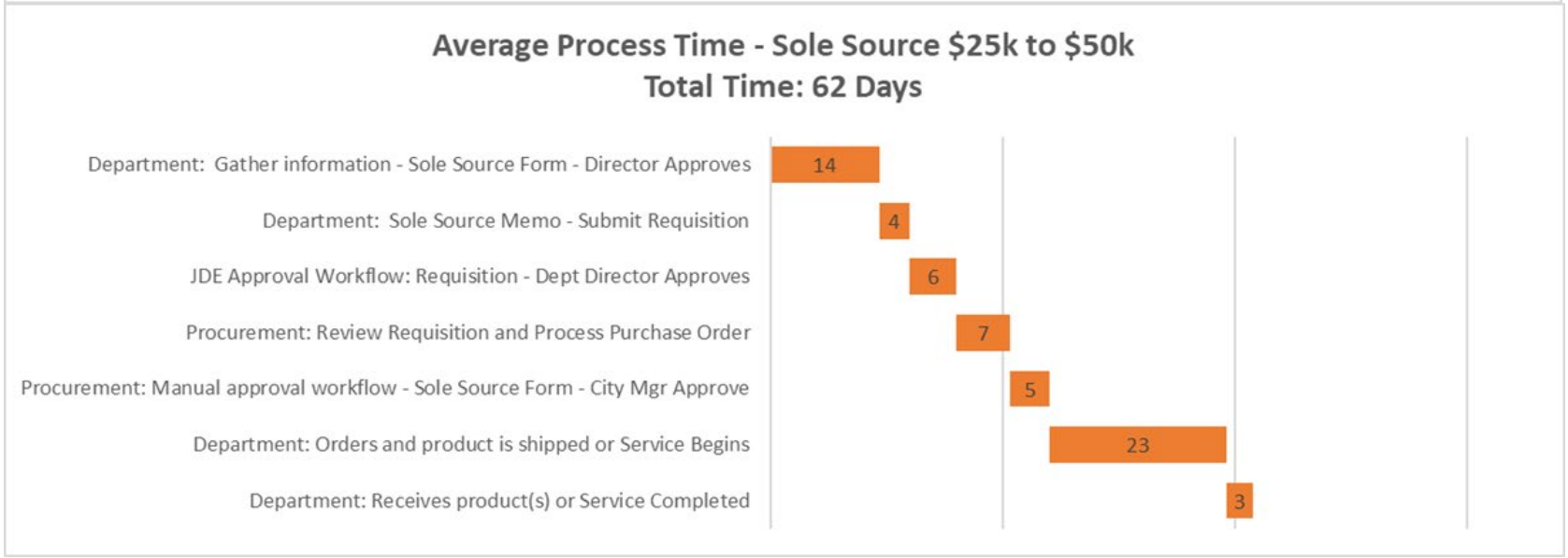
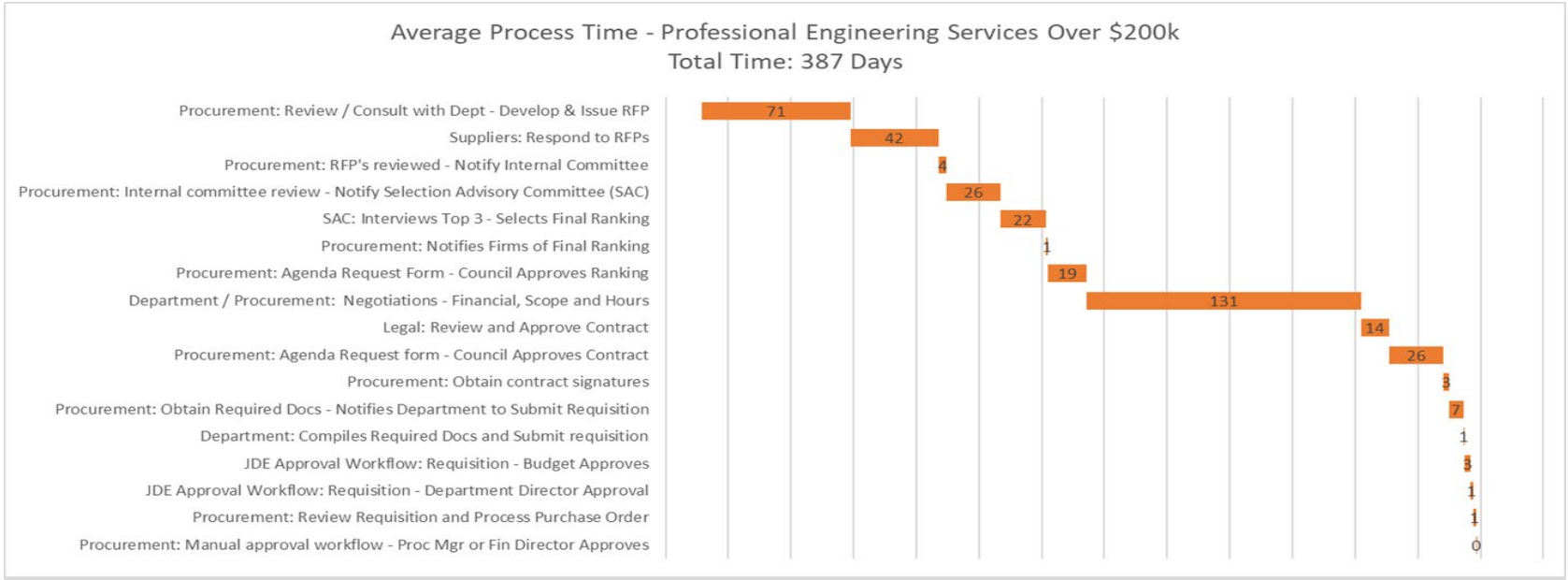

Average Process Time - Sole Source $25k to $50k
Total Time: 62 Days
Department: Gather information - Sole Source Form - Director Approves
14
Department: Sole Source Memo - Submit Requisition
4
JDE Approval Workflow: Requisition - Dept Director Approves
6
Procurement: Review Requisition and Process Purchase Order
7
Procurement: Manual approval workflow - Sole Source Form - City Mgr Approve
5
Department: Orders and product is shipped or Service Begins
23
Department: Receives product(s) or Service Completed
3

Exhibit 2


Average Process Time - Professional Engineering Services Over $200k
Total Time: 387 Days
Procurement: Review / Consult with Dept - Develop & Issue RFP
Suppliers: Respond to RFPs
Procurement: RFP's reviewed - Notify Internal Committee
Procurement: Internal committee review - Notify Selection Advisory Committee (SAC)
SAC: Interviews Top 3 - Selects Final Ranking
Procurement: Notifies Firms of Final Ranking
Procurement: Agenda Request Form - Council Approves Ranking
Department / Procurement: Negotiations - Financial, Scope and Hours
Legal: Review and Approve Contract
Procurement: Agenda Request form - Council Approves Contract
Procurement: Obtain contract signatures
Procurement: Obtain Required Docs - Notifies Department to Submit Requisition
Department: Compiles Required Docs and Submit requisition
JDE Approval Workflow: Requisition - Budget Approves
JDE Approval Workflow: Requisition - Department Director Approval
Procurement: Review Requisition and Process Purchase Order
Procurement: Manual approval workflow - Proc Mgr or Fin Director Approves
71
42
4
26
22
1
19
131
14
26
3
7
1
3
1
1
0

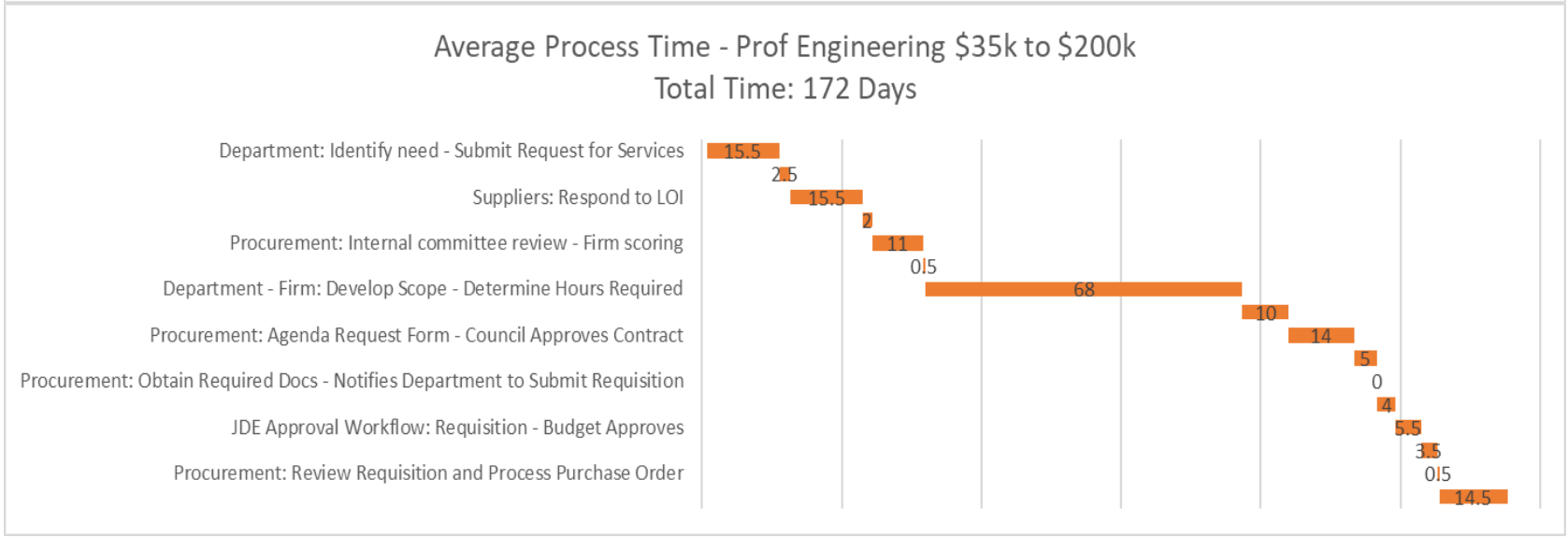

Average Process Time - Prof Engineering $35k to $200k
Total Time: 172 Days
Department: Identify need - Submit Request for Services
Suppliers: Respond to LOI
Procurement: Internal committee review - Firm scoring
Department - Firm: Develop Scope - Determine Hours Required
Procurement: Agenda Request Form - Council Approves Contract
Procurement: Obtain Required Docs - Notifies Department to Submit Requisition
JDE Approval Workflow: Requisition - Budget Approves
Procurement: Review Requisition and Process Purchase Order
15.5
2.5
15.5
2
11
0.5
68
10
14
5
0
4
5.5
3.5
0.5
14.5

Exhibit 2

Average Process Time - Quotes $10k to $25k
Total Time: 58 Days
Department - Gather quotes- Prepare Required Documents
23
Department - Input Requisition - Attachments
8
JDE Requisition - Approval workflow - Dept Director Approves
3
Procurement - Review and Process Purchase Order
4
Procurement - PO manual approval workflow - City Manager (or designee)
0
Department - Orders and product is shipped or Service Begins
17
Department - Receives product(s) or Service Completed
3

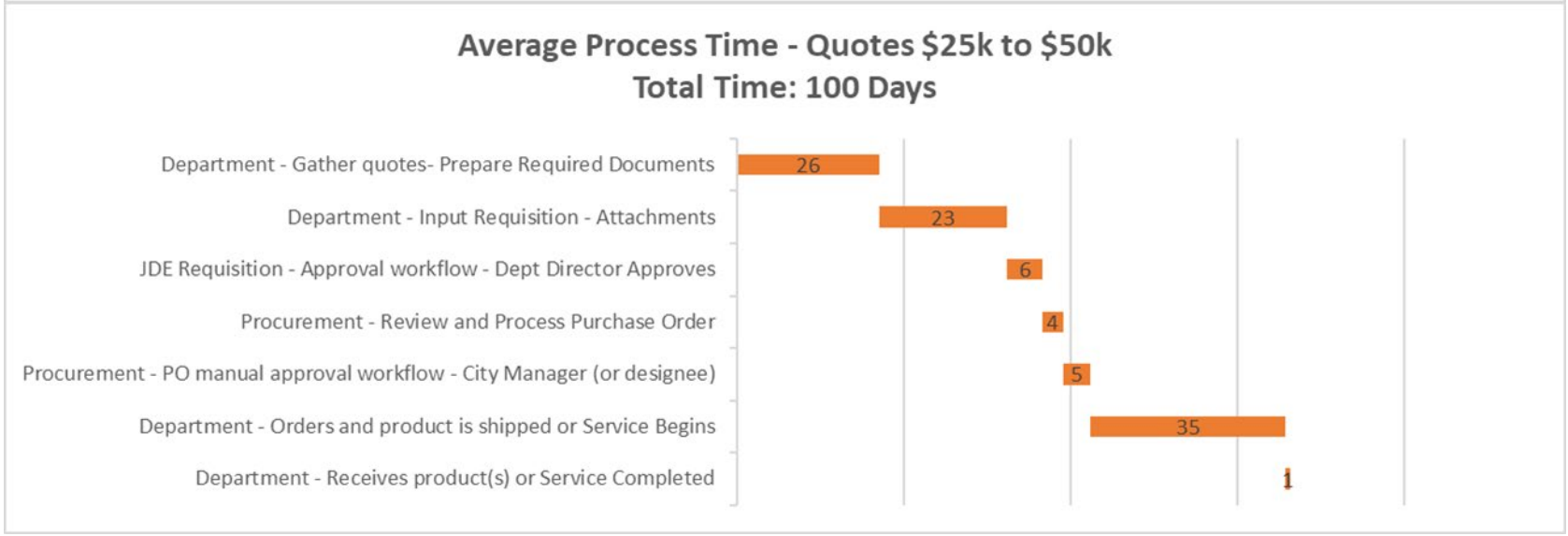

Average Process Time - Quotes $25k to $50k
Total Time: 100 Days
Department - Gather quotes- Prepare Required Documents
26
Department - Input Requisition - Attachments
23
JDE Requisition - Approval workflow - Dept Director Approves
6
Procurement - Review and Process Purchase Order
4
Procurement - PO manual approval workflow - City Manager (or designee)
5
Department - Orders and product is shipped or Service Begins
35
Department - Receives product(s) or Service Completed
1

Exhibit 2

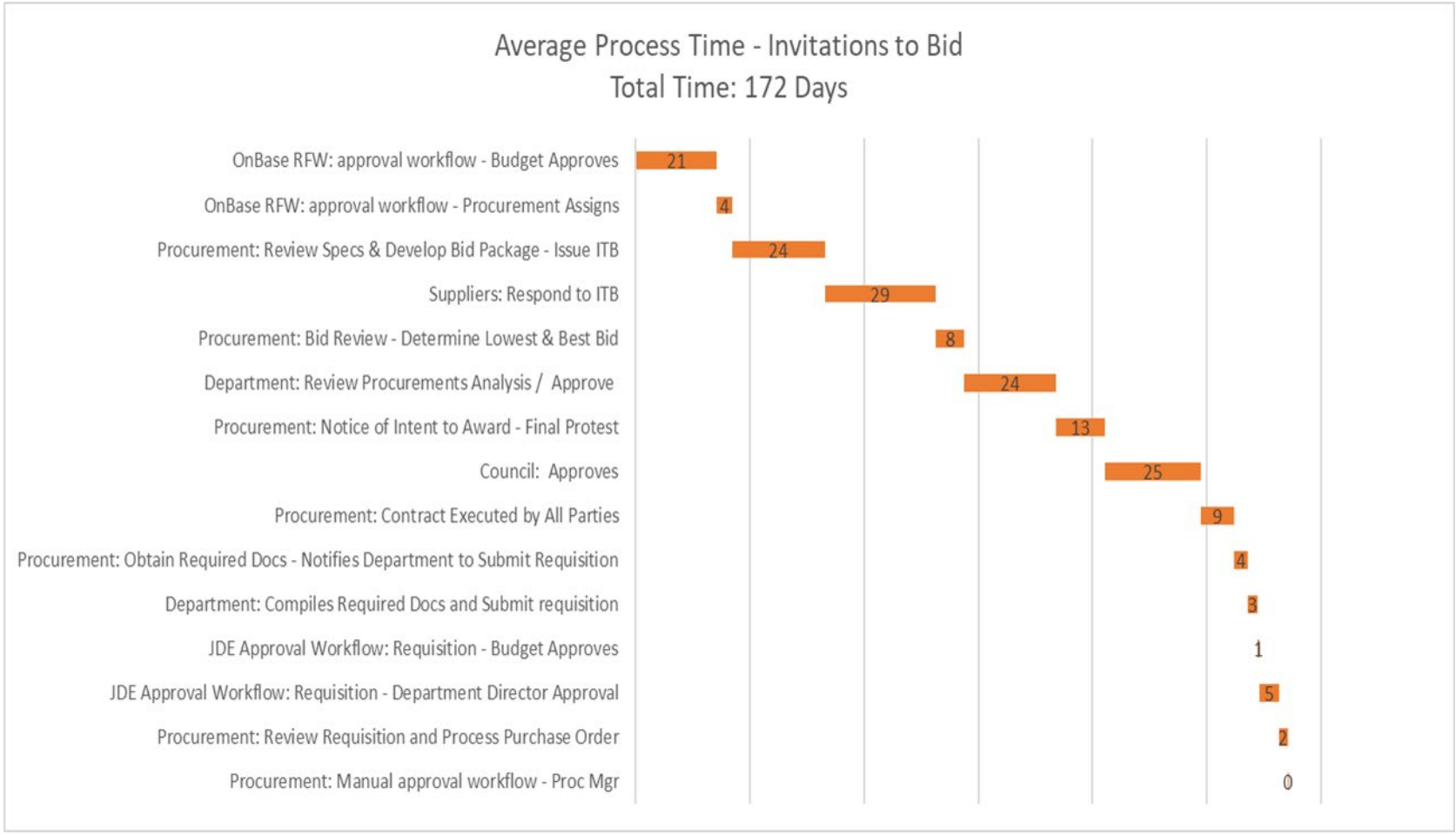
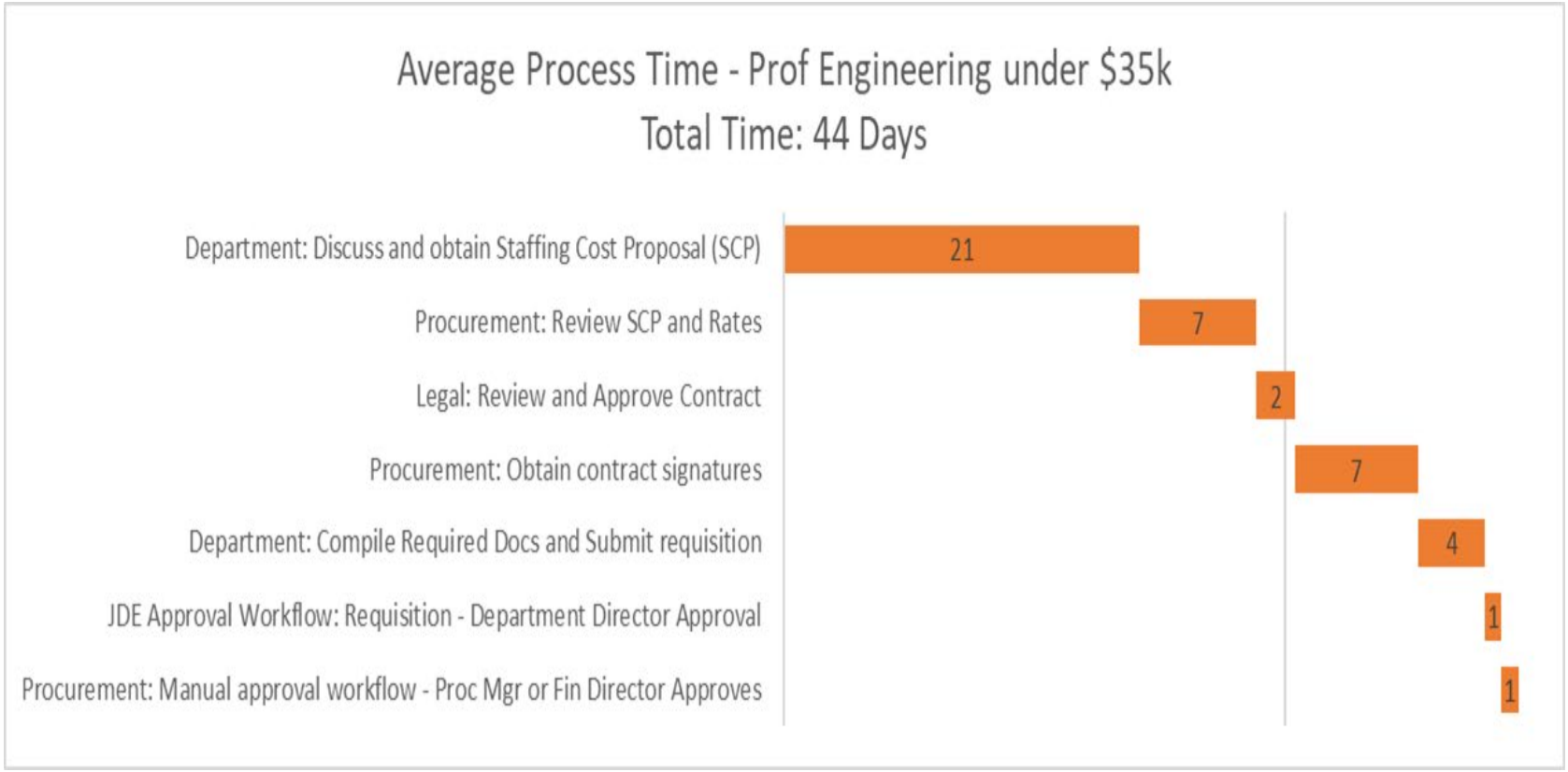

Average Process Time - Invitations to Bid
Total Time: 172 Days
OnBase RFW: approval workflow - Budget Approves
21
OnBase RFW: approval workflow - Procurement Assigns
4
Procurement: Review Specs & Develop Bid Package - Issue ITB
24
Suppliers: Respond to ITB
29
Procurement: Bid Review - Determine Lowest & Best Bid
8
Department: Review Procurements Analysis / Approve
24
Procurement: Notice of Intent to Award - Final Protest
13
Council: Approves
25
Procurement: Contract Executed by All Parties
9
Procurement: Obtain Required Docs - Notifies Department to Submit Requisition
4
Department: Compiles Required Docs and Submit requisition
3
JDE Approval Workflow: Requisition - Budget Approves
1
JDE Approval Workflow: Requisition - Department Director Approval
5
Procurement: Review Requisition and Process Purchase Order
2
Procurement: Manual approval workflow - Proc Mgr
0

Exhibit 2


Average Process Time - Prof Engineering under $35k
Total Time: 44 Days
Department: Discuss and obtain Staffing Cost Proposal (SCP)
21
Procurement: Review SCP and Rates
7
Legal: Review and Approve Contract
2
Procurement: Obtain contract signatures
7
Department: Compile Required Docs and Submit requisition
4
JDE Approval Workflow: Requisition - Department Director Approval
1
Procurement: Manual approval workflow - Proc Mgr or Fin Director Approves
1

The Procurement Policies and Procedures Manual; CAB manual; Navigating through the Procurement Rules and Regulations (February 2011) brochure; FL State Statute 287.055 and individual informal guidance provided by procurement staff all contain information on several different ways to complete the procurement processes.

The GAO Standards for Internal Control in Federal Government Section 12.02 and Section 12.03 provide guidance for appropriate policies and procedures. Comprehensive policies and procedures:

- Ensure business continuity
- Identify specific methods and standards for how work is performed, and documented
- Provide process consistency and structure
- Should be periodically reviewed and updated
- Provide for organizational consistency and efficiency

A lack of comprehensive policies and procedures can lead to confusion because requirements are not clearly defined in one place[2]. This is exacerbated by the decentralized nature of the process. Informal guidance can also lead to misinterpretation when it isn't documented or conflicts with documented guidance such as the CAB manual.

Besides a lengthier, inconvenient procurement process, lack of or conflicting requirements can also lead to increased prices due to expired quotes or different pricing at later dates as well as a delay in receipts of goods or services.

RECOMMENDATION:

2019-03 Standardize Sole Source, Professional Engineering, Quotes, and Invitations to Bid procurement processes to clearly define roles, responsibilities and requirements in order to reduce processing time. Updates to the processes should be included in the CAB manual for ease of reference.

Management Response and Corrective Action Plan:

2019-03 a. The different type of procurement – Sole/Single Source, Competitive solicitations – will be reviewed to clearly define the role, responsibilities for each stakeholder. Checklist will be created and/or modified to assist personnel in obtaining all the proper documentation required. This checklist will be included in the Manual.
2019-03 a. Responsible Person: Wanda Roop, Procurement Manager
2019-03 a. **Anticipated Completion Date:** November 30, 2020

[2] See Finding 2019-01a

FINDING 2019-04: Monitoring

Rank: High

Monitoring of procurement is necessary because the City's Procurement process is decentralized as a whole with responsibilities falling mainly on the Department's making the purchase. Some monitoring is performed by both individual City departments as well as the Finance Procurement Division. Based on our discussions with the Procurement Division, our understanding of the procurement process and audit testing we identified the following monitoring procedures that should be completed:

Contract Monitoring: Procurement identified four different processes for contract monitoring which include a notification form to be completed upon contract renewal; review of a list of contracts included on SharePoint; email communication asking for an update on contract status; and an extensive reminder email upon contract renewal sent with all initial information submitted. These processes are not performed on a defined basis but rather are completed as a courtesy to the Departments. Due to the decentralized nature of procurement, individual departments also monitor contracts. Some departments use Excel spreadsheets and conduct monitoring regularly while other's monitor sporadically with no defined process. There are even differing monitoring methods within separate divisions in the same Department.

Contract listings are found on SharePoint as well as maintained by individual departments. We reviewed the list of contracts on SharePoint and compared to records maintained by each department. We noted 12% of the contracts per records provided by departments did not appear on SharePoint and 29% of those contracts are monitored by more than one department. For example, two different departments utilizing the same vendor contract both monitor the same contract independently. In addition, a review of the contract expiration dates included on SharePoint revealed that 93% of the contracts that had an expired date were not reported by the individual department on their tracking.

Requisitions: Procurement conducts a periodic review of Vendor Expense Reports; however, the process is not clearly defined or performed on a regular basis. Procurement relies on the individual department to ensure they stay within budget.

Purchase Orders: Procurement completes a review of purchase orders and year-to-date expenses. Not all reviews completed are saved to track and compare.

Similar item purchases: Frequently multiple departments purchase like kind items. For example, uniform shirts or fertilizer/ weed killer. Procurement performs periodic reviews of certain purchases to try to consolidate and obtain best pricing; however, the monitoring could be more defined and performed on a regular basis.

Change Orders: Procurement uses an electronic workflow to identify multiple change orders for the same purchase order. These change orders are discussed with the respective Department/ Division.

Purchase thresholds: Procurement conducts monitoring to ensure that multiple PO's are not processed for the same vendor for an amount below set thresholds; however, this is not documented and not performed on a consistent basis.

The Procurement Policies and Procedures Manual addresses monitoring of purchase orders and contracts and states:

- Section 3, Purchase Orders, "The Procurement Division may actively monitor Open Purchase Orders to ensure adherence to City procedures. An Open Purchase Order may be canceled immediately by Procurement should the user division not strictly adhere to the provisions of the Open Purchase procurement procedures."
- Section 5, Contract Administration, the contract administrator file must include: "Relevant monitoring or evaluation reports."

In addition, the Government Accountability Office Standards for Internal Control in Federal Government Section 16.01 states "management should establish and operate monitoring activities to monitor the internal control system and evaluate the results." Sections 16.09 and 16.10 state "management evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues" and "should remediate identified internal control deficiencies on a timely basis."

The Procurement division does not perform monitoring on a consistent basis and lacks defined procedures for monitoring. Since the process is decentralized, clear roles and responsibilities must also be defined. As a result, undetected non-compliance with policies and procedures may occur as well as lost opportunities for cost savings and inefficient contract management.

RECOMMENDATION:

2019-04 Develop monitoring procedures for contracts, requisitions, purchase orders, purchase thresholds, similar item purchases, and change orders. Monitoring should be conducted on a regular basis by the Procurement Division and documented.

Management Response and Corrective Action Plan:

2019- 04 Enhanced monitoring for requisitions/PO; change orders and contracts will be conducted with the new financial software system Tyler Munis. The monitoring will be conducted periodically, at a minimum quarterly, and documented. The monitoring will be conducted to identify trends in reference to similar item purchases. The Sr. Buyer will be given certain commodities to focus Citywide. For example, the following are commodities that the process was already utilized; temporary labor, copiers, sod and fertilizers. The Sr. Buyer identified a need for a central contract that had a citywide impact. That respective Sr. Buyer, with an identified Lead Department, issued a solicitation and awarded a contract after Council approval.

In the future, depending the dollar threshold, for similar items identified; the process may be conducted by a Sr. Buyer or a Procurement Specialist to work on the project. In reference to Purchase Orders managed by the respective Departments (less than $5K), Sr. Buyers are given specific Departments to manage. The plan is and continues to be that the respective Sr. Buyer will monitor their respective Department to see a trend on multiple POs or requisitions for the same vendors that would go over the established ordinance threshold. The Sr. Buyer will document and require corrective action for any non-compliance.

In reference to Change Orders, respective Sr. Buyer will review periodically, at a minimum quarterly to see the trend, the number of change orders, dollars and/or product associated to determine and/or advise the Department to open a PO for a larger amount in the beginning of the fiscal year to alleviate the additional work associated and/or the potential of having services performed without a properly funded and authorized purchase order. The respective monitoring will be documented and signed off by the Procurement Staff member (Sr. Buyer or Procurement Specialist) and the Procurement Manager. If a corrective action plan is required, it will be signed off by the Department Manager and Department Director.

Contracts will be periodically monitored, no less than semiannual, by the Sr. Buyer or Procurement Specialist assigned to the project. The respective Procurement staff member will run a report to determine contracts that will be expiring within six months and email the Department a form in which the Department will state if they want to renew or issue a solicitation. The form will also state the steps required to be taken depending if the contract will be renewed or a solicitation issued. The form will be added to the procurement manual. A summary of the monitoring processes will be included in the Manual.

2019-04 **Responsible Person:** Wanda Roop, Procurement Manager
2019-04 **Anticipated Completion Date:** October 1, 2020

SCOPE AND METHODOLOGY

Based on the work performed during planning and the assessment of risk, the audit covers city-wide procurement transactions and processes from February 1, 2019 through November 30, 2019. Testing was performed using, State procurement regulations, the City Ordinance, Administrative Regulations and procurement policies and procedures in place during the scope period. Original records as well as copies were used as evidence and verified through physical examination. Sample size and selection were based on the CAO Sample Methodology.

In order to determine whether internal controls were in place to ensure purchases were made in accordance with State regulations and City Ordinances and policies and procedures, we reviewed a random sample of procurement transactions. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

Also, in order to evaluate the efficiency of the procurement process we judgmentally selected invoices for different procurement thresholds and determined milestones and timelines from the invoice data.

Finally, in order to evaluate the adequacy of controls over monitoring we reviewed the processes in place both in individual departments and performed by the Procurement Division

To achieve the audit's objectives, we relied on the City's financial system, which was previously determined to be reliable and no additional testing was necessary. Based on these assessments and tests, we concluded the data was sufficiently reliable for the purposes used in meeting the audit's objectives.

APPENDIX A

Finding Classification
Findings are grouped into one of three classifications: High, Medium or Low. Those findings that are categorized as low are not included in the report but rather are communicated separately to management. Classifications prioritize the findings for management to address and also indicate the level of testing required to determine if a finding's Corrective Action Plan is fully implemented in accordance with recommendations and Management's Response.

High: A finding that is ranked as "High" will have a significant impact on the organization. It is one that *prevents* the achievement of a substantial part of significant goals or objectives, or noncompliance with federal, state or local laws, regulations, statutes or ordinances. Any exposure to loss or financial impact for a High finding is considered *material*. Examples include direct violation of City or Department policy, blatant deviation from established policy and procedure, such as actions taken to circumvent controls in place, material non-compliance with federal, state or local laws, regulations, statutes or ordinances, or an area where significant cost savings could be realized by the Department or the City through more efficient operations.

High findings require immediate management attention and should take management's priority when considering implementation for corrective action.

Medium: A "Medium" finding is one that *hinders* the accomplishment of a significant goal or objective or non-compliance with federal, state or local laws, regulations, statutes or ordinances, but can't be considered as preventing the accomplishment of the goal or objective or compliance with federal, state or local laws, regulations, statutes or ordinances. Exposure to loss or potential or actual financial impact is *significant but not material* to the Department or City. Examples include lack of monitoring of certain reports, insufficient policies and procedures, procedure in place or lack of procedure that can result in *potential* noncompliance with laws and or regulations.

Medium findings require management attention within a time frame that is agreed upon by the Department and the City Auditor. Priority for implementation of management's corrective action should be considered in light of other High or Low findings.

Low: A "Low" finding is one that warrants communication to management but is one that isn't considered as hindering the accomplishment of a significant goal or objective and isn't causing noncompliance with federal, state or local laws, regulations, statutes or ordinances. Financial impact or risk of loss is minimal to none; however, low findings can *hinder the effectiveness or quality of department operations and thus are communicated to management separately. Low ranked findings are not included in the final audit report.*

The City Auditor's Office will not follow up on the status of Low findings communicated to Management.