



**GARLAND**

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**INTERNAL AUDIT**

# **Purchasing Card/Duplicate Payments Audit**

**Jed Johnson, CGAP  
City Auditor**

## **Major Contributors**

**Marla Hamilton  
Staff Auditor**

**Christy Rodriguez, CPA  
Staff Auditor**

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## **Authorization**

Internal Audit (IA) conducted an audit of the Purchasing Card (P-Card)/Duplicate Transactions. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

## **Objective(s)**

The objectives of this audit were to:

1. Perform data analysis to detect irregularities.
2. Determine whether the City made any duplicate payments from all means of payments during the audited period.
3. Follow-up on audit recommendations from P-Card/Expense Report Audit Dated March 20, 2012.
4. Evaluate rebates provided by JPM Chase and payments made to JPM Chase to ensure timeliness, accuracy and reconciliation with the General Ledger (G/L).

## **Scope and Methodology**

IA conducted this performance audit in accordance with the 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.

The scope of the audit was P-Card and Accounts Payable (A/P) transactions from October 1, 2012 to March 25, 2014. IA extended the scope of this audit to include transactions through July 31, 2014, since the audit was temporarily delayed due to other audit priorities.

During the testing phase of the audit, IA experienced a scope limitation. IA's review of off-hour transactions (transactions processed between 11:00 p.m. and 4:00 a.m.) revealed that the transaction time is not listed in P-Card online system reports. IA's inquiry with management revealed that the P-Card online system do not retain the transaction time after a transaction posts to a cardholder's account. As a result, IA could not perform adequate testing to determine if transactions are processed between the hours of 11:00 p.m. and 4:00 a.m.

In order to meet the audit objectives and to describe the scope of our work on internal controls, IA performed the following:

- Obtained and reviewed:
  - Current Finance Directive 9, Purchasing Directive 4 and P-Card Policies and Procedures to gain an understanding of the P-Card Program. (Obj. 1, 2, 3 & 4)
  - P-Card/Expense Report Audit dated March 20, 2011 to follow-up on recommendations listed. (Obj. 3)
  - Documentation to ensure cardholders with unusually high dollar and transaction limits are appropriately authorized. (Obj. 1)
  - Merchant Category Codes (MCCs) to follow-up on previous audit findings regarding blocked MCCs. (Obj. 3)
- Developed a process flowchart to determine controls over the P-Card application process. (Obj. 1, 2, 3, & 4)
- Used data mining techniques to analyze P-Card transactions for:
  - Irregularities such as sales tax, split transactions, sequential transactions, rounded number transactions and compliance with P-Card Policies and Procedures. (Obj. 1)
  - Cardholder usage to search for any unusual, high/low activity and/or high credits that may indicate inappropriate activity. (Obj. 1)
  - Excluded MCCs to determine if transactions were processed with blocked MCCs. (Obj. 1 & 3)
  - Cardholder usage during off-hour/holiday timeframes to detect irregularities. (Obj. 1)
- Compared current employees with current P-Cards to ensure no “Ghost” cards exist. (Obj. 1)
- Reviewed the timeliness of deactivation of P-Cards after termination to ensure P-Cards were deactivated in a timely manner. (Obj. 1 & 3)
- Applied Benford’s Law to detect any anomalies in transaction amounts. (Obj. 1)
- Identified P-Cards with no activity to verify continued need with department managers. (Obj. 1)
- Obtained, reviewed and compared all forms of payments made by A/P with P-Card transactions to determine if duplicate payments were processed. (Obj. 2 & 3)
- Reviewed payments made to the P-Card Program to ensure payments were accurate, timely and reconciled with the General Ledger (G/L). (Obj. 4)
- Determined the expected rebate percentage and reviewed transaction totals to ensure rebates from participation in the P-Card Program were the appropriate amount. (Obj. 4)

To assess the reliability of P-Card and A/P transactions needed to answer the engagement objectives, IA (1) performed electronic testing of P-Card and A/P transactions, (2) reviewed related documentation, (3) traced transaction receipts to/from reports obtained through P-Card online system, and (4) traced A/P transactions to/from

the bank statements. As a result of IA's testing of both sets of data, we determined that the data was sufficiently reliable for the purposes of this report.

Any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed are stated in the Opportunities for Improvement section starting on page 6.

### **Overall Conclusion**

IA's detailed data analysis and review of the City's P-Card program and other payment processing methods identified several areas where improvement could be made. Some major recommendations for improvements include:

- Deactivation of the Voyager Card program (Finding #1),
- Add additional accountability for split purchases (Finding #2),
- Ensure merchants and vendors are paid with only one method of payment (Finding #3),
- Ensure Department Purchasing Coordinators (DPCs) notify Purchasing department of terminated employees to ensure timely P-Card deactivation (Finding #4),
- Update Directives and P-Card Policies and Procedures regarding prohibited purchases (Finding #5), and
- Use the P-Card's new functionality to monitor and re-instate cardholder limits, according to Management requests (Finding #6).
- Segregation of P-card distribution process (Finding #7)

Management was also provided with additional Opportunities for Improvement to enhance internal controls over the P-Card Program. These were not considered significant to the objectives of the audit but warrant the attention of Management. Consequently, they do not appear in this report.

IA's evaluation of the rebates provided by and payments made to the P-Card Program confirmed timely and accurate payments to/from the City.

### **Background**

The City of Garland P-Card Program is used to procure small-dollar-value goods, services not requiring insurance, repetitive monthly expenses, one-time purchases, and approved travel expenses. The purpose of the P-Card Program is to provide an efficient, cost-effective method of purchasing and paying for these goods or services. The program results in a significant reduction in volume of purchase orders, invoices and checks processed. Studies show that the cost of the purchasing process for one purchase order can be as high as \$150, regardless of the dollar value of the purchase. For Finance to issue a check, the industry standard is \$75.00. In comparison, P-Card costs are \$10.00 per transaction. The P-Card is the preferred method to be used

whenever a Department Purchase Order, check request, or petty cash would have been used and with any vendor that accepts VISA credit cards. <sup>(1)</sup>

The City is a part of a consortium agreement, with multiple government agencies, that provides a rebate percentage depending on the combined spend levels of the participants in the agreement and the timeliness of payments made by the City. The percentage of spend and rebates received by the City for the previous two fiscal years are as follows:

<b>Year</b>	<b>Total Annual Spend</b>	<b>Total Rebate Percentage</b>	<b>Rebate Received</b>
FY13	\$ 6,158,180.98	1.88%	\$ 104,073.26
FY14	\$ 6,919,471.68	1.89%	\$ 116,420.11

Source: Finance System and P-Card

The Purchasing department is capable of including automatic controls within each cardholder profile entered into JP Morgan Chase Commercial Card Online System. Controls such as Credit Limits, Single Transaction Amount Limits, and the Number of Monthly and Daily Transactions exist to help prevent inappropriate cardholder activities. Cardholders are assigned standard limits of a \$5,000 Credit Limit and a Single Transaction Limit amount of \$2,999, unless otherwise authorized by Management. Management can authorize higher transaction limits either on a permanent or temporary basis depending on department needs.

P-Card payments to vendors are the preferred method of payment for purchases under \$3,000. However, payments to vendors may also be authorized through the City's Finance (A/P) department. The method of these payments may be in the form of a wire transfer, an electronic check, or a mailed physical check.

IA's review of A/P Payments and P-Card transactions consisted of the following:

<b>Audit Period</b>	<b>Total No of A/P Trans.</b>	<b>Total Amount of A/P Payments</b>	<b>Total No. of P-Card Trans.</b>	<b>Total Amount of P-Card Trans.</b>
FY2013	86,341	\$ 569,362,998.77	32,300	\$ 6,468,274.38
FY2014 <sup>(2)</sup>	88,885	\$ 699,301,817.46	26,595	\$ 5,320,332.11
<b>Total</b>	<b>175,226</b>	<b>\$ 1,268,664,816.23</b>	<b>58,895</b>	<b>\$ 11,788,606.49</b>

Source: Finance and JP Morgan Chase Commercial Online System.

(1) P-Card Policies and Procedures.

(2) IA's Audit Period ended July 31, 2014.

### **Management Accomplishments\***

The City of Garland's P-Card program was implemented City-wide in 2000 to provide a more efficient and cost-effective method of payment. The City currently manages 957 active P-cards with approximately \$7 million in annual expenditures. In addition to improving efficiencies, the program yields in excess of \$100,000 in annual rebates to the City.

The success of the P-Card program is directly attributed to the diligence of the many City Departments involved. While Purchasing and Finance are directly involved in the daily administration of the program, the multi-level approval and oversight at the Department level helps with early detection of fraud and abuse. The fact that this audit found no undetected fraud or abuse is a testament to the diligence of the City's Department Purchasing Coordinators (DPCs).

Management appreciates the detailed data analysis and process flowcharting that IA staff provided during the course of the audit. Some of the techniques used by IA are being implemented by Purchasing to enhance the annual review process. IA's recommendations will help to strengthen controls and provide improvements to the P-Card program.

\*Please note that "Management Accomplishments" are written by the audited entity and that Internal Audit did not audit or verify its accuracy.

## Opportunities for Improvement

During this audit, IA identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

### Finding #1

#### Condition (The way it is)

During the course of the audit, IA found that the Fleet Department provides a separate fuel card for fuel purchases called the Voyager Card. According to Fleet, the card incurs approximately \$32K in additional fuel expenses each year.

IA's review of the Voyager Card program revealed the following:

- There are no Policies and Procedures regarding the Voyager Card Program.
- There is no departmental review process in place to verify appropriateness of purchases.
- Users are identified by Driver ID numbers. IA reviewed the Driver ID numbers to determine if they matched Employee ID numbers in the City's payroll system. The analysis revealed that out of 289 Driver IDs listed in the system;
  - 73 (23%) did not match the Employee ID numbers listed in the City's payroll system.
  - 69 names listed in the system did not match the City's payroll system.
- Twelve (12) terminated employees were still listed as "Active" in the Voyager system.
- Out of 289 employees listed in the Voyager system, 48 employees had active P-Cards and 17 others previously had a P-Card.

#### Criteria (The way it should be)

- The City has an effective and efficient fuel program in place.
- City Directives and P-Card Policies and Procedures permit employees to use their P-Cards for fuel purchases when using a vehicle that requires premium fuel or outside of City limits.

#### Effect (So what?)

- Inappropriate purchases could go undetected.
- Unnecessary administrative time and costs are expended.

#### Cause (Difference between condition & criteria)

The program was initiated before the P-Card Program was established.

**Recommendation**

Management should consider discontinuing the Voyager Card program and ensure P-Cards are issued to employees who are assigned a vehicle that requires premium fuel or fuel outside of the City limits.

**Management Response**

Management concurs. Purchasing and Fleet agree that the Voyager Card program should be discontinued.

**Action Plan**

Purchasing will add the necessary fields in the P-card system to allow Fleet to continue tracking vehicle mileage. The existing Voyager Cards will be replaced with P-Cards where appropriate.

**Implementation Date**

The Voyager Card program will be phased out in 2015.

## Finding #2

### Condition (The way it is)

IA's review of P-Card transactions for split purchases revealed that 20 out of 29 transactions were split (See Exhibit A).

Note: IA notified each of the departments of the occurrence and provided City Directives where the splits occurred via interoffice memo.

### Criteria (The way it should be)

Texas Local Government Code, Section 252.062, states:

“(a) A municipal officer or employee commits an offense if the officer or employee intentionally or knowingly makes or authorizes separate, sequential, or component purchases to avoid the competitive bidding requirements of Section 252.021. An offense under this subsection is a Class B misdemeanor.

(b) A municipal officer or employee commits an offense if the officer or employee intentionally or knowingly violates Section 252.021, other than by conduct described by Subsection (a). An offense under this subsection is a Class B misdemeanor.

(c) A municipal officer or employee commits an offense if the officer or employee intentionally or knowingly violates this chapter, other than by conduct described by Subsection (a) or (b). An offense under this subsection is a Class C misdemeanor.”

Purchasing Directive 4.1.1, states, “Department Purchasing Coordinators may make purchases up to \$3,000 using a Department Purchase Order, Payment Request, or Procurement Card (P-Card). A Purchase Order is typically required for purchases exceeding \$3,000. All purchases exceeding \$3,000 that require a Purchase Order must be processed by the Purchasing Department in order to satisfy the State Historically Underutilized Business (HUB) requirement of contacting HUB businesses as identified by the Comptroller.”

In addition, P-Card Policies and Procedures prohibit the purchase of any item available through the City Warehouse, Separate or Sequential Purchases and Component Purchases (purchases made separately that would normally be purchased together).

### Effect (So what?)

State legislation, City Directive 4 and P-Card Policies and Procedures are circumvented when a split purchase occurs. As a result, the City cannot ensure that purchases are awarded based on the lowest price and HUB vendors are allowed to bid.

### Cause (Difference between condition & criteria)

- In some cases, the departments did not follow Local Government Code, City Directive 4 and/or P-Card Policies and Directives regarding split

transactions.

- In other cases, there was a lack of understanding of the Local Government Code, City Directive 4 and/or P-Card Policies and Procedures.
- There is a lack of monitoring at the department level to ensure that split transactions do not occur.

### **Recommendation**

Purchasing should ensure that:

- Communication is made to department managers regarding the policy.
- Testing for split purchases is added to their annual audit.

Department Managers should ensure that:

- A mechanism is put in place to capture split purchases.
- Disciplinary action is pursued for those cardholders who purposely and/or consistently disregard the policy, to prevent future split purchases.

### **Management Response**

Management concurs.

### **Action Plan**

- Although testing for split purchases was added to the annual review in 2013, Purchasing will expand the testing methodology.
- Internal Audit has communicated with the affected Departments and they have agreed to put appropriate mechanisms in place.

### **Implementation Date**

The recommendations have been implemented.

### Finding #3

#### Condition (The way it is)

IA reviewed and compared P-Card transactions with A/P payments for the purposes of this audit. Our review and testing revealed twelve (12) duplicate transactions totaling \$6,688.77. Of the twelve (12) duplicate transactions, the City received credit or adjustments for six (6) duplicated payments totaling \$2,066.76.

IA reviewed these transactions with the affected departments who agree to request refunds for the remaining amounts.

#### Criteria (The way it should be)

- Vendors should be paid using only one method of payment.
- P-Card should be the preferred method of payment for supplies, materials and other items under \$3,000, if accepted by the vendor.

#### Effect (So what?)

- Loss of revenue.
- Potential inappropriate activities could occur.

#### Cause (Difference between condition & criteria)

- In some departments, the P-Card DPC review process is functionally separated from the A/P payment process.
- Lack of proper review.
- The functionality within City's Finance system is limited and cannot capture and compare appropriate data from P-Card online system.
- Third-party vendor invoice numbers are not recorded within the P-Card online system.

#### Recommendation

Purchasing should ensure a field is available in the P-Card online system for the departments to enter invoice numbers. This is to allow Finance to compare invoices processed through A/P to P-Card transactions.

Finance should compare invoice numbers entered into the A/P system, with P-Card transactions on a monthly basis in order to detect duplicate payments.

Department Managers should ensure that:

- The invoice number field in the P-Card online system is utilized by DPCs, for invoices paid via P-Card.

- The DPC and A/P functions coordinate to prevent duplicate payments.
- A concerted effort is made to use P-Card for payment of supplies, materials and other services under \$3,000.

**Management Response**

Management concurs.

**Action Plan**

- Purchasing has added the invoice field in the P-Card online system.
- Finance has developed a match formula to help detect duplicate payments.
- Purchasing and Finance will communicate the additional recommendations to Department Managers.

**Implementation Date**

The recommendations have been communicated and/or implemented.

## Finding #4

### Condition (The way it is)

P-Cards are issued to City of Garland employees upon approval by his/her manager. The number of active P-Cards during the audit scope was 1,053.

IA compared the list of active P-Cards to employees listed in the City's payroll system and found:

- 8% of the cards issued to employees did not match the name listed in the City's payroll system.
- 17 terminated employees had active P-Cards.

*Note: IA researched and found that no charges were detected after the termination date of each of the 17 employees.*

### Criteria (The way it should be)

- Employees' official names are used when P-Cards are issued.
- A common identification number (such as Employee ID) is used in the P-Card online system to allow searches by the identification number rather than by employee name.
- HR notifies appropriate parties of terminations and ensures Purchasing is included on the notification.
- Purchasing ensures that terminated employees' P-Cards are deactivated upon notification.
- Department Managers and/or DPCs notify Purchasing when an employee who has a P-Card is terminated.

### Effect (So what?)

- Terminated employees could be missed by Purchasing if the name listed in the City's payroll system does not match the name listed in the P-Card online system.
- A terminated employee with an active P-Card could use the card inappropriately.

### Cause (Difference between condition & criteria)

- Naming conventions were not considered for the P-Card Program and P-Cards are not tied to employee numbers.
- HR did not notify Purchasing of the terminated employees in five (5) cases.
- Purchasing did not act when notified of five (5) terminations. (In one (1) of the five (5) cases, the terminated employee's name in the City's payroll system differed from the name listed in P-Card.)
- An event occurred in the P-Card online system that reactivated one (1) previously terminated cardholder account.
- The department delayed notification to HR in one (1) case due to the involuntary termination appeals process.

- Five (5) could not be determined due to a P-Card online system purge.
- Department Managers and/or DPCs do not consistently notify Purchasing when an employee who has a P-Card is terminated.

### **Recommendation**

HR should ensure:

- Directives and Policies and Procedures are updated to include notification of name changes from employees, within 10 days of the occurrence.
- Purchasing is notified of name changes and terminations for timely and accurate issuance and deactivation of P-Cards.

Purchasing should ensure:

- Employee ID numbers are tied to the unmatched P-Cards (8%) identified in the online system and entered into the P-Card online system for all future P-Cards issued.
- Deactivation of terminated employees' P-Cards upon notification.
- P-Card Policies and Procedures include guidance about notifications from Department Managers and/or DPCs when an employee with a P-Card is terminated.
- Department Managers and DPCs are notified and trained on the change in policy.

Department Managers and/or DPCs should ensure that Purchasing is notified when an employee with a P-Card is terminated so that the card can be deactivated immediately.

### **Management Response**

Management concurs.

### **Action Plan**

- HR will revise the Directives and Policies and Procedures as recommended. HR will also provide timely notification of name changes and terminations.
- Purchasing has tied Employee ID numbers to the identified P-Cards. The P-Card application was revised in 2014 to require Employee ID numbers.
- Purchasing will deactivate terminated employee P-Cards upon notification.
- P-Card Policies and Procedures will be revised as recommended.
- Department Managers and DPCs will be notified of the policy changes and all applicable training will be revised.

### **Implementation Date**

The recommended revisions and updates will be completed within ninety days.

**Finding #5**

**Condition (The way it is)**

IA's review of Directives, P-Card Policies and Procedures, and the City's Alternative Recognition Program (HR Directive 12) regarding prohibited expenditures and gift card purchases compared to P-Card transactions revealed:

<b>Purchase Type</b>	<b>FY 2014</b>	<b>FY 2013</b>	<b>Total</b>
A. Florists	\$ 764.73	\$ 447.60	\$ 1,212.33
B. Parties	\$ 1,043.11	\$ 1,244.36	\$ 2,287.47
C. Fuel	\$ 1,858.52	\$ 2,871.35	\$ 4,727.87
<b>Total</b>	<b>\$ 3,666.36</b>	<b>\$ 4,563.31</b>	<b>\$ 8,227.67</b>

- A. Flowers were purchased by City employees for funeral and hospital stays of City appointed official, employees and/or employees' family members.
- B. Retirement parties were conducted that included the purchase of miscellaneous supplies, such as decorations and gifts, for celebrated individuals.
- C. \$4,727.87 of fuel was purchased within the City limits.
- D. IA's review of 23 receipts where gift cards were purchased to be given to employees as part of HR Directive 12 determined that in 17 instances the gift cards were not appropriately reported to Payroll for tax deduction purposes.

<b>D. Gift Card Purchases</b>		
<b>FY 2014</b>	<b>FY 2013</b>	<b>Total</b>
\$ 2,339.09	\$ 1,531.90	\$ 3,870.99

**Criteria (The way it should be)**

- A. Finance Directive 9, Section II – Prohibited Purchases states, “Flowers or bereavement acknowledgments such as hospitalization, funerals, etc.” are prohibited.
- B. Finance Directive 9, Section II – Prohibited Purchases states, “Party and gift expenditures (are prohibited) for promotions, secretary’s day, showers, birthdays, or farewells (excluding retirements). Retirement expenditures are limited to facility rental, food and beverages, and plaques.”
- C. P-Card Policies and Procedures state that fuel is a prohibited purchase “unless outside of Garland city limits and not within a reasonable distance of a City fuel site, or having exemptions specific to the Police Department.”

D. According to HR Directive 12, Section 3.5, "Recognition awards that consist of gifts of cash, gift certificates, and other items that are readily converted to cash are considered taxable compensation and shall be paid through the City's payroll system and include appropriate deductions required by law."

**Effect (So what?)**

A., B., & C. Tax payer monies are not expended in accordance with City Directive and Policies.

D. Tax deductions required by law are not appropriately applied to gift cards received.

**Cause (Difference between condition & criteria)**

A. Management requested the purchase of flowers in most cases. In one case, the individual was unaware of the Directive.

B. Departments were unaware of the City's Directive.

C. \$1,056 in fuel purchases was made because the individual drove a City vehicle which required premium fuel, which is not available through the City's fueling sites. The remaining fuel purchases were due to lack of awareness of the policy and/or lack of access to City fueling sites.

D. Misunderstanding of the Directive. Departments were unaware that gift cards could be considered cash and that all amounts should be reported.

**Recommendation**

Management should:

A. Consider re-evaluating Finance Directive 9 to determine if allowing purchases of flowers for City officials, staff or other government officials are appropriate for funerals and hospital stays.

B. Provide appropriate training to departments regarding prohibited purchases listed in Finance Directive 9 and in the P-Card Policies and Procedures.

C. Update P-Card Policies and Procedures to allow for fuel purchases via P-Card when driving a City vehicle that requires premium fuel. In addition, departments should coordinate with Fleet Management to ensure access to fueling sites for individuals driving a City vehicle.

D. Ensure all gift cards received by employees are reported to Payroll for tax purposes and update the Alternative Recognition Directive to include guidance on gift cards. In addition, the updated Directive should be provided to all departments to ensure appropriate communication and understanding.

**Management Response**

Management concurs. The Directives and Policies should be revised accordingly.

**Action Plan**

- A. The Finance Directive 9 will be revised to include reasonable guidelines for the purchase of flowers.
- B. The revisions will be incorporated into all applicable training.
- C. The P-Card Policies and Procedures will be revised as recommended. Departments should coordinate with Fleet Management as recommended.
- D. Human Resources will revise the Alternate Recognition Directive as recommended and ensure proper communication.

**Implementation Date**

The recommended revisions and updates will be completed within ninety days.

## Finding #6

### Condition (The way it is)

Upon initial cardholder setup through the P-Card's online system, Purchasing can specify cardholder limits such as Monthly Credit Limit, Single Transaction Limit, Number of Transactions per Cycle, and Number of Transactions per Day. The Cardholder's manager provides authorization for the Monthly Credit Limit and Single Transaction Limit upon initial cardholder setup and via email if adjustments are necessary.

IA's review of these limits revealed the following (See Exhibit A):

- A. Two users were not setup correctly when the cardholders' P-Card was issued; One (1) Monthly Credit Limit and One (1) Single Transaction Limit.
- B. Three user's limits were increased temporarily, yet never re-instated; One (1) Monthly credit limit and two (2) Single Transaction Limits.

### Criteria (The way it should be)

- A. P-Card monthly credit limits and single transaction limits should be set at the standard level of \$5,000 monthly credit limit and \$2,999 single transaction limit. P-Card Policies and Procedures state that management should "Approve, in writing, any exceptions to card holder limits." (Section III - Managing Directors, Page 8).
- B. Purchasing has appropriate monitoring in place to ensure that limits are reinstated and follow management specifications.

### Effect (So what?)

A & B. Cardholders could use the card inappropriately if limits were not authorized by the cardholder's manager and/or reinstated according to management's instructions.

### Cause (Difference between condition & criteria)

- A. Purchasing did not set and/or reinstate the cardholders' limits appropriately.
- B. Lack of proper monitoring.

### Recommendation

Purchasing should:

- A. Ensure the limits for the identified cardholders are corrected and that new cardholders are reviewed for accurate setup.
- B. Use the new functionality of the P-Card online system to set dates to monitor and reinstate limits according to Management requests.

<b>Management Response</b>
Management concurs.
<b>Action Plan</b>
A. The limits for the identified cardholders have been corrected and new cardholders are reviewed for accurate setup. B. The improved functionality of the P-Card online system will automatically reinstate limits according to Management requests.
<b>Implementation Date</b>
The recommendations have been implemented.

## Finding #7

### Condition (The way it is)

IA's review of the new/replacement card distribution process revealed that the Purchasing Coordinator obtains the employees' P-cards from Finance and provides the P-Cards to the individuals after training has occurred. This process needs to be segregated due to the fact that the Purchasing Coordinator has administrative access and sets up/orders employee P-Cards in the P-Card online system.

### Criteria (The way it should be)

In accordance with Purchasing P-Card Policies and Procedures on page 5, "Application and Card Renewal/Replacement Process," only the DPC or the cardholder can obtain his/her card from the Finance department.

### Effect (So what?)

The Purchasing Coordinator authorizes An individual's active P-Card could be used inappropriately.

### Cause (Difference between condition & criteria)

The Purchasing Coordinator was unaware of the P-Card policy.

### Recommendation

Finance should ensure that P-Cards are not distributed to anyone else other than the DPC or cardholder.

### Management Response

Management concurs.

### Action Plan

Finance will only distribute P-Cards to either the DPC or the cardholder.

### Implementation Date

The recommendation has been implemented.

## Follow-Up

This audit follow-up was conducted 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 previous recommendations.

Finding	Condition (The way it is)	Recommendation	Management Response/Action Plan	Follow-up/Implementation
#1	<ul style="list-style-type: none"> <li>The P-Card Program Policy and Procedure Manual with detailed documentation is not updated and has not been implemented.</li> <li>The Link to the Materials Management P-Card Program Directive #4 that directs users to the guidelines for detailed documentation is not operable.</li> </ul>	Purchasing should ensure that: <ul style="list-style-type: none"> <li>The manual is updated and communicated to all cardholders.</li> <li>The path to the P-Card Program Policy and Procedure Manual in the Procurement Card Program Directive #4 is updated and communicated and operable.</li> </ul>	Management concurs with the recommendations. <ul style="list-style-type: none"> <li>The Manual has been updated and communicated to all cardholders.</li> <li>The change to the P-Card Directive will be submitted for City Manager approval.</li> </ul>	IA reviewed the P-Card Policies and Procedures and found the policies appropriately updated. P-Card Directive #4 was combined with the Purchasing Directive and the link was deleted.  Fully Implemented.
#2	We identified 3 MCCs that the City's list showed to be excluded but were used by employees during the scope of our review. We cannot verify whether these were properly authorized since there was no documentation.	<ul style="list-style-type: none"> <li>Add a procedure in the Policy and Procedure Manual detailing how an excluded MCC is to be handled when an employee has a request to have the MCC included for a temporary basis</li> <li>Perform continuous monitoring to change the status to "excluded" as soon as the necessary purchase has been made</li> <li>Retain documentation in regards to all updates made to MCCs</li> </ul>	Management concurs with the recommendations – <ul style="list-style-type: none"> <li>The recommended procedure has been added to the Manual and Training materials</li> <li>Exceptions will be monitored and changed as necessary</li> <li>Supporting documentation in regards to all updates</li> </ul>	In a review of MCCs, IA determined that 3 additional excluded MCCs were unblocked for purchases. These purchases were legitimate business expenditures and the MCCs were again blocked to prevent future purchase activity. Inquiries with Purchasing revealed that documentation was not retained in these three instances.  Partially Implemented.

Finding	Condition (The way it is)	Recommendation	Management Response/Action Plan	Follow-up/Implementation
#3	<p><b>Destruction:</b></p> <ul style="list-style-type: none"> <li>We identified 25 terminated employees who did not have any documentation in their file identifying the date of the P-Card destruction and the personnel by whom it was performed</li> <li>There are inconsistencies in the P-Card Program Policy and Procedure Manual. "Application, Renewal/Replacement and Cancellation Process" section (p.12) delegates the destruction of P-Card authority to DPCs while the "Briefly DPC Responsibilities" section (p.15) delegates the same authority to Purchasing'</li> </ul> <p><b>Deactivation:</b></p> <ul style="list-style-type: none"> <li>We identified 4 terminated employees (termination dates were: 12/28/10, 1/31/11, 2/18/11 and 10/21/11) whose P-Cards were still active as of 11/17/2011</li> <li>We identified 5 employees who's P-Cards remained active for more than one business day after their termination date. These 5 employees were involuntary terminations and therefore a PAF (Personnel Action Form) was not submitted by the department until the dismissal or appeal process was complete.</li> </ul>	<p><b>Destruction:</b></p> <ul style="list-style-type: none"> <li>Collect cards from employees</li> <li>Destroy the P-Card in front of two witnesses and obtain their signatures</li> <li>Document and retain copy of destruction evidence and send original to Purchasing to put in the employee's file</li> <li>The P-Card Program Policy and Procedure Manual is updated to ensure the destruction of P-Cards is performed by the DPC</li> <li>The P-Card Program Policy and Procedure Manual is finalized and implemented.</li> </ul> <p><b>Deactivation:</b></p> <ul style="list-style-type: none"> <li>HR should notify Purchasing of all involuntarily terminated employees who have a P-Card within one business day. This will allow Purchasing to deactivate the P-Card during the dismissal or appeal process.</li> <li>Per HR notification, Purchasing needs to ensure that P-Cards are cancelled immediately and place the notification in the files of the corresponding employees</li> </ul>	<p>HR and Purchasing Management Concurred.</p> <p><b>Destruction:</b> The Manual and Training materials have been revised to incorporate the changes in the destruction of P-Cards.</p> <p><b>Deactivation:</b> HR will send notification within one business day to affected departments once a PAF is received by HR Purchasing will ensure that P-Cards are cancelled within 1 business day after notification from the HR Department.</p>	<p>See Finding #4 on page 11 of this report.</p>
#4	<p>We identified 3 instances where departments made split purchases on P-Cards to circumvent the bidding process.</p>	<ul style="list-style-type: none"> <li>Communication is made to departments that policy does not allow the splitting of purchases to keep under \$3,000</li> <li>Enforce disciplinary action for</li> </ul>	<ul style="list-style-type: none"> <li>Continue to communicate in Cardholder and DPC Training.</li> <li>Inform Department of cardholders splitting</li> </ul>	<p>See Finding #2 on page 8 of this report.</p>

Finding	Condition (The way it is)	Recommendation	Management Response/Action Plan	Follow-up/Implementation
		violators <ul style="list-style-type: none"> <li>That a mechanism is put in place to capture split purchases</li> </ul>	purchases. <ul style="list-style-type: none"> <li>Continue to conduct periodic reviews.</li> </ul>	
#5	Of 19 payments made with both P-Card and check, we found that two transactions were duplicated by payments being made with both the P-Card and a check.	<ul style="list-style-type: none"> <li>Purchasing needs to communicate to DPCs that they need to monitor the payments that are made to ensure that a purchase is not duplicated by paying it with P-Card and a check.</li> <li>Purchasing should also communicate to departments that P-Card is the preferred method of payment and should be used when at all possible.</li> </ul>	The manual as well as Training materials have been revised to incorporate the recommendations.	See Finding #3 on page 10 of this report.

## Exhibit A – Sampling Methodology

### Cardholder Limits

IA found 1,053 active cardholders in the P-Card online system at the time of this test. The majority of P-Cards issued to employees are set with standard limits such as a Credit Limit of \$5,000 and a Single Transaction Limit of \$2,999. IA eliminated these cardholders to target testing to the population of cardholders with limits set outside of the standard. This test was intended to determine if appropriate authorization of those limits existed.

IA stratified the targeted population into two categories as shown below:

Credit Limit		
Credit Limit Amount	No. of Cardholders	Sample
\$ 7,000	2	1
\$ 7,500	2	1
\$ 8,500	1	1
\$ 9,000	1	1
\$ 10,000	19	3
\$ 15,000	2	1
\$ 20,000	3	1
\$ 24,999	5	1
\$ 30,000	1	1
\$ 35,000	1	1
\$ 74,000	1	1
<b>Total</b>	<b>38</b>	<b>13</b>

Single Transaction Limit		
Single Transaction Limit Amount	No. of Cardholders	Sample
\$ 3,000	4	1
\$ 4,000	1	1
\$ 5,000	4	1
\$ 7,000	1	1
\$ 10,000	1	1
\$ 13,000	1	1
\$ 15,000	1	1
\$ 20,000	6	1
\$ 35,000	1	1
<b>Total</b>	<b>20</b>	<b>9</b>

IA judgmentally selected one (1) from each category except for those that had a Credit Limit of \$10,000 where three (3) were selected. IA tested approximately 38% of the targeted population and found five (5) exceptions (or 22%) as follows:

- **Credit Limits** – Two individuals did not have appropriate documentation for the specified limit; one user's limit was never properly reinstated.
- **Single Transaction Limits** – Three individuals did not have the required documentation for the specified limit; one user's limit was never properly reinstated.

IA can project these results to the population.

### Split Transactions

IA generated a Declined Transaction Report from the P-Card online system for the audit period, and then isolated all transactions listed with a declined reason of "Account Single Trans Amount Exceeded." IA found ninety-eight (98) possible split transactions.

IA, with the assistance of the Procurement Director, judgmentally selected twenty-nine (29) transactions from the ninety-eight (98) for review. A judgmental sample was selected to review potential deviations from the policy and efficiently identify split transactions. The selections were based on the cardholder associated with the transactions, the type of materials purchased and the merchant from which the materials/services were purchased.

IA obtained receipt documentation for each of the transactions and compared the invoice numbers, job numbers and departmental explanations of the purchases. IA found that twenty (20) out of twenty-nine (29) transactions were split by the department for various reasons. As a result, IA can project these results to the population.