



**INTERNAL AUDITOR'S
REPORT ON
UNAUTHORIZED PURCHASES**

JUNE 6, 2019

**Ernest Harvin, CIA
Internal Audit Function
Doña Ana County**

Mr. Fernando Macias,

On June 3, 2019, you requested that the internal auditor review the possible occurrence of unauthorized purchases by Doña Ana County personnel. The assignment contained the inquiries below.

Inquiry

For the past 3-year period (July 2016 – June 2019), determine the following:

1. Was there money put into the budget line items, which was never specifically identified as being for any specific purpose?
2. Were there any purchases made that were considered as ‘unauthorized,’ per the definition described in Doña Ana County, New Mexico Purchasing Policy § 89-6, below?

"Unauthorized purchase" means any purchase which is not properly supported within the approved County budget or by other County Commission action, and includes any purchase whereby an employee has requested that a vendor provide supplies, equipment or services in the absence of an approved formal purchase order or other Purchasing Department approval, and any purchase that is procured utilizing an expired contract.

Scope

To acquire an understanding of the budget process, as well as obtain a listing of circumstances wherein unauthorized purchases occurred within the past three-year period, I coordinated with management within the Finance Department. Thus, the results of my research and analysis are based upon the data obtained.

Results

Question #1 –Response:

1. The Finance Department’s Budget & Research Officer and staff, thoroughly review annual budget requests. Herein, each department is required to account for prospective expenditures by inputting them into a listing of accounts.

If for example, a department anticipates the need for \$2,200 of expenditures in the upcoming fiscal year, that department will detail into which account each dollar is to be allocated.

Reference the example below:

Fund	Organization	Account	Operating Expenditure	Amount
20002	20019	71030	Professional Services	\$200
		72448	Office Equipment/Furniture under 5K	\$1,500
		72925	Telephone	\$500
				\$2,200

Doña Ana County Resolution No. 2018-55 delegates authority to Department Heads and the County Manager, to make limited budget revisions or adjustments to account totals as deemed necessary. This process is well documented. My assignment concludes that there was no money put into budget line items, which was never specifically identified as being for any specific purpose.

Question #2 –Response:

2. I relied upon the accounts of the Payroll & Accounts Payable Manager and staff, in gathering data of purchasing violations as defined above, for the past 3-year period. A single incident was discovered for June of 2017, wherein purchases totaling \$4,119.98 were made prior to the submission of the required documentation.

While the Purchasing Policy allows for the advance purchase of items under the circumstances of “Emergency” or “Urgent,” the purchases above did not fit either of these unusual circumstances. The purchases above (totaling \$4,119.98) appeared on one invoice indicating that they were all made during the same transaction.

I contacted and met with the Fire & Emergency Services Administrative Assistant, and learned that staff (at the South Valley Fire Department) had gone to a vendor, seeking a quote. However, the vendor understood the inquiry as an order placement, and invoiced the County. The South Valley District Fire Chief accepted the invoice, requesting and receiving an approved PO for the items invoiced.

Internal controls are meant to prevent, deter, mitigate, or detect policy violations. In this case, internal controls functioned effectively by detecting the violation. As a result of this violation, Accounts Payable (A/P) contacted the department with the following message:

“After reviewing your purchase to this vendor it has been considered that this will be an illegal purchase and the attached forms will need to be completed and signed by the County Manager.”

A/P also requested that the department fill out a Justification for Purchase form, which requires the signature of the County Manager.

This assignment concludes that the invoice noted above is a violation of the Purchasing Policy. While the purchase was properly supported within the approved County budget, it involved a request that a vendor provide supplies in the absence of an approved formal purchase order. However, it is important to note that the invoice indicates that purchases were made for legitimate County business, thus this was not a misappropriation of funds (fraud). The violation appears to have been the result of a procedural misstep, as the department is required to first remit a requisition, which should have resulted in a Purchase Order (PO). This is the proper protocol for acquiring such items.

Conclusion

The Finance Department exemplifies a detail-oriented approach in its annual review of the budget, questioning accounts that show increases, as well as accounts wherein funds remained unexpended from the prior year. In addition, when the Accounts Payable section recognizes violations such as the one above it is prompt in contacting the department, educating them on the established protocol and requiring receipt of the proper documentation **before** remittance of payment. In the absence of this documentation, the County would be compelled to enforce the following Code:

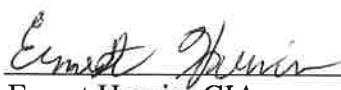
§ 89-6 Unauthorized purchases.

B. The County hereby declares and establishes that it will assume no responsibility for payment of unauthorized purchases. Employees initiating or otherwise executing any unauthorized purchases may be held personally liable for payment to the vendor without Doña Ana County reimbursement.

Until recently, no log of such incidents (policy violations) were maintained by the Finance Department, as such infrequent incidents were addressed and corrected as they occurred. However, the Payroll & Accounts Payable Manager has taken the initiative to implement the logging of such incidents as a means of maintaining an audit trail. This will allow for monitoring such activities.

The question concerning putting money into budget line items, which do not specifically identify a purpose, stems from a lack of fully understanding the budgeting process from an accounting standpoint. Herein, internal controls are in place to address any such attempts, and the risk of this occurring “undetected” is LOW.

The question concerning unauthorized purchases revealed one incident over a 3-year period. Internal controls are in place to address such purchase attempts, and the risk of unauthorized purchases occurring “undetected,” is LOW.

 13 November 2023
Ernest Harvin, CIA Date
Internal Auditor – Doña Ana County