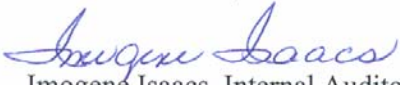




Internal Auditor's Office

Memorandum

To: Nora Lauder milk, Procurement Official

From: 
Imogene Isaacs, Internal Auditor

Date: January 20, 2006

Subject: **AUDIT REPORT NO. 2006-002**
AUDIT OF PROCUREMENT CARD PROGRAM

INTRODUCTION

At your request and as approved in our 2004/05 Audit Plan, we completed an audit of procurement card program.

The objectives of the audit were to determine whether established policy and procedures to safeguard City funds provided adequate internal control over the issuance, use, and cancellation of procurement cards and whether procurement card activities were carried out consistent with the policy and procedures. More specifically, the objectives included determinations that:

- Training was provided to and attended by procurement cardholders.
- Detailed documentation was reviewed, reconciled, and maintained supporting purchases.
- Personal and unauthorized procurements were not made with cards.
- Purchases were within authorized limits for both single purchase and monthly total.
- Sales taxes were not paid on purchases.
- Cards were promptly cancelled when an individual left the City's employment or when noncompliance with policy and procedures was found.

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CONCLUSIONS AND SUMMARY OF FINDING

Procurement cards have been in use in the City since late 1996. Procurement cards are a very effective and efficient method of obtaining goods with low dollar values. The use of procurement cards cuts down on paper work and staff time to process small purchases. When the Procurement Division bids various commodities and services and enters into master agreements for employees to use, additional savings result. Purchases with procurement cards total about \$1,375,000 annually with approximately 250 cardholders.

Procurement card program policy and procedures contain adequate controls. The Procurement Official provides initial training when the card is first issued and follow-up refresher training to cardholders and department procurement card representatives usually annually. Cards are cancelled promptly by the Procurement Official when notification is received of a cardholder leaving the City's employment. Based on the sample of documentation reviewed, we observed no personal procurements made with the cards. There were no patterns of unauthorized procurements or over the limits purchases for procurements in our testing; however, a few instances were noted and included in **Other Items Discussed**. Overall, for the number of transactions on procurement cards and the total amount spent, the program is working very well except for the following.

Reviews of monthly billing statements performed by the Procurement Official proved to be most thorough and effective in controlling cardholder spending limits and use of approved vendors. However, weaknesses were noted in respect to compliance with procedures for controlling retention and submission of actual purchase documentation by cardholders, review of this documentation by department procurement card representatives, and submission of forms and the supporting documentation to the Accounting Division. Without compliance with these procedures, the level of certainty that City funds are expended for eligible City purposes is greatly reduced. This is discussed further under **Finding, Recommendations, and Responses** where we recommend a more hard line approach with cardholders and department procurement card representatives who do not follow the established procedures.

We thank you, Nora, for your cooperation and assistance during the audit. We thank staff throughout the City for responding to inquires and for providing information when requested.

The audit was performed by Suzie B. Hetherington, former Assistant Internal Auditor, with the report written by Imogene Isaacs, Internal Auditor.

SCOPE AND METHODOLOGY

The audit covered the period January 2004 through December 2004 and April, May, and June 2005. A few procedures changed during the periods covered by the audit with the latest change applicable to the audit period in March 2005. Procurement card purchases totaled \$1,754,361. We reviewed the detailed supporting documentation for about 60 percent of the total purchases made.

The audit was performed in accordance with generally accepted government auditing standards. In performing this audit, we:

- Reviewed the Procurement Code;
- Reviewed and analyzed procurement card program policy and procedures established by the Procurement Official;
- Interviewed the Procurement Official and other employees, as needed;
- Performed a risk analysis;
- Examined documentation supporting purchases made;
- Prepared and analyzed schedules of cardholders activities;
- Evaluated compliance with required monthly department review and submission of documentation to the Procurement Division or Accounting Division;
- Examined training records and compared attendees with cardholders;
- Traced individuals leaving the City's employment to records of card termination; and
- Performed such other procedures as deemed necessary.

BACKGROUND

Under the Procurement Code, the Procurement Official is charged with establishing procedures for the use of procurement cards. The Procurement Official is the head of the Procurement Division, Finance Department. Established procurement card program policy and procedures are comprehensive and easy to understand and cover all phases of procurement card activity.

Procurement cards have been in use in the City since late 1996. The Visa Procurement Card Account is with Bank of America. In April 2005, there were 251 employees with procurement cards. Procurement cards are a very effective and efficient method of obtaining goods with low dollar values. The use of procurement cards cuts down on paper work and staff time to process small purchases. Purchases with procurement cards total about \$1,375,000 annually with some years more and some years less.

For some of the items obtained with the procurement card, the Procurement Division through the bid process awards contracts to vendors; thus, the City obtains discounted rather than market prices. One of these areas is office supplies. As long as employees ordering office supplies use the contracted vendor, the City benefits not only from the use of the procurement card but from the bid process as well.

Procurement cards have limits for both a single purchase and a monthly total. During the audit, these limits were \$500 and \$2,500, respectively, except under unusual circumstances that warranted higher limits. Effective October 1, 2005, these limits were increased to \$750 and \$3,000, respectively.

The procurement card program carries with it risks in the expenditure of City funds including use of the card for purposes other than City business and other than approved supplies and services. The procurement card program policy and procedures provide for independent reviews of cardholder expenditures by department personnel, referred to as procurement card representatives, and monitoring by the Accounting Division, Finance Department. Until November 2004 supporting documentation was sent to the Procurement Division. From November until the policy and procedures were revised in March 2005, departments were to retain the documentation. In March 2005, documentation was required to be sent to the Accounting Division.

The Procurement Official carries out major oversight by review of monthly billing statements. These reviews include making sure cardholders (1) use vendors under contract with the City and small businesses where available, (2) do not split purchases to come under the single limit, (3) do not exceed established spending limits, (4) do not have a pattern of buying and returning goods, and (5) do not make purchases on weekends without good reason. Additionally, the Procurement Official reviews the types of vendors used to make sure they are vendors that would normally provide goods and services to the City.

FINDING, RECOMMENDATIONS, AND RESPONSES

Finding: Inadequate and Insufficient Documentation Supporting Procurement Card Purchases

For the fifteen months covered by our audit, the Finance Department (Procurement or Accounting Divisions) received no detailed documentation to support procurement card purchases totaling \$742,269.12 out of total procurement card purchases of \$1,754,360.99. Furthermore, of the supporting documentation that was submitted, purchases totaling \$12,357.04 were not supported by receipts showing detail of the items acquired. Also, purchases totaling \$34,537.71 were reviewed and verified by the cardholder not an independent department representative. Without procedures being followed to retain, review, and submit documentation itemizing purchases made, the use of City funds for eligible City purposes can not be substantiated.

Procurement card program policy and procedures require the cardholder to retain supporting charge slips identifying the items procured. The procedures discuss the various ways purchases may be made and describe acceptable supporting documentation. The procedures also discuss what is to be done when the cardholder can not produce the documentation such as providing a written description of the items purchased. The procedures further provide “Continued incidents of missing documentation may result in the cancellation of the employee’s procurement card and/or disciplinary action.”

Procurement card program policy and procedures require the department or division head to appoint an individual independent from the cardholder to be their procurement card representative. The representative duties include reviewing the monthly cardholder procurement card statement along with the detailed supporting sales slips for each purchase and otherwise verifying the charges were appropriate for City purposes. After the review is completed and the verification form signed by the representative, the form along with the procurement card statement and supporting sales slips are to be sent to Accounting.

The reviews by these representatives are designed to address any unsupported or questionable expenditure of City funds. They provide the basic oversight and comfort level for expenditure of City funds with procurement cards. As such, cardholders should not be allowed to sign the verification forms as the department procurement card representative.

As of March 2005, the Accounting Division maintains a list of cardholders and notifies the procurement card representatives when the verification forms and supporting documentation is not received. Reviews are performed on a sample basis. The Procurement Official is not notified of submissions not received or inadequate, insufficient documentation so that corrective action can be taken. Current practice allows the potential for misuse of the procurement card without detection.

Documentation not submitted to support purchases

Payments to Bank of America are supported with a copy of all cardholder statements; however, these statements show only the total charge of a vendor, not the details of the transaction. Cardholders and procurement card representatives are responsible for submitting the details of the items purchased. This becomes the back-up to support the expenditure of City funds.

This detailed documentation was required to be submitted to the Procurement Division until November 2004. From November 2004 until March 2005, no submission was required. Beginning in March 2005, the documentation was required to be submitted to the Accounting Division.

Based on our review of submissions, about 25 percent of the detailed documentation is not submitted on a routine basis. Of course with the November change in procedures, this percentage grew to about 42 percent since only a few representatives continued to submit the back-up. As a result, the Finance Department had no supporting documentation on purchases of \$742,269 out of the \$1,754,361 for the 15 months covered by our audit.

Documentation submitted but without sufficient detail

Charges totaling \$12,357.04 were not supported by a receipt identifying the item procured although a verification form was submitted. As a result, verification of the items for City purposes could not be made. Furthermore, the City has no detailed supporting documentation for these purchases.

About one-half of these charges were not supported with any kind of sales slip documentation and the remaining one-half were supported with a charge slip for the total but no details of the items purchased accompanied the charge slip.

There was no follow-up with the Procurement Official so action could be taken on cardholders or representatives who continually do not submit detailed charge slips supporting purchases made.

As an example, for the months April, May, and June 2005, one cardholder charged \$4,202.93 with no detail support submitted for \$3,106.04 charged. This consists of charges in April of \$1,164.65, in May of \$1,164.65, and in June of \$600.06. The cardholder told us that he was told by his representative that he didn't have to submit anything to support charges made to Office Depot because if anyone wanted to see what was purchased they could look it up online. This was not the position of the Procurement Official.

Another practice accepted by representatives was a charge receipt for the total amount with no details provided. This serves only a minor useful purpose. Again, verification of the items purchased cannot be made and the City has no support for the purchase.

The City should not continue to allow employees to use procurement cards if unacceptable practices continue. Additionally, procurement card representatives who sign off on statements that are not properly supported should also be notified and subsequently replaced if they continue to allow deficient support without reporting it to their department or division head and the Accounting or Procurement Divisions.

Unless the Procurement Official notifies the employee of the unacceptable practice, the employee will no doubt continue with the insufficient documentation. This could also open the door for the expenditure of City funds for other than City business.

Cardholders serve as their own representative

Independent reviews of back up documentation (sales slips, delivery tickets, etc.) and comparison with the credit card statement are circumvented when the cardholder also serves as the department procurement card representative and signs on the verification form attesting to the support, accuracy, and appropriateness of the charges.

For purchases totaling \$34,537.71 representing sixty-eight (68) verification forms submitted, no independent reviews were performed. These verification forms were completed by the cardholder. We observed no purchases by these cardholders that were questionable.

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Retention and submission of actual purchase documentation by cardholders, review of this documentation by department procurement card representatives, and submission of required review forms and the actual purchase documentation to the Accounting Division by department representatives were procedures that were not always followed and are considered serious weaknesses. Some were caused by changes in procedures; while some were the result of employees not following the procedures.

In general, the Finance Department has a responsibility to maintain documentation of items purchased as proof that purchases were for City purposes. The only way this can be accomplished is when the cardholder and the department procurement card representatives follow the procedures. The Accounting Division must report instances of noncompliance to the Procurement Official who can take action to deny cardholder privileges or require a change of representatives.

Recommendations

We recommend the Procurement Official:

1. Work with the Accounting Division to establish a method for them to report to the Procurement Division on a monthly basis those department procurement card representatives that do not submit the required documentation, cardholders that do not submit the required detail to support their charges, and other instances of noncompliance as observed.
2. Work with the department or division head to improve the performance of the department procurement card representative or to replace the current representative if reviews continue to be deficient.
3. Stress to cardholders their duty to provide the detail listing of items purchased or to cancel their cards if documentation continues to be deficient.

Responses

The Procurement Official provided the following response.

Procedures have already been implemented for the Accounting Division to notify me each month when cardholders do not submit their supporting documentation. I will then e-mail each cardholder requesting the information with a two week deadline or the card will be cancelled. One such notification has gone out.

I have sent the complete listing of cardholders and representatives to each department and asked verification of the accuracy of the assigned representatives. I received a good response and have made all the corrections.

A refresher training class will be held in the spring and documentation and all other policies will be covered.

OTHER ITEMS DISCUSSED

A few incidents of noncompliance were noted; however, these incidents appeared isolated and did not demonstrate patterns of abuse and the dollar amounts were small. Some were detected and addressed by the Procurement Official. Examples were: sales tax was paid on occasional purchases, office furniture purchased exceeded the \$250 limit, single and monthly purchases exceeded limits by small amounts, two charges (split invoice) were made in a few cases to avoid the single purchase limit, and another employee signed the charge slip for the cardholder. These issues should continue to be addressed with the cardholder when found.

Although considered isolated incidents, prohibited uses of the procurement card for charges for air fares (2 incidents – in one case, the cardholder was required to repay the City), payment for registration fees (2 incidents), and payments for annual memberships (2 incidents) were of more concern. When the card is used for purposes other than supplies and services, the items are not accounted for in the proper budget and expenditure line items.

Also, when used for travel, controls become compromised over the items charged opening the way for duplicate payment and even employee fraud. The City has methods of paying for certain travel costs (airline tickets, hotel, and registration fees) in advance so they can be tracked and compared with the travel expense report. It is interesting to note that my staff and I have found charging airline tickets on our own credit cards and requesting City reimbursement often provides the funds to us prior to, or about the same time of, getting the credit card statement with the charge on it. These types of charges for prohibited uses of the procurement card need to be stopped and need to be addressed with consequences when found.