

AUDIT REPORT

CITY AUDITOR

Report Date:	February 20, 2019
Departments:	Citywide
Subject:	Procurement Card Program
Lead Auditor:	Dawn von Epp, Sr. Internal Auditor

OBJECTIVE

This audit was conducted to determine whether effective internal controls are in place to prevent or detect errors, fraud, waste, abuse, and other irregularities related to the use of procurement cards; and to evaluate compliance with applicable policies and procedures.

SCOPE & METHODOLOGY

To accomplish our objective, we:

- Reviewed applicable City policies and procedures.
- Interviewed staff in Purchasing, Accounts Payable, and various user departments.
- Identified and evaluated procurement card related practices, including documentation, workflow, review, and approval.
- Analyzed FY2018 transactions to identify trends and risk indicators.
- Tested a sample of transactions for compliance with policies and procedures.
- Performed other tests and analyses as necessary in the circumstances.

BACKGROUND

Procurement cards (p-cards) are used citywide to expediently purchase goods and services such as supplies, uniforms, travel, training, parts, fuel, etc. Additionally, p-cards are used to pay certain contracted vendors' regular monthly invoices. During FY2018, the City had 29,554 p-card transactions, totaling approximately \$13.6M.

CONCLUSION

In our opinion, the City's procurement card program includes many strong internal controls in its overall design and centralized administration, to effectively mitigate many of the risks commonly associated with procurement card use in large organizations. However, the more decentralized aspects of the program, such as supervisory review and documentation, are in need of more effective internal controls to ensure compliance with policies and procedures, and to prevent or detect errors, fraud, waste, and abuse. A brief summary of our observations and recommendations is included below. For additional details and responses from management, please see the attached Issue and Action Plans (IAPs).

SUMMARY OF OBSERVATIONS & RECOMMENDATIONS

- 1. Observation:** Procurement card transaction receipts are not consistently and effectively reviewed by a supervisor for appropriateness and compliance with applicable policies prior to being approved for payment.

Recommendations:

- Purchasing should clarify approval roles and responsibilities related to approving p-card transactions, to ensure all transactions are adequately reviewed prior to approval.
- Purchasing should develop and deliver mandatory training for reviewers/approvers (similar to the current mandatory training for accountholders), to ensure they understand how to properly review a transaction and its supporting documentation prior to approving it.
- Purchasing should update MP 211, and the Procurement Card Program Guidelines and Procedures, to include approver eligibility criteria, clarified roles, and training requirements.

- 2. Observation:** Receipts are not provided for all purchases. Accountholders have not been required to provide receipts for purchases identified as “accidental”, because there is an expectation that either the transaction will be credited/reversed on a future statement, or the accountholder will reimburse the City. Additionally, there are no controls in place to ensure these (or any other) expected credits or reimbursements are ever received.

Recommendations:

- Purchasing and Accounts Payable should enforce established Procurement Card Program rules, which require that a receipt be provided for every purchase.
- Purchasing should revise the Procurement Card Program rules and MP 211 to require approvers (in addition to Accountholders) to track expected credits to ensure they are received.
- Purchasing should implement a specific requirements to ensure the City is promptly credited/reimbursed when an employee accidentally uses a City p-card for a personal purchase. Both the initial transaction receipt and the City cashier’s receipt (showing the repayment) should be included in the monthly statement documentation packet.

Issue and Action Plan #1

Issue #1: P-card transaction receipts are not consistently/effectively reviewed.

Observation: P-card transaction receipts are not consistently and effectively reviewed by a supervisor for appropriateness and compliance with applicable policies prior to being approved for payment in the Works system. Half of the approvers we interviewed reported that they do not review receipts; and about one-third of the accounts we tested had transactions which were not reviewed by a supervisor or other responsible individual.

Criteria: MP211 "Procurement Card Program", Section III.H.:

"Supervisor/ Manager Responsibilities

- *Approve accountholder purchases within City and department policies*
- *Ensure Accountholder conforms to established Procurement Card usage guidelines and policies*
- *Audit details of Accountholders receipts to ensure purchases are appropriate and for City use while complying with other City policies*
- *Review and approve Accountholder's account reconciliation in the Works system for timely submission to Accounts Payable"*

Comments: We found that the processes currently in use for reviewing p-card transactions for appropriateness and compliance vary by department, and often by individual approver. In some departments, the review and approval of transactions is approached solely from a budget perspective. If budget is available, the transaction is approved, without further review, often by an individual who is not the accountholder's supervisor and is not in a position to evaluate the appropriateness of the purchase.

MP 211 does not establish eligibility requirements for approvers, but it does imply that the approver should be the accountholder's supervisor. Currently, the policy makes no distinction between "approving" a purchase and signing off on the transaction in the Works system. However, based on our observations and some departmental business needs, there is a need for more clarity and guidance in this area.

When purchases are not adequately reviewed, there is an increased risk that fraud, waste, or abuse may occur without being detected.

**Recommendations
and Responses:**

- 1-1.** Purchasing should clarify approval roles and responsibilities related to approving p-card transactions, to ensure all transactions are adequately reviewed prior to approval. It may be necessary to distinguish between approving a purchase and signing off on a transaction in the Works system, if these duties are to be performed by different individuals.

Action Plan #1-1: We agree with the recommendation and we will update our documents and training to further define the roles and responsibilities.

Individual or Position Responsible: Stacie Hopper

Estimated Completion Date: 12/31/2019

- 1-2.** Purchasing should develop and deliver mandatory training for all current and future reviewers/approvers (similar to the current mandatory training for accountholders), to ensure they understand how to properly review a transaction and its supporting documentation prior to approving it.

Action Plan #1-2: We agree with the recommendation and we will work to further define our training tools and delivery to address the needs of reviewers/approvers.

Individual or Position Responsible: Stacie Hopper

Estimated Completion Date: 12/31/2019

- 1-3.** Purchasing should update MP 211, and the Procurement Card Program Guidelines and Procedures, to include approver eligibility criteria, clarified roles, and training requirements.

Action Plan #1-3: We agree with the recommendation and will update the documents accordingly.

Individual or Position Responsible: Stacie Hopper

Estimated Completion Date: 12/31/2019

Issue and Action Plan #2

Issue #2: Receipts are not submitted for all purchases.

Observations:

Accountholders have not been required to provide receipts for purchases identified as "accidental", because there is an expectation that either the transaction will be credited/reversed on a future statement, or the accountholder will reimburse the City. Additionally, there are no controls in place to ensure these (or any other) expected credits or reimbursements are ever received.

Criteria:

Procurement Card Program Guidelines and Procedures
Section 1.B. Card Use/Receipt and Documentation Requirements

"... For All Expenses: ... SAVE ALL PROCUREMENT CARD RECEIPTS, SHIPPING DOCUMENTS, DELIVERY RECEIPTS AND/OR INVOICES. These documents must be attached to the Accountholder's monthly statement when processing for payment."

Section 1.D: Returns or Cancellations and Disputed Charges

"If an Accountholder returns merchandise or cancels a purchase obtained with a Procurement Card, the Accountholder shall obtain a credit against the Procurement Card. Cash reimbursements are not allowed."

The Accountholder is to check the subsequent bank statement for the credit and attach the credit receipt to the statement when processing for payment. If a credit receipt is not obtained, the Accountholder must attach a Missing Documentation Form as outlined in section C, above. If credit does not appear by the second subsequent statement, it is the Accountholder's responsibility to follow up with the merchant and contact the bank until the credit has been received."

Should a Procurement Card accidentally be presented for a personal purchase, the Accountholder shall have the vendor reverse the transaction and use his/her own personal credit card, check or cash. If reversing the charges is not possible, the Accountholder is to remit payment to the City's Cashiers Office and submit proper payment authorization. If the

transaction does not get reversed, the Accountholder shall notify the Program Administrator immediately."

Comments:

The risk that fraudulent activity could occur without being detected increases when accountholders are not required to submit receipts for all transactions. The risk is further increased when no controls are in place to ensure expected credits/reimbursements are received. The current practice is that accountholders are solely responsible for tracking expected credits.

Recommendations and Responses:

- 2-1.** Purchasing and Accounts Payable should enforce established Procurement Card Program rules, which require that a receipt be provided for every purchase, including those expected to be credited on a future statement or expected to be reimbursed by the employee.

Action Plan #2-1: Agree. We will remind card users and AP that all transactions must have proper documentation provided for every purchase and credit.

Individual or Position Responsible: Stacie Hopper

Estimated Completion Date: 12/31/2019

- 2-2.** Purchasing should revise the Procurement Card Program rules and MP 211 to require approvers (in addition to Accountholders) to track expected credits to ensure they are received. This requirement should be incorporated into the approver training recommended in IAP#1.

Action Plan #2-2: Agree. We will update the policy and training tools.

Individual or Position Responsible: Stacie Hopper

Estimated Completion Date: 12/31/2019

- 2-3.** Purchasing should implement a requirement that, if an employee inadvertently uses a City p-card for a personal purchase, and the transaction cannot be reversed/credited immediately (or before the close of the billing cycle) the employee should reimburse the City prior to signing off on the transaction in Works. Both the initial transaction receipt and the City cashier's receipt (showing the repayment) should be included in the monthly documentation packet.

Action Plan #2-3: Agree. We will add this information in MP211 and guidelines.

Individual or Position Responsible: Stacie Hopper

Estimated Completion Date: 12/31/2019