

STANDARD

There are three primary audit types: compliance, financial, and performance. Preparation for an audit through regularly conducted self-assessments ensures that procurement professionals can readily provide up-to-date documents and data that may be requested by an auditor. Participating in an audit helps an agency's procurement staff maintain a professional approach that promotes effective stewardship of public funds and best value for the constituents served by the agency.

Definition

Audit: A detailed review and examination of documents and business processes by internal staff or independent experts, concluding with a detailed report that may also include a management letter or findings. An audit is a formal examination or verification of financial accounts or other business operations. Examples include compliance, financial, and performance audits.

Element 1: The foundation for audit preparedness and effective self-assessment programs lies in the procurement professional's knowledge of and adherence to laws, regulations, policies, procedures, and processes. Application of this foundation ensures economical, efficient, effective, and compliant daily operations.

The Procurement Department (Procurement) may be the direct focus of an audit or Procurement may be brought into the audit of another department by providing supporting documentation and data. Procurement should conduct self-assessments regularly to ensure that laws, regulations, policies, procedures, and processes are applied to operations and that up-to-date documents and data are readily available. If spending federal dollars, Procurement must comply with the terms, conditions, and requirements of the grant.

The success of the procurement function is measured using outcomes related to compliance, economy, efficiency, and effectiveness. Application of these principles may include:

- Establishing procedures and processes to ensure the agency is operating with integrity and achieving best value for the public.
- Ensuring that the agency can quickly respond to a need.
- Setting goals and measuring outcomes.
- Eliciting feedback from clients and end users.



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Procurement must be knowledgeable of and stay current with:

- Laws, regulations, codes, statutes, ordinances, charters, case law, best practices, and trade agreements that govern, authorize, enable, or empower the procurement function.
- The location or website address of laws, regulations, and policies that impact the procurement function.
- Changes made to procurement laws, regulations, and policies.
- Individuals with authority to update procurement laws, e.g., Delegate, Commissioner, Mayor, Governing Board.
- Advocacy and legislative processes required to change procurement laws, regulations, and policies.

Note: Procurement can impact laws by staying informed, providing input, and participating in advocacy through their local boards or state legislatures. This can be accomplished through a legislative liaison, participation in local, public procurement organizations, and regular communication with other procurement professionals through the NIGP communities.

The agency should establish and regularly update policies and procedures to ensure that the agency is prepared for an audit. Policies and procedures should address:

- Compliance with procurement laws, regulations, and trade agreements.
- Execution of procurement authority and responsibility.
- Ethical conduct.
- Applicable social, economic, and environmental goals.
- Fair and open solicitation processes.
- Publication of general information about the agency.
- Appropriate records retention and information management systems.
- Disaster recovery plans.

Each type of audit generates relevant questions. Some questions may show up in multiple types of audits. Examples include:

- Compliance Audit

Definition

Compliance audit: An audit conducted to determine the degree of adherence to established laws, regulations, policies, and procedures relative to accounting, financial, and business processes.

- Are policies, procedures, regulations, trade agreements, and laws being adhered to in procurement processes?
- Were funds spent in accordance with the grant or contract requirements?
- Was a competitive solicitation conducted before spending the money (if required)?
- Has the agency prepared relevant documents, e.g., purchase order, requisitions, invoices, contracts, and small purchase charge card logs?
- Is delegated authority clearly outlined in published documents?
- Did the agency document non-compliance when it was identified internally and take necessary measures to ensure future compliance?

■ Financial Audit

Definition

Financial audit: An audit conducted to determine whether all funds are properly accounted for, to verify the accuracy of financial statements and the facts they represent, and to ensure that financial transactions are recorded and shown accurately in all accounts.

- Were public funds spent on the goods or services specified in the grant or contract?
- What documentation does the agency have that will support contract and grant expenditures?
- Were the appropriate accounts charged for the expenditures?
- Did all financial transactions, including cash, follow the proper procedures and were those transactions documented?
- Are agency employees using the appropriate contracts when making purchases?
- Are early payment discounts taken if offered by suppliers?
- Are suppliers paid in a timely fashion?
- Are funds for interagency services transferred to the appropriate accounts and are those transfers completed in a timely fashion?
- Does the agency have appropriate internal checks and balances and separation of duties with respect to procurement, contracting, and payment?

■ Performance audit

Definition

Performance audit: A systematic and objective independent assessment of the management and activities of an organization related to the economic, efficient, and effective achievement of outcomes against objective criteria.

- Was departmental performance measured, and did those measurements show efficiency, economy, and effectiveness?
- Was supplier performance measured and documented, and did those measurements show adherence to the contract requirements, terms, and conditions?
- What is the level of maverick spending throughout the agency, and will it lead to supplier allegations of a breach of contract?
- Why did/didn't the agency use cooperative contracts?
- Are solicitations for replacement contracts started in time to implement a new contract before the expiration of the existing agreement?
- Do Procurement employees regularly attend professional development?
- Are agency employees trained on the procurement process?
- Was supplier outreach/education offered for conducting business with the agency?



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Element 2: Self-assessments can prepare Procurement for audits by the agency's internal audit department, an external accounting firm, or an independent expert.

The agency's lead procurement official is responsible for instituting regular self-assessments to ensure that Procurement is operating with economy, efficiency, effectiveness, and in compliance with applicable laws and regulations and that documents requested by an auditor are up-to-date and readily available. Planning sessions should include senior staff. When determining which areas of the self-assessment to assign, senior management should include the entire staff. Areas of assessment should be assigned to staff members to build trust and demonstrate transparency. Assignments may include a review of any or all of the following:

- Small purchases
- Sole source purchases
- Emergency purchases
- Competitive solicitations
- Term contracts
- Procurement cards
- Written policies and procedures
- Training aids
- Customer service
- Supplier performance

Frequency of self-assessment tasks

Self-assessments should be scheduled regularly. If feasible, self-assessments should be conducted at least once per year. However, if scheduling is not feasible, self-assessments should be conducted based on events such as the following:

- Hiring a new Chief Procurement Officer (CPO)
- Increase in protests
- Increase in staff turnover
- Request for increased delegation
- Implementation of a new policy or procedure
- Anticipation of an upcoming audit

Preparation for an audit is best done over time. To ensure that records are documented, organized, and maintained, a timeline and process should be established that will determine task frequency, e.g., daily, weekly, monthly, or annually. The use of checklists can greatly aid in ensuring compliance.

On a daily or weekly basis, Procurement should maintain or update paper or electronic document files that include:

- Solicitations, contracts, and any associated addenda and amendments.
- The evaluation process and award decisions.
- Communications such as correspondence, phone records, newsletters, and meeting notes.

Monthly and annual tasks may also include the disposal of documents in accordance with the records retention schedule as well as document review and analysis. Regularly conducted self-assessments ensure long-term preparation for audits and lay the foundation for assessing and achieving economical, effective, efficient, and compliant procurement operations, including governance, risk management, and internal controls.

On a monthly or annual basis, Procurement may wish to include documents such as the following in its self-assessment:

- Budgets and other financial records
- Strategic plans
- Protests and disputes
- List of procurement card holders and expenditures
- Spend analysis
- Training materials for end users
- List of staff members with professional certifications or memberships
- Policies and procedures, handbooks, and instruction manuals, including those used for training procurement personnel and any updates

Element 3: Audits can be triggered by major changes to the agency that impact procurement operations.

The overarching environment and context of an audit include relevant laws, regulations, codes, statutes, and ordinances. By conducting self-assessments at regular intervals, documents should be available for any type of audit or other events, such as:

- Changes in organizational structure and processes
- Requests from a new management team
- Staff changes
- New service or product launches
- Changes in law
- Litigation, corruption, or fraud

Self-assessments are also useful in confirming that previous recommendations were implemented. Auditors will generally offer assistance, if needed, to implement audit findings and recommendations.

Once an audit is scheduled, the agency should:

- Communicate information and expectations to the procurement staff, including buyers and clerical staff, regarding required documents, timing, and the general nature of the audit, including:
 - Assuring staff members that audits are a normal course of business and that they should be prepared for interviews on their assigned duties.
 - Encouraging staff members to be as helpful as possible, volunteer only the information that is requested, and to refrain from answering questions outside their areas of expertise.
 - Notifying the agency's senior level management of the audit.
- Ensure that staff has training on appropriate interaction with auditors.
- Establish a single point of agency contact.
- Return documents, e.g., solicitations, bids, proposals, contracts, and any checked-out files, to their assigned locations for easy access.
- Provide clean copies of any requested documents and place them in a single, designated location. Make an extra photocopy of any documents provided to the auditor.
- Review and address any unresolved findings from previous audits. The project document should reflect any long-term solutions that were implemented in response to previous findings.
- Review with the auditors any projects that are pending, partially completed, or that may have a bearing on the upcoming audit. If possible, expedite projects that are related to prior findings.
- Update procurement procedures, websites, and other means of communication to internal and external stakeholders.
- Review assigned tasks to ensure that they are complete before the start of the audit.



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Element 4: Participation in an audit will differ depending on the type of audit and whether the audit is conducted by an internal audit department, an external accounting firm, state or federal auditor, or an independent expert.

Audits are conducted to evaluate overall performance and compliance with laws. Procurement professionals should recognize that audits will differ when conducted by an internal versus an external entity, as a result of the objectives of the audit, and due to factors such as public and media scrutiny.

When an audit is requested, the audit letter generally includes the objective or reason for the audit and a request for specific information and documentation. Procurement management may be asked to complete a questionnaire prior to the start of the audit. When audit personnel arrive, they should be introduced to the procurement staff and, as needed, familiarized with the layout of the department. During the audit, Procurement can expect to dedicate time to familiarizing auditors with documents, describing processes, answering questions, and discussing findings.

Example of audit objectives:

Objectives for Procurement Management Reviews for the Commonwealth of Virginia's State Agencies:

“The objectives of this review are to evaluate the overall performance of the agency’s procurement function, provide advice and consultation, promote compliance with the Commonwealth’s procurement law (VPPA) and regulations (APSPM), identify training needs and areas for improvement, and share best practices.”

Example of a pre-audit questionnaire:

Items VA requests to review and questionnaire:

It would be helpful if the following could be provided by_____. You may forward the information electronically to_____.

- Organizational chart of agency and procurement department, with vacancies noted, and Employee Work Profiles for procurement personnel
- A list of term contracts and blanket purchase agreements that includes contract term with renewal options and annual dollar values
- Internal purchasing policies & procedures manual
- Delegation letters for purchasing authority, sole source, use of competitive negotiation approval, and emergency procurement approval
- Agency training plan for procurement personnel
- Agency procurement plan for Small, Women-owned, and Minority-owned business enterprises (SWaM)
- The attached “Procurement Management Review Advance Questionnaire”

Element 5: Participating in an audit

Procurement personnel may need to rely on other departments within the agency or external entities for information during an audit and when drafting responses to audit findings. For example, if procurement performance is part of the audit and is found to be lacking, procurement personnel may need to contact similar agencies to establish reasonable expectations for Key Performance Indicators (KPI) such as the time needed to process a requisition, Invitation for Bids (IFB), Invitation to Tender (ITT), Request for Quotations (RFQ), or Request for Proposals (RFP).

As the audit progresses, procurement staff should ensure that audit personnel understand the division of responsibilities. For example, if questions regarding accounts payable arise, contact information for the appropriate individuals in that department should be provided to the auditors and those questions forwarded accordingly. As well, questions must be forwarded up the chain of command, as needed, to ensure that the appropriate person with relevant expertise addresses the questions.

Auditors new to public procurement may need to be educated on best practices, differences between public and private procurement, etc.

Audits conducted by external entities tend to present more challenges than those conducted by internal departments. Such audits may place greater pressure on the procurement staff for the following reasons:

- Media may report audit results and publish them in local newspapers and on other platforms.
- Senior managers within the agency may be involved in the audit process, which may place more pressure on the procurement staff.
- Agency personnel may be asked to address audit findings at public meetings of the governing board.
- The audit entity may feel pressure to produce as many findings as possible to justify the agency's expenditure, increasing the number of findings.

Areas of audit focus

The areas of focus for an audit may be unique to the type of government, e.g., federal, state, local, or may apply to a range of public agencies. For example, areas of focus for state and local audits may include:

- Grants and contracts
- Cooperative Agreements
- Services, e.g., make or buy, outsourcing
- Construction
- Emergency and sole source purchases
- Programs
 - Procurement cards (P-cards), e.g., training, promoting, auditing, policies and procedures, implementation
 - E-procurement, e.g., policies and procedures for implementation, training, and use
 - Training of procurement personnel, end users, suppliers, and other stakeholders
 - Sustainable Procurement:
 - Environmental, e.g., recycling, waste reduction, conservation, preservation
 - Social equity, e.g., fair trade, DBE, MBE, WBE, small businesses, veteran businesses
 - Economic, e.g., driving efficiency in the supply chain and developing market capacity, innovation and competitiveness



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Areas of focus for Federal audits may include:

- Specific grants and contracts
- Federal Emergency Management Agency (FEMA) funds
- Infrastructure
- Asset management

The Federal government may conduct single audits of agencies that receive federal funds, including states, local governments, and not-for-profit organizations (NPOs). A single audit is one audit of all the agency's federal programs versus separate audits of each federal program.

Any jurisdiction that receives federal funds is subject to a federal audit for compliance with federal laws, regulations, and the terms of grants. Some state and local auditors also audit for various aspects of federal compliance. Regardless of whether Procurement is the object of an audit, it is likely that Procurement will be called upon to provide documentation and data.

The Federal Government is required by the 2010 Government Performance Results Modernization Act (GPRA 2010) to develop a performance plan that establishes “a balanced set of performance indicators to be used in measuring or assessing progress toward each performance goal, including, as appropriate, customer service, efficiency, and outcome indicators.” Customer service measure means an assessment of service delivery to a customer, client, citizen, or other recipient, which can include an assessment of quality, timeliness, satisfaction, and cost savings. These requirements are passed to their grantee recipients. Performance indicators can be used to benchmark Procurement’s performance against itself over time as well as against other procurement departments. Procurement should routinely communicate with grant administrators to ensure that guidelines are being followed.

Element 6: Once the auditor has shared findings and recommendations, Procurement should dedicate time and staff to implementing any needed changes.

The auditor should share findings with the respective departments prior to presenting the final report. This practice allows discussion, explanation, and development of action plans.

Preparing for, responding to, and implementing changes suggested in the audit findings will require a team effort. Examples include working with the agency’s Information Technology Department or the database contractor to track expiration dates on insurance certificates.

Procurement should draft a plan for each of the findings that includes completion dates for resolution or progress dates if the implementation is expected to be lengthy or complex. End users may need to be consulted before implementation of any changes. During the implementation phase, Procurement should:

- Stay positive and objective in both verbal and written exchanges.
- Explain the causes behind the findings, if appropriate. Managers should take care to avoid any semblance of finger pointing or defensiveness.
- Describe how the findings will be resolved, including a timeline for resolution. Do not assume that a finding must be resolved.
 - Management may choose to accept the risk involved if a finding cannot be resolved due to cost or process limitations
 - The agency may choose to disagree with an audit finding, and this should be documented in the agency's response to the finding
- Assign specific procurement personnel to address each finding and schedule regular updates to ensure resolution by the established deadline.
- Document the resolution and notify management and the audit entity as findings are resolved.

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Background

By proactively conducting regularly scheduled self-assessments, Procurement can ensure that internal controls are established and used, processes are followed, reporting is effective, and risks are mitigated. Findings and recommendations may result in cost reductions, more efficient processes, and better supplier management. Procurement operations will improve and reports detailing Procurement's economy, effectiveness, efficiency, and compliance will be visible to the agency's management team and contribute to public service and the public's trust.

Resources

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PRINCIPLES AND
PRACTICES OF
PUBLIC PROCUREMENT