

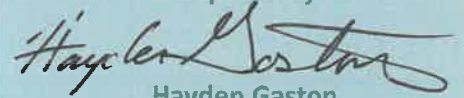
Audit #17-04:

# City Purchasing Cards

## Executive Summary Report

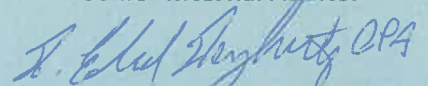
Office of the City Auditor and Clerk  
Internal Audit

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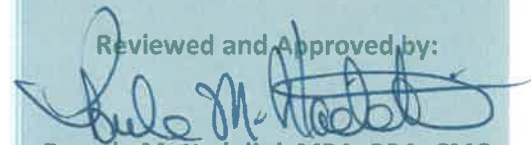
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# EXECUTIVE SUMMARY

## AUDIT 17-04: CITY PURCHASING CARDS

### AUDIT SCOPE

The scope of this audit included a review of purchasing card transactions, related supporting documentation and cardholder administration information and documents. The audit period included transactions with purchase dates between October 1, 2015 to September 30, 2016 and a review of all cardholders as of September 30, 2016.

### REPORT CONTENT AND LIMITATION OF USE

This executive summary report is limited in detail. In order to obtain the full background on a particular item, please contact Internal Audit prior to drawing conclusions based on the limited information contained in this report. Objective ratings indicate the levels at which the objectives were met; rating definitions are included in the **appendix**.

### AUDIT CONCLUSIONS

The results of our review indicate that internal controls were generally in place and functioning effectively to prevent non-compliance with purchasing card rules and regulations; exceptions are noted in the detailed audit report.

Internal controls over the administration and monitoring of the purchasing card program were also found to be adequate, with some opportunity for enhancement, specifically with regards to cardholder approval of transactions and timely card deactivation. For a list of audit observations and recommendations, see page 3 of this report

This audit focused on the following objectives:

| Audit Objective   | Objective Rating |   |  |
|---|------------------|---|--|
| 1) Determine whether transactions made with City Purchasing Cards are in compliance with applicable City rules and regulations; and   | X                |   |  |
| 2) Determine whether internal controls for the administration and monitoring of the Purchasing Card Program are reasonable, adequate, in place and functioning as intended. |                  | X |  |

**Green** – A green control rating indicated that the controls reviewed at the time of the audit indicated a satisfactory or acceptable state of control, where risk appears to be minimized and appropriately managed.

**Yellow** – A yellow control rating denotes opportunities for improvement exist relating to the controls reviewed.

**Red** – A red control rating denotes significant risk or exposure to the City that requires immediate attention and remediation efforts.

**AUDIT 17-04: CITY PURCHASING CARDS  
OBSERVATIONS AND RECOMMENDATIONS**

| Management Action Plans   |          |        |                  |  |  |
|---|----------|--------|------------------|--|--|
| Audit Recommendation  | Priority | Concur | Do not<br>concur | Proposed Management Action   | Action Item<br>Due Date  |
| <p>1. To encourage proper spending habits and promote awareness of Administrative Regulation No. 024.A015.0707, periodic purchasing card refresher training sessions should be required of cardholders. Specifically, training should emphasize:</p> <ul style="list-style-type: none"> <li>- Dividing transactions into smaller purchases in order to achieve the purchasing thresholds and circumvent the purchasing rules is prohibited;</li> <li>- Every effort should be made to ensure sales tax is not included in the purchase total;</li> <li>- Itemized receipts with item descriptions, quantities, and unit costs should always be obtained from the vendor (specifically including food/ restaurant purchases); and</li> <li>- Cardholders and Approvers should abide by processing and approval timelines specified by policy.</li> </ul> | Medium   | X      |                  | <p>We started working on this issue last year. We identified that a refresher training curriculum needed be develop. The new P-card Administrative Regulation (024.A015.0117) is currently being routed for signature. This new Regulation contains requirements for refresher training every two years. The Human Resource (HR) Department will be tracking training dates. We are anticipating starting the new training program at the beginning of FY2018. It will include a review of the new P-card Regulation and the items recommended by the audit. We currently have not decided whether this will be an instructor lead course or a video based course. Once the Accountholder completes the course they will be required to execute a new Cardholder Agreement verifying the training date. This will also be sign by the Department Director or designee. A complete Procurement Class catalog was developed in October 2015 and Purchasing Card Refresher Training was included in this initial catalog for development.</p> | Currently in Work. Anticipated implementation date would be November 1, 2017 |
| <p>2. To eliminate the potential that a purchasing card could be used after a cardholder's employment termination date, the deactivation of a purchasing card should either occur prior to or coincide with the cardholder's termination date.</p>  | High     | X      |                  | <p>The Purchasing Division is now receiving automatic notification of termination of an employee. When the Human Resources Department updates an employee's status to terminated in the system it send out automatic notifications. The Purchasing General Manager and the Assistant Purchasing General Manager are now receiving these notifications.</p>   | 4/1/17   |
| <p>3. To prevent purchasing card misuse and for adequate enforcement of Administrative Regulation No. 024.A015.0707 section 3.1, identify the cardholders that are in noncompliance. Determine the cause, if any, for the noncompliance and possible solutions or consequences to help the cardholder and or Department Director achieve timely approval of transactions.</p>   | High     | X      |                  | <p>The Purchasing Division began in November 2015 issuing reports an average of twice during each billing cycle that identifies overdue sign-offs. This report is sent to all Cardholders and Charter Officials. In addition, the Division has determined that transaction not signed of by the last business day of the month will result in the Accountholders card being locked or frozen. As of FY2017 the Division is conducting quarterly audits on transaction sign-off. The 1st FY2017 Report was finalized on February 22, 2017. The report revealed that sign-off rates are now at 85%. This is an improvement over the audit findings from FY2016. This audit will be conducted each quarter of FY2017. Beginning in FY2018 the Purchasing Division will begin an rigid enforcement program. The audit will identify</p>  | 4/18/11  |

**Management Action Plans**

| Audit Recommendation  | Priority | Concur | Do not concur | Proposed Management Action  | Action Item Due Date                        |
|---|----------|--------|---------------|---|---|
|   |          |        |               | <p>Cardholders who are at a 40% or more sign-off failure rate each quarter. The following will be implemented and cover a 24 month period:</p> <ol style="list-style-type: none"> <li>1st Violation: Sign-offs receiving a rating of 40% or more within a quarter will be notified by email that they have exceed the 40% threshold.</li> <li>2nd Violation: If Accountholder exceeds the threshold a second time during the same 24 month period as the 1st violation, the Accountholder must meet with the Purchasing General Manager or Designee.</li> <li>If Accountholder exceeds the threshold for a third time during the same 24 month period as the 1st and 2nd violation, the Accountholder and their Approver must meet with the Purchasing General Manager and justify why the Accountholders card should not be cancelled.</li> <li>If an Accountholder exceeds the threshold for four quarters within the same 24 month period year, then the Accountholder's P-Card privileges will be suspended for the next Fiscal Year. The Accountholders Charter Official or designee may waive this suspension.</li> </ol>   |   |
| <p>4. Purchasing card transactions should provide support of the purpose/program of the transaction. This not only provides more validity to the purchase but it also identifies and matches costs to individual projects, if applicable.</p> <p>The support should also include verified receipt of goods by someone other than the cardholder. This provides stronger controls over verifying that the goods and services purchased have been received and are for City purposes.</p> | Medium   | X      |               | <p>The Purchasing Division reviews each transaction to ensure that every transaction has adequate detail. This is reviewed at a minimum of two levels within the Department, two levels in the Purchasing Division and a review in the Finance Department. The invoice cannot be modified by the Cardholder once it is sent to the Approver. However, based on the recommendation of this Audit, the Purchasing Division will examine a possible process for providing verification of physical receipt of the items purchased. After examine previous transactions, there have been no fraudulent transactions attributed to altered invoices. Depending on the process it could increase the cost and time of processing transactions. This may defeat the purpose of the P-card Program. In any process there is a level of trust and integrity that must be considered. This is emphasized with the "Cardholder Understanding" form. There is a point where too many controls make a program counter productive. The Purchasing Division will examine a pilot program for FY2018. Consideration will be given to the cost of the control verses the benefit and has past fraud been identified due to lack of this control.</p> | Complete pilot program by December 31, 2017 |

| Management Action Plans   |          |        |               |   |                          |
|---|----------|--------|---------------|---|--------------------------|
| Audit Recommendation  | Priority | Concur | Do not concur | Proposed Management Action  | Action Item Due Date     |
| <p>5. The "Request for Purchasing Card" and "Cardholder's Understanding" forms should be maintained in a cardholder file to provide evidence and support for cardholder's issuance and ownership of the purchasing card. Retaining these forms provides evidence that the cardholder understands the policies and procedures of the card and the cardholder is aware of potential disciplinary action due to abuse or misuse.</p> <p>Secondary authorized card users should be issued their own purchasing card and complete the same processes as any other cardholder: Request for Purchasing Card, Cardholder Understanding and purchasing card user training.</p> | High     | X      |               | <p>Beginning FY2017 the Purchasing Division maintains these forms. The previous Procurement Management policy was to dispose of the forms once the Cardholder appeared on the annual recertification list. In addition, beginning with FY2018 a copy of all "Cardholder Understanding" forms will be forwarded to the HR Department to be filed in the Cardholders personnel file. The Cardholder will also complete a new form every two years when they complete refresher training.</p> <p>Secondary users, as of FY2017, also complete a "Cardholder Understanding" form. However, secondary users or proxy approvers <b>do not</b> make purchases. They only serve in an administrative capacity for the Cardholder. There has been no fraudulent transaction identified with the Proxy Program.</p> | Already being completed. |
| <p>6. In addition to the items currently included in the re-authorization process each cardholder's credit utilization during the year could be included to help provide a greater understanding of the cardholder's uses of the card/monthly limit. This would be another way for department directors to determine if cardholders have excessive limits relative to actual use.</p>   | Low      | X      |               | <p>In the past the Purchasing Division has done reviews to include the numbers. The Division will examine the feasibility of adding this numbers to the annual report. This may require an adjustment in the current tracking program. However, the Division is in agreement that this is an excellent recommendation.</p>  | 9/3017                   |
| <p>7. To ensure that City funds are used for appropriate purchases, management should clarify the approval process and spending limitations for social events held for exclusive groups, such as Advisory Boards and donors.</p>  | Medium   | X      |               | <p>This Administrative Regulation is under review. It is anticipated to be routed for review in as soon as management review is completed.</p>  | 11/1/2017                |



## EXHIBIT A: AUDIT PRIORITY CLASSIFICATION SYSTEM

Internal Audit utilizes the following classification scheme applicable to internal audit recommendations and the appropriate corrective actions:

| Priority Level <sup>1</sup> | Description   | Implementation Action <sup>3</sup> |
|-----------------------------|---|------------------------------------|
| <b>High</b>                 | Fraud or serious violations are being committed or have the potential to occur, security issues, significant financial or non-financial losses are occurring or have the potential to occur. <sup>2</sup>   | Immediate                          |
| <b>Medium</b>               | A potential for incurring moderate financial or equivalent non-financial losses exists. <sup>2</sup>  | Within 60 days                     |
| <b>Low</b>                  | A low priority observation indicates that the controls reviewed at the time of the audit indicated a satisfactory or acceptable state of control however operation or administrative process may be improved if certain additional changes are implemented. | 60 days to 6 months                |

<sup>1</sup> The City Auditor and Clerk is responsible for assigning internal audit recommendation priority level categories. A recommendation that clearly fits the description for more than one priority level will be assigned the higher priority level.

<sup>2</sup> For an audit recommendation to be considered related to a significant financial loss, it will usually be necessary for an actual loss of \$25,000 or more to be involved, or for a potential loss (including unrealized revenue increases) of \$50,000 to be involved. Equivalent non-financial losses would include, but not be limited to, omission or commission of acts on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens.

<sup>3</sup> The implementation time frame indicated for each priority level is intended as a guideline for establishing target dates. Determining proposed action dates is the responsibility of the Charter Official(s) over the area(s) or function(s) audited.

*NOTE: Please note that this exhibit is a standard form which appears in every audit and is meant to be utilized to aid management in understanding the seriousness or potential seriousness of an audit observation. A "High" or "Medium" priority rating assigned to an audit observation should not be construed to mean that fraud or wrongdoing is, in fact, occurring but rather fraud or wrongdoing has the potential to occur in the absence of adequate internal controls.*