



**GARLAND**

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**INTERNAL AUDIT**

## **P-Card/Expense Report Audit**

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**Report 201101**

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## **Authorization**

We have conducted an audit of the P-Card/Expense Report Audit. 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**

The objectives of this audit are:

- Is the City in compliance with P-card Directives, Policies and new P-card agreement? Were payments in compliance?
- Are internal controls adequate? (i.e. monitoring, audit trails)
- Did we find any inappropriate purchases or Fraud?
- Were prior audit recommendations implemented?

## **Scope and Methodology**

We conducted this performance audit 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. These included reviewing proper authorizations and monitoring the P-Card program and Expense Reports. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit covered June 1, 2010 - December 31, 2010.

While we report to the Mayor and City Council and present the results of our work to the Audit Committee, we are located organizationally outside the staff of line management functions we are auditing. Therefore, this Audit organization may be considered free of organizational impairments to independence to audit internally and report objectively to those charged with governance.

To adequately address the audit objectives, we:

- Reviewed the City's Procurement Card Program Directive #4, Employee Business Expense Directive #4, Prohibited Expenditures #9, Decentralized Purchases under \$3,000 Directive #2 and Procurement Card Program Policy and Procedure Manual (obj. 1)
- Conducted reviews of P-Card transactions (objs. 2 and 3)
- Conducted reviews of Expense Reports (objs. 2 and 3)
- Reviewed reports from JP Morgan Chase (objs. 2 and 3)
- Performed data mining tests (objs. 2 and 3)

- Reviewed transactions for inappropriate purchases or fraud (obj. 3)
- Performed follow-up on Audit 0903 to determine if recommendations were implemented (obj. 4)

### **Data Mining**

Several tests were performed using data mining to determine if:

- Purchases were split to keep under the \$3,000 limit and circumvent the bidding process
- Purchases were made during weekends and/or holidays and if these purchases were appropriate
- Purchases paid using both P-Card and Accounts Payable
- Purchases made with prohibited MCCs (Merchant Category Codes)
- Purchases made with one vendor by same employee

We identified purchases made during the weekends and/or holidays. After reviewing these transactions, we determined that the majority of the purchases were made by employees whose work schedules include working on the weekends and/or holidays. We also found that purchases would be made on a weekday but the vendor did not process the invoice until a date which would fall on a weekend, therefore we did not find a problem with these transactions.

The other data mining tests performed are discussed in the Opportunities for Improvements and Follow-Up sections.

### **Overall Conclusion**

While our review found most P-Card transactions appear to comply with City Policy, Directives and Agreements, some improvements could enhance oversight.

- The City P-Card Directive and Procurement Card Program Policy and Procedure Manual needs to be updated to reflect the following:
  - a) Procedures to address credit limit increases
  - b) Circumstances in which excluded MCCs can be used
  - c) Who should handle the destruction of P-Cards
- Internal controls that need to be addressed are:
  - a) Deactivating employees P-Cards within 24 hours of termination notification
  - b) Monitoring and documenting the exceptions of using excluded MCCs
  - c) Monitoring the splitting of purchases to keep under \$3,000
  - d) Monitoring invoices or transactions where only one method of payment is made to prevent duplicate payments or inappropriate purchases

- Our samples of reviews did not identify any fraudulent activities
- Of the nine findings from the previous P-Card Audit, two were Fully-Implemented, six were Partially-Implemented and one was Not-Implemented

## **Background**

The Purchase Card (P-Card) program started with a pilot program on January 7, 1999 and was introduced to a few departments; it was then introduced to all departments in 2000. The City went into an interlocal agreement with the City of Fort Worth on November 9, 2010, effective for January 1, 2011. With this new interlocal agreement, the City was not required to change banks, systems nor update their cards. However, it provided a better rebate.

As of February 8, 2012, the City of Garland has 999 active P-Cards and 61 DPCs (Department Purchasing Coordinators).

Based on the authoritative pronouncements, the following are some of the P-Card requirements:

- P-Cards can only be issued to Permanent Full-Time or Part-Time Employees
- A P-Card application has to be approved by the appropriate Managing Director and submitted to Purchasing before a P-Card can be issued
- A Cardholder Agreement to Accept the P-Card application has to be submitted to Purchasing before a P-Card can be issued
- Managing Directors assign DPCs and DPCs have to sign and submit to Purchasing the Agreement to Accept the Responsibilities of Department Purchasing Coordinator
- Managing Directors have to sign and submit to Purchasing the P-Card Program Managing Director Agreement
- Standard monthly limit is \$5,000 and single transaction limit is \$2,999.99 for the majority of employees

The purpose of a purchasing card program is to provide an efficient, cost-effective method of purchasing and paying for small-dollar as well as high volume purchases. This type of program is used as an alternative to the traditional purchasing process and can result in a significant reduction in the volume of purchase orders, invoices, and checks processed. The National Association of Purchasing Management estimates that it costs an average of \$150 to generate a purchase order. For Finance to cut a check the industry standard is \$75. P-Card costs are \$10 per transaction. The process cost savings are clear. Purchasing cards can be used whenever a purchase order, check request, or petty cash would have been processed and with any vendor that accepts credit cards. <sup>1</sup>

There are numerous benefits to a purchasing card program. Benefits to the cardholder include: <sup>1</sup>

1. Convenience of purchasing without a purchase order,
2. Expedited delivery of goods,
3. Expanded list of merchants from whom purchases can be made, and
4. Reduced paperwork.

Benefits to the government include: <sup>1</sup>

1. Simplified purchasing and payment process,
2. Lower overall transaction processing costs per purchase,
3. Increased management information on purchasing histories,
4. Reduced paperwork,
5. Decentralized procurement function,
6. The ability to set and control purchasing dollar limits,
7. The ability to control purchases to specific merchant categories, and
8. Receipt of rebates from the bank based upon dollar volume of total purchases.

Benefits to the vendor include: <sup>1</sup>

1. Expedited payments,
2. Reduced paperwork, and
3. Lowered risk of nonpayment.

### **P-Card Purchases and Rebates**

The City of Garland is issued a rebate based on the amount of purchases made but is subject to reduction by all losses. Losses means all amounts due to Bank in connection with any Account that Bank has written off as uncollectible as a result of a card being lost, stolen, misappropriated, improperly used or compromised. Rebates will be calculated yearly. See Exhibit 1 below:

**Exhibit 1**

<b>Time Period</b>	<b>Volume</b>	<b>Rate</b>	<b>Amount</b>
04-01-09 to 03-31-10	\$5,058,237.03	0.80%	\$38,134.84*
04-01-10 to 12-31-10	\$4,032,215.15	0.80%	\$30,468.45**
01-01-11 to 08-31-11	\$3,596,193.48	1.72%	\$61,854.53

\*(\$2,331.06) in fraud losses

\*\*(\$1,789.27) in fraud losses

**Source:** Finance System Account # 100-1124-3729 and  
JP Morgan Chase

<sup>1</sup>[http://www.gfoa.org/index.php?option=com\\_content&task=view&id=1643](http://www.gfoa.org/index.php?option=com_content&task=view&id=1643)

**Summary of P-Card and Expense Reports Review:**

P-Card transactions and expense reports were reviewed to verify internal controls and compliance. Findings and recommendations of P-Card transactions and expense reports were communicated to each individual department with issuance of a memo

A total of 51 departments (5 transactions \* 51 departments = 255 transactions) were reviewed. See results in Exhibit 2:

**Exhibit 2 (P-Card Transactions)**

	<b>Yes</b>	<b>No</b>
Aware of Policies and Procedures	49	2
Were records secure	47	4
Was there a P-Card application on file	50	1
Was there a Cardholder Agreement on file	50	1
Was there a DPC Agreement on file	48	3
Was there a Managing Director Agreement on file	51	0
Were Transaction Detail Reports Signed	46	5
Were receipts originals and itemized	48	3
Were expenses charged to Proper Account	51	0
Were there any Prohibited Expenditures	1	50
Were there an Personal Purchases	3	48

**Source:** Internal Audit

A total of 35 expense reports were reviewed. See results in Exhibit 3:

**Exhibit 3 (Expense Reports) (continued)**

	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Notes</b>
Was the expense report reasonable	35	0	0	
Did they use the correct expense report form	35	0	0	
Were there appropriate approvals	30	5	0	
Was expense report submitted in a timely manner	26	9	0	4 expense reports were never submitted to Finance
Did they attach the Meals and Incidentals Worksheet	25	10	0	
Did they stay within the GSA allowance	35	0	0	
Were receipts original and itemized	24	11	0	

### Exhibit 3 (Expense Reports)

	Yes	No	N/A	Notes
Were tips kept under 20%	32	2	1	
Was there an itinerary and/or agenda attached	17	15	3	
Were there any prohibited expenditures	2	33	0	
Did they use the correct mileage sheet	15	2	18	
If flight arrangements were made, was Colwick used	17	1	17	
If airfare was used, did they attach flight itinerary	17	2	16	
Was a car rental used	7	0	28	
Was there an upgrade or insurance used on car rental	5	0	30	
If money was due to the City, was it reimbursed in 20 business days or less	3	1	31	

**Source:** Internal Audit

### **SAS 70 (Statement on Auditing Standards No. 70)**

A SAS 70 on Report on Controls Placed in Operation and Tests of Operating Effectiveness for the period ending October 1, 2009 to September 30, 2010 was performed on Chase Paymentech Solutions, LLC by KPMG. KPMG stated, "In our opinion, the accompanying description of the aforementioned general computer controls presents fairly, in all material respects, the relevant aspects of Chase Paymentech's controls that had been placed in operation as of September 30, 2010. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and user organizations applied the controls contemplated in the design of Chase Paymentech's controls."

Ten controls were reviewed:

1. Controls provide reasonable assurance that personnel policies and practices control the hiring of personnel.
2. Controls provide reasonable assurance that timely processing of terminated employee records and revocation of security authorizations occur.

3. Controls provide reasonable assurance that processing is appropriately scheduled and processing problems are identified and resolved in a timely manner.
4. Controls provide reasonable assurance that reports and other forms are appropriately distributed to Chase Paymentech's users.
5. Controls provide reasonable assurance that tape and disk management is monitored, and that data and system files are backed up and rotated off-site in regular intervals.
6. Controls provide reasonable assurance that system software and hardware maintenance and enhancements are properly performed and adequately documented without adversely affecting the normal processing cycle.
7. Controls provide reasonable assurance that access to on-line functions, the network, and merchant data is restricted to authorized users.
8. Controls provide reasonable assurance that physical security and environmental devices are installed and insurance coverage is in place related to the data center.
9. Controls provide reasonable assurance that data transmissions are monitored, system performance is measured, and access to dial-up network lines is restricted to properly authorized users.
10. Controls provide reasonable assurance that new applications and changes to existing applications are authorized, tested, approved, properly implemented, and documented.

Based on tests of operating effectiveness, controls were operating with sufficient effectiveness to achieve these control objectives.

## Opportunities for Improvement

During our audit we 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 #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)
1 (obj. 2)	<ul style="list-style-type: none"> <li>• The Procurement 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 Procurement Card Program Directive #4 that directs users to the guidelines for detailed documentation is not operable</li> </ul>	<ul style="list-style-type: none"> <li>• The Procurement Card Program Policy and Procedure Manual should be updated and implemented to provide guidance to cardholder users</li> <li>• The link to the Procurement Card Program Directive #4 should be directed to the right path</li> </ul>	Purchasing did not ensure that manual was updated and that link was operable.	Cardholders are not able to comply and follow rules because they are not able to obtain proper guidance.

Recommendation	Management Response	Action Plan	Implementation Date	Auditor's Comment
<p>Purchasing should ensure that:</p> <ul style="list-style-type: none"> <li>The manual is updated and communicated to all cardholders</li> <li>The path to the Procurement Card Program Policy and Procedure Manual in the Procurement Card Program Directive #4 is updated and communicated and operable</li> </ul>	<p>Management concurs with the recommendations</p> <p>Guidelines for Cardholders and DPC Coordinators has been the document used for providing rules and proper guidance for cardholders. Additional guidance is available from Purchasing and Finance.</p> <p>The Procurement Card Program Policy and Procedure Manual (Manual) has now been updated and implemented.</p>	<ul style="list-style-type: none"> <li>The Manual has been updated and communicated to all cardholders</li> <li>The change to the Procurement Card Directive will be submitted for City Manager approval</li> </ul>	<ul style="list-style-type: none"> <li>Immediate</li> <li>Pending City Manager approval</li> </ul>	

<b>Finding #</b>	<b>Condition (The way it is)</b>	<b>Criteria (The way it should be)</b>	<b>Cause (Difference between condition &amp; criteria)</b>	<b>Effect (So what?)</b>
2 (obj. 2)	<p>We identified 3 MCCs (Merchant Category Codes) that the City's list showed to be excluded but were used by employees during the scope of our review.</p> <p>We cannot verify whether these were properly authorized since there was no documentation.</p>	<p>Purchasing should include a procedure in the Procurement Card Program Policy and Procedure Manual that identifies how excluded MCCs are to be handled when a department needs to have it included for a purchase. The requests should be documented.</p>	<p>There are no policies or procedures in place as to how an excluded MCC should be handled when a department is in need of making a purchase dealing with the excluded MCC. There is no documentation kept in Purchasing's files that relate to who made a request to use an excluded MCC.</p>	<p>When an excluded MCC is added, it is allowed for the group (which is the entire City of Garland) and not for a specific person; therefore there is a risk of someone other than the intended person making a prohibited purchase.</p>
<b>Recommendation</b>	<b>Management Response</b>	<b>Action Plan</b>	<b>Implementation Date</b>	<b>Auditor's Comment</b>
<p>Purchasing should:</p> <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>	<p>Management concurs with the recommendations</p>	<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 will be retained</li> </ul>	<p>Immediate</p>	

Finding #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)
<p style="text-align: center;">3 (objs. 1 and 2)</p>	<p>The process for handling destruction and deactivation of terminated employee P-Cards needs improvement.</p> <p><b><u>Destruction:</u></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 Procurement 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><u>Destruction:</u></b></p> <ul style="list-style-type: none"> <li>• DPCs should collect card from employee, destroy the P-Card, document the destruction of the P-Card with 2 signatures (DPC and witness) and send destruction documentation to Purchasing to put in employee's file</li> <li>• The Procurement Card Program Policy and Procedure Manual should be updated, finalized and implemented</li> </ul>	<p><b><u>Destruction:</u></b></p> <ul style="list-style-type: none"> <li>• Purchasing does not clearly identify the delegation for P-Card destruction</li> <li>• The "Procurement Card Program Policy and Procedure Manual" has been a work in progress since February 4, 2010 and has not been finalized or implemented</li> </ul>	<p><b><u>Destruction:</u></b></p> <ul style="list-style-type: none"> <li>• Proper destruction of a P-Card can mitigate the risk of unauthorized P-Card usage after an employee is terminated</li> <li>• Inconsistencies create confusion for readers thereby leaving the reader without any information on how to properly address the P-Card destruction process for terminated employees</li> </ul>

Finding #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)
	<p><b><u>Deactivation:</u></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><u>Deactivation:</u></b></p> <ul style="list-style-type: none"> <li>HR should notify Purchasing of all involuntarily terminated employees who have a P-Card within 1 business day</li> <li>Purchasing should cancel an employee's P-Card as soon as they receive notification from HR and put the notification in the employee's file</li> </ul>	<p><b><u>Deactivation:</u></b></p> <ul style="list-style-type: none"> <li>Purchasing is notified of involuntarily terminations by HR after the dismissal or appeal process is complete. This notification can be several days after the actual termination date</li> <li>The deactivation process by Purchasing is prone to human error and needs to be more efficient</li> </ul>	<p><b><u>Deactivation:</u></b></p> <p>The vulnerability and risk of unauthorized purchases performed by employees post termination is higher when the employee has been involuntarily dismissed. If the card was not collected and deactivated, the employee could make purchases resulting in unauthorized expenditures</p>

Recommendation	Management Response	Action Plan	Implementation Date	Auditor's Comment
<p><b><u>Destruction:</u></b></p> <p>Purchasing should ensure that DPCs:</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> </ul> <p>The Purchasing Administrator should ensure that:</p> <ul style="list-style-type: none"> <li>• The Procurement Card Program Policy and Procedure Manual is updated to ensure the destruction of P-Cards is performed by the DPC</li> <li>• The Procurement Card Program Policy and Procedure Manual is finalized and implemented</li> </ul> <p><b><u>Deactivation:</u></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 management concurs with recommendation</p> <p>Purchasing management concurs with the recommendations</p>	<p><b><u>Destruction:</u></b></p> <p>The Manual and Training materials have been revised to incorporate the changes in the destruction of P-Cards</p> <p><b><u>Deactivation:</u></b></p> <p>HR will send notification within one business day to affected departments once a PAF is received by HR</p> <p>Purchasing will ensure that P-Cards are cancelled within 1 business day after notification from the HR Department</p>	<p>Immediate</p>	

Finding #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)
4 (objs. 2 and 3)	We identified 3 instances where departments made split purchases on P-Cards to circumvent the bidding process.	As written in the Procurement Card Program Policy and Procedure Manual, Separate Purchases, Sequential Purchases and Component Purchases are considered prohibited expenditures. This is also a requirement of the Texas Local Government Code Section. 252.062.	Departments are not following Purchasing rules in regards to split purchases and there is also a lack of monitoring at the departments.	<p>It is a violation of city policy and the Texas Local Government Code for an employee to intentionally or knowingly make or authorize separate, sequential, or component purchases to avoid the competitive bidding requirements.</p> <p>The City does not ensure it is obtaining the lowest price.</p> <p>It prevents HUB vendors putting in for a bid.</p>

Recommendation	Management Response	Action Plan	Implementation Date	Auditor's Comment
Purchasing should ensure that: <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 violators</li> <li>• That a mechanism is put in place to capture split purchases</li> </ul>	<ul style="list-style-type: none"> <li>• The Manual as well as Cardholder and DPC Training specifically addresses splitting purchases</li> <li>• Enforcement must be the Department's responsibility</li> <li>• The periodic reviews conducted by Purchasing should capture split purchases</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to communicate in Cardholder and DPC Training</li> <li>• Inform Department of cardholders splitting purchases</li> <li>• Continue to conduct periodic reviews</li> </ul>	Immediate	

<b>Finding #</b>	<b>Condition (The way it is)</b>	<b>Criteria (The way it should be)</b>	<b>Cause (Difference between condition &amp; criteria)</b>	<b>Effect (So what?)</b>
5 (objs. 2 and 3)	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.	Purchases should be paid by only one method of payment.	There is no mechanism in place to locate a payment made in both systems.  There is also lack of monitoring in regards to the payment process.	<ul style="list-style-type: none"> <li>• Duplicate payments to vendors can be made</li> <li>• Risk of loss of money</li> <li>• Fraud cannot be detected.</li> </ul>
<b>Recommendation</b>	<b>Management Response</b>	<b>Action Plan</b>	<b>Implementation Date</b>	<b>Auditor's Comment</b>
<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>	Management concurs with the recommendations	The manual as well as Training materials have been revised to incorporate the recommendations	Immediate	

## FOLLOW-UP

The following is a follow-up of the report “P-Card and Expense Reports Audit” issued on July 15, 2009. The follow-up audit was not intended to be a detailed study of every relevant system, procedure and transaction. Accordingly, the Follow-up section presented in this report may not be all-inclusive of areas where improvement might be needed.

The following results for each finding are as follows:

Finding #	Finding	Recommendation	Management Response	Follow-up	Implementation
1	P-Card Transaction Limits	Purchasing ensure that transaction limits are changed to original limits within the deadline of the request. If the request was made for a one time purchase or for a certain time period, then the increase should be for that time only. Purchasing should use the Cardholder Listing Hierarchy report on a periodic basis to monitor transaction limits and to determine who has transaction limits that differ from the set limits.	<b>Concur.</b> Purchasing will review monthly and take appropriate action. This takes place immediately.	Our review of 30 employee’s whose monthly or single transaction limits were increased revealed the following: <ul style="list-style-type: none"> <li>• 4 cardholders were not reinstated to original limit from temporary basis</li> <li>• Documentation in regards to 2 cardholders’ credit limit increase was not found</li> <li>• 1 cardholder credit limit change was not authorized by the Managing Director</li> </ul>	Partially-Implemented

Finding #	Finding	Recommendation	Management Response	Follow-up	Implementation
2	Proper Destruction of P-Cards	<ul style="list-style-type: none"> <li>Revise the Procurement Card Program Directive and related guidelines and agreements to specify the DPC's responsibility of documenting the destruction of a P-Card and supplying Purchasing with the documentation</li> <li>If P-Card is sent to Purchasing, Purchasing should destroy the P-Card and document that it was destroyed and documentation is placed in the employee's file</li> <li>DPCs are made aware of this responsibility during DPC training</li> </ul>	<ul style="list-style-type: none"> <li>Directives and all related documents have a target date for updating and revision of December 31, 2009</li> <li>Purchasing has been destroying all cancelled p-cards that come through this department since the beginning of the program. Recently we have begun to make a note of the destruction for the cancelled cardholder files</li> <li>This has been talked about in the training for some time now. Beginning with the next DPC Refresher Course we will be more specific about destruction of a cancelled card.</li> </ul>	See Finding #4 on Page 16	Not-Implemented
3	Active P-Card for Terminated Employee	<ul style="list-style-type: none"> <li>Employee's P-Card is cancelled immediately upon notification from HR</li> <li>Terminated documentation received from HR is placed in the employee's P-Card file</li> <li>Employee's P-Card file is moved from the</li> </ul>	<ul style="list-style-type: none"> <li>Purchasing and HR have been coordinating terminations for several years now.</li> <li>Effective immediately we will place notification from HR in the cardholders file</li> <li>This has always been the practice and will continue to be so</li> </ul>	<ul style="list-style-type: none"> <li>During our review, we identified 4 terminated employee's whose P-Card still has a status of "active"</li> <li>We identified 4 terminated employees who did not have a notification from HR placed in their file</li> <li>We identified 3</li> </ul>	Partially-Implemented

<b>Finding #</b>	<b>Finding</b>	<b>Recommendation</b>	<b>Management Response</b>	<b>Follow-up</b>	<b>Implementation</b>
		active to inactive file cabinet		terminated employees who were still in the "active" file cabinet and had not been moved to the "inactive" file cabinet	
4	JP Morgan Chase Cardholder Status Reports	Purchasing generate the necessary reports available from JP Morgan Chase and contact Chase to ensure that the accurate status of each cardholder is reflected. Duplicate cardholders with multiple active accounts should be cancelled.	Effective immediately we will run the necessary report monthly and take action to eliminate any duplicate accounts. Further, we have been and are checking for active accounts before we implement any new cards.	We selected 4 out of the 12 monthly reports for 2011 (April, December, October, August, and June) and noted that the review was performed.	Fully-Implemented
5	Verifying Employee Identification Before Issuing P-Card	Purchasing and Finance create a written procedure regarding P-Card issuance with specifics relating to checking employee ID's before issuing new or replacements.	Finance: Written procedures will be created relating to the verification of employee identification.  Purchasing: Finance has added P-Card distribution instructions to their standard SOP's. This confirms in writing what has been standard practice for the past year.	The Procurement Card Program Policy and Procedure Manual states: "All cards are received by Finance who contacts the DPC when cards arrive. The DPC may pick up the card(s) if the cardholder is not available to do so. To pick up card(s) the DPC must bring the appropriate card holder agreement, ID and will be required to sign for the cards."  The Accounting Supervisor in Finance asks for ID and has the DPC and/or cardholder sign the form that	Fully-Implemented

Finding #	Finding	Recommendation	Management Response	Follow-up	Implementation
				<p>the P-Card comes attached to document who picked up the P-Card.</p> <p>This is also covered in the quarterly mandatory DPC refresher training course.</p>	
6	Outside Departmental Transactions	Purchasing Department revise the Procurement Card Program Directive #4 and related guidelines and agreements to specify DPC's responsibility of supplying documents relating to transaction purchases charged to the department whose budget was used. Purchasing should notify all DPC's during training of this requirement.	As stated above, directives and all related documents have a target date for updating and revision of December 31, 2009.	There is no direction given to DPC's in the directive or related guidelines and agreements that they should obtain related documentation when a charge is made to their budget from another department, although it is covered in the DPC's quarterly refresher course.	Partially-Implemented
7	DPC and Training Agreements	Purchasing ensure that: <ul style="list-style-type: none"> <li>Signed DPC Agreements for all DPC's are on file with Purchasing</li> <li>Signed DPC Training Agreements are obtained and filed with Purchasing</li> <li>DPC section in the P-Card Program Directive #4 is revised to include "A signed</li> </ul>	<ul style="list-style-type: none"> <li>In January 2009 notices were sent to 13 Managing Directors and DPCs asking them to update their DPC status by signing a new agreement. To date nine have responded with the proper documentation. We are following up with the rest</li> <li>This has been and will</li> </ul>	<ul style="list-style-type: none"> <li>We identified signed DPC Agreements for all DPCs</li> <li>We identified that only 3 DPCs did not attend the required training in 2010, therefore there was no signed DPC Training Agreement on file</li> <li>This is covered in the Procurement Card Program Policy and</li> </ul>	<ul style="list-style-type: none"> <li>Fully-Implemented</li> <li>Partially-Implemented</li> <li>Fully-Implemented</li> </ul>

Finding #	Finding	Recommendation	Management Response	Follow-up	Implementation
		DPC Training Agreement will be obtained from all DPC's upon completion of the training."	<p>continue to be the practice since the DPC Training Agreement document was created</p> <ul style="list-style-type: none"> <li>Directives and all related documents have a target date for updating and revision of December 31, 2009</li> </ul>	<p>Procedure Manual</p> <p>Status: As of January 27, 2012, DPC training will no longer be required.</p>	
8	Proper P-Card Documentation	<p>Purchasing Department continues to ensure that the following issues are covered in the quarterly training provided by DPC's:</p> <ul style="list-style-type: none"> <li>Original itemized receipts</li> <li>Taxes</li> <li>Managing Directors should approve Transaction Detail Reports (TDRs)</li> <li>DPCs generate monthly TDRs and obtain approval</li> <li>P-Card agreements and applications have appropriate approval before issuing P-Cards</li> <li>Cards are signed by cardholders immediately upon receipt</li> <li>Managing Directors</li> </ul>	<p>No response required of this finding since these are recurring items that are addressed with each review. Purchasing adequately prioritizes these items at each of the quarterly DPC trainings and monitors these issues during their yearly reviews</p>	<p>Fifty-one (51) departments were reviewed for a total of 255 transactions.</p> <ul style="list-style-type: none"> <li>Only 3 departments did not have original itemized receipts</li> <li>We did not identify any tax issues during this review</li> <li>We identified six departments where TDRs were not approved by the Managing Director</li> <li>All DPCs generate the monthly TDRs</li> <li>We identified 1 cardholder that did not have a cardholder agreement on file and identified 1 cardholder that did not have a P-Card application on file but was addressed with the memo and an</li> </ul>	<ul style="list-style-type: none"> <li>Partially-Implemented</li> <li>Fully-Implemented</li> <li>Partially-Implemented</li> <li>Fully-Implemented</li> <li>Partially-Implemented</li> <li>Fully-Implemented</li> <li>Partially-Implemented</li> <li>Fully-Implemented</li> </ul>

Finding #	Finding	Recommendation	Management Response	Follow-up	Implementation
		<p>review, approve and sign TDRs on a monthly basis</p> <ul style="list-style-type: none"> <li>Managing Directors' TDRs are reviewed and signed on a monthly basis</li> <li>Managing Directors are aware of their responsibilities over DPCs</li> </ul>		<p>application was submitted</p> <ul style="list-style-type: none"> <li>P-Cards are signed at the time they are issued to them at their training class but we did not verify signatures on P-Cards during this audit as we did not identify it as a high risk</li> <li>We identified six departments where TDRs were not approved by the Managing Director</li> <li>We identified 2 departments where the Managing Director's TDRs were not signed by their immediate supervisor</li> <li>We identified a signed Managing Director agreement for each Managing Director</li> </ul>	
9	Departmental Expense Report Improvements	<ul style="list-style-type: none"> <li>Purchasing Department and Finance Department incorporate an overview of the Employee Business Expense into the Departmental Purchasing Coordinator mandatory once-a-year</li> </ul>	<ul style="list-style-type: none"> <li>Purchasing concurs, the Finance Employee Business Expense expert joined the DPC Refresher training April 15, 2009 and will continue to be part of the quarterly training</li> <li>Finance concurs, an</li> </ul>	<ul style="list-style-type: none"> <li>Training of an overview of the Employee Business Expense Directive is covered in the DPC quarterly training</li> <li>Training of an overview of the Employee Business Expense</li> </ul>	<ul style="list-style-type: none"> <li>Fully-Implemented</li> <li>Partially-Implemented</li> <li>Not-Implemented</li> </ul>

Finding #	Finding	Recommendation	Management Response	Follow-up	Implementation
		<p>training provided quarterly due to the P-Card being the preferred method of payment for all travel costs</p> <ul style="list-style-type: none"> <li>• Finance Department ensure the Employee Business Expense Directive is updated to include instructions on coding time while traveling on City business</li> <li>• City Manager ensure all Departmental Managing Directors and the Managing Director's designee review the updated Financial Services Directive #4 Employee Business Expense to understand the responsibility associated with expense reports</li> </ul>	<p>Employee Business Expense Directive overview was included in the Departmental Purchasing Coordinator training on April 15, 2009. The Employee Business Expense Directive will be updated to include instructions on coding time while traveling on City Business</p> <ul style="list-style-type: none"> <li>• City Manager concurs, upon revision of the Employee Business Expense Directive by Financial Services, a memo will be issued to all Managing Directors notifying them of the updated directive and their responsibility with expense reports</li> </ul>	<p>Directive is covered in the DPC quarterly training; The Employee Business Expense Directive has not been updated to include instructions on coding time while traveling on City Business</p> <ul style="list-style-type: none"> <li>• Because The Employee Business Expense Directive has not been updated, this was not done</li> </ul>	

### **Additional Consideration in regards to the use of P-cards**

A report was generated for all checks issued for  $\leq$  \$3,000 during the period of June - December 2010. We excluded the following types of payments from this report since they were not eligible to be paid with P-Cards:

- Employee reimbursements
- Escrow payments
- Housing landlord payments
- Insurance claimant payments
- One time vendor payments

This report identified a total of \$5,160,228.58 in payments. Of the \$5,160,228.58, we do not know how many of these payments were:

- Linked with a PO
- Wire transfers
- Made since the vendor did not accept credit cards

However, it appears that some of the payments made with checks could have been paid with P-Cards. In the future, City Management should consider the following benefits of using P-Cards when payments need to be made to vendors:

- Purchases made on P-Card increases the City's rebate
- The administrative costs associated with P-Card payments are much less compared to check payments
- Reduces the chance of duplicate payments being made to a vendor