



# **DEPARTMENTAL PURCHASING CARD PROGRAMS**

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## **INTERNAL AUDIT DEPARTMENT**

**December 18, 2008**

**Report 0896**

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## EXECUTIVE SUMMARY

### OBJECTIVES:

- To document and evaluate the system of internal controls at the department and citywide levels.
- To examine a sample of payments for reasonableness and compliance with City Directives and policies.

### OVERALL CONCLUSION:

We conclude that City wide compliance with the Procurement card guidelines and directives are being satisfied, although there are areas where improvements can be made.

### OPPORTUNITIES FOR IMPROVEMENT:

**THERE WAS NO STATEMENT OF AUDITING STANDARDS #70 (SAS-70) OBTAINED FROM BY EITHER THE PURCHASING OR FINANCE DEPARTMENTS.**

**Recommendation:** We Recommend the Purchasing Department being the Administrator of the P-card program ensures that they request SAS-70 audits from Chase on a periodic basis.

### Management Response:

*Purchasing and Finance concur fraud and identity thefts are damaging acts that must be guarded against. We are pleased with the system Chase has in place and the quick actions taken by Chase to mitigate such occurrences.*

*Finance and Purchasing are co-administrators of the P-Card Program. Finance has volunteered to request the SAS-70 from Chase on a periodic basis.*

**A POTENTIAL RISK EXISTS OF AN EMPLOYEE MAKING A PURCHASE, RETURN IT FOR A CREDIT WITHOUT THE CREDIT GETTING PUT BACK ON THE P-CARD**

**Recommendation:** We Recommend that Purchasing ensures that DPCs are aware of all purchases being made by their employees. That DPCs make monthly or quarterly reviews of items bought especially high dollar items to ensure that the item is still part of their inventory.

**Management Response:**

*Purchasing concurs with IA's concern in protecting high dollar purchases of materials/items made with City funds. Beginning with the November 19, 2008 quarterly P-Card Department Coordinator Refresher course presented by Purchasing, Finance and Internal Audit, will suggest periodic reviews of quasi assets be performed by the owner department. High dollar shall be defined as any asset-like purchase over \$1000 or the aggregate of \$1000. (i.e. 6 cameras purchased at \$300 each) Depreciable assets are defined as starting at \$5000 by Directive.*

**PROHIBITED EXPENDITURES COULD BE PURCHASED BECAUSE OF A VENDOR'S MCC (MERCHANT CATEGORY CODE)**

**Recommendation: We Recommend** that Purchasing ensures that DPCs obtain all original detailed receipts and that they review the receipts thoroughly to ensure that no prohibited items are purchased. A DPC should question a purchase with the employee or supervisor if the DPC feels that a purchase is questionable. This is very important since our MCCs are based on a merchant and not on a specific item.

**Management Response:**

*As reflected in the current p-card policies, Purchasing concurs that original detailed receipts must be obtained and turned in to the DPC, especially from stores that sell a wide variety of items including prohibited items. Original detailed receipts are emphasized in the P-Card written procedures and in the quarterly class by all three presenters. We shall continue to emphasize the importance of original detailed receipts in the class, adding the Wal-Mart story above as an example.*

**THE P-CARD DIRECTIVE ON LOST RECEIPTS SHOULD INCLUDE DISCIPLINARY ACTION IF AN EMPLOYEE REPEATEDLY SUBMITS LOST RECEIPT FORMS.**

**Recommendation: We Recommend** that the Purchasing Department emphasizes the responsibility of submitting original, detailed receipts in a timely manner to all DPCs and cardholders. Purchasing should add language to the Material Management Procurement Card Program Directive #4 that states that employees submitting frequent Lost Receipt/Phone Transaction Report forms may result in disciplinary action, up to and including termination.

**Management Response:**

*The P-Card Refresher Course for DPC's highlights the sparing use of this form and the danger related to consistent use by any one cardholder. Language will be added to Purchasing Directive #4 under the Cardholder Responsibilities and Manager Responsibilities that abuse of the Lost Receipt/Phone form may result in disciplinary action.*

**WE FOUND THAT SEVERAL P-CARDS WERE ISSUED TO TEMPORARY AND PART-TIME EMPLOYEES; THAT IN SOME CASES EMPLOYEES ARE ISSUED MORE THEN ONE CARD; THAT SOME EMPLOYEES WERE GIVEN P-CARDS WITH NO SET TRANSACTION LIMITS.**

- A. The Purchasing Department uses all available reports by PaymentNet to monitor and ensure that only active permanent full-time employees have a P-card or the policy be changed to include part-time employees. Careful consideration should be given about giving P-cards to temporary employees.
- B. No employee has more then one P-card issued in their name.
- C. Credit limits be granted based on written approval only from a Department Head and/or Managing Director.

**Management Response:**

- A. *Purchasing concurs temporary employees should not have City P-Cards. Purchasing will amend Directive #4 and any corresponding procedures to make an exception for permanent part-time employees. These exceptions will need to be made by the appropriate Managing Director. We have implemented a process with HR to determine the employment status of any new card applicant.*
- B. *While the canned report from the P-Card on-line system does appear to show employees with two cards, upon investigation we find no one has two active cards. Purchasing is working with Chase to purge the apparently duplicate cards.*
- C. *Only Managing Directors or higher can approve credit limits higher than \$5000 per month and \$2999 per transaction. This is done by email to one of the Purchasing p-card administrators. Some of that documentation is not in the individual's folder. Purchasing will reconcile the documentation by the end of the second quarter of 2009, verifying the limits and adjusting as needed.*

**THERE IS NO RECONCILIATION MADE FROM P-CARD APPLICATIONS TO WHEN CARDS ARE RECEIVED AND THEN GIVEN TO EMPLOYEES**

**Recommendation: We Recommend** reconciliations be made of all P-cards to applications when received and picked up by employees. Also monthly reconciliations need to be made of all cards not picked up to determine if any are close to the 90 days and if not picked up within that time frame then the P-card needs to be cancelled.

**Management Response:**

*Purchasing and Finance recognized the potential risk of holding cards that had not been activated. In March 2008, Purchasing and Finance put into place a coordinated process to assure all potential cardholders had been trained and the p-cards distributed within the 60 day time frame. To date, we have had to cancel one card for lack of pick up.*

**REPORTS ARE NOT UPDATED AND DON'T PRESENT A TRUE PICTURE OF HOW MANY P-CARDS ARE REALLY ISSUED TO EMPLOYEES**

**Recommendation: We Recommend** that the Purchasing Department use all available reports at least on a quarterly basis to ensure that P-cards status' are accurate, that all employees are active, and that the employee does not have another card already activated. The Purchasing Department should run a quick report when setting up a new employee with a P-card to ensure that they do not already have a P-card issued to their name.

**Management Response:**

*As stated in 5(B), the Chase reports are not accurate. When a properly approved application for a new p-card is received the administrator runs a cardholder search to ensure that applicant does not already have an active card. This has been the practice since the inception of the program. However, that being said, checking the status of a cardholder is a step that can be rolled into the department monthly review cycle as performed by Purchasing. This will add an additional layer of due diligence.*

**CHASE DOES NOT CANCEL P-CARDS WHEN THERE HAS NOT BEEN ANY ACTIVITY IN A 12 MONTH PERIOD**

**Recommendation: We Recommend** that the Purchasing Department ensures that Chase is canceling P-cards when there has been no activity in more than a 12 month period. Purchasing can run a last activity date report to determine what employees fall into this category and review in the system if their cards have been cancelled, if not then Purchasing needs to ensure that they notify Chase about it so it can be cancelled.

**Management Response:**

*This administrator clarified with Chase that inactive cards are purged from the Chase system in 18 months. (We had been told by Chase it was 12 months previously). We were also informed of a report that can be requested on a monthly basis for inactive cards at or near the 18 month date. A report will be requested from Chase on a monthly basis for those who have been inactive for 18 months. Once a card has been cancelled by the bank, a request for a new card from a cancelled cardholder will have to be signed by the Managing Director or higher and the cardholder will sign a renewal/replacement cardholder agreement.*

**NO DOCUMENTATION WAS FOUND AT DEPARTMENTS WHEN THE PURCHASES WERE MADE BY ANOTHER DEPARTMENT.**

**Recommendation: We Recommend** that Purchasing ensures when employees make purchases with their P-card and then charge the expense to another department's account number, they should communicate and provide all proper documentation among the active departments for reconciliation purposes.

**Management Response:**

*We will add to the training on November 19, 2008 the necessity of documenting purchases made with an account from another department. Notification to all DPC's will be made via the PurchasingLink.*

**IN ONE DEPARTMENT MONTHLY TRANSACTION DETAIL REPORTS WERE NOT PROPERLY REVIEWED, APPROVED, SIGNED AND DATED BY THE MANAGING DIRECTOR.**

**Recommendation: We Recommend** that Purchasing should ensure that all DPCs are aware that monthly Transaction Detail Reports need to be generated on a monthly basis but that they also need to be submitted to their Managing Director (or above), in a timely manner for review, approval and signature. The

Managing Directors need to ensure that Transaction Detail Reports are reviewed, approved, signed and dated on a monthly basis.

**Management Response:**

*Purchasing concurs. The Managing Director Agreement states "Each month, review and approve department's total expenditure activity." The refresher course presenters will continue to talk about the importance of accountability by each Managing Director and we will ask for documentation during the monthly reviews.*

**AGREEMENTS COULD NOT BE FOUND OR WERE INCOMPLETE**

**Recommendation: We Recommend** that the Purchasing Department ensures that all Managing Directors appoint and sign the DPC agreement for their areas, that a completed and signed Managing Director agreement is on file and that they fulfill their duties to confirm that all P-cardholder agreements are properly signed.

**Management Response:**

- *Since March 2008, we have been working to replace cardholder agreements that are missing or miss-filed. Obviously there was an application in the beginning or the application information would not have been available. A very few are left whose cards will be cancelled if we have not received their agreement by December 31, 2008*
- *We created a DPC training agreement in March 2008 and are re-committing the DPC's as they attend their annual mandatory training*
- *We have all Managing Director agreements on file.*

*Additionally, since March 2008 any agreement or application that must be signed by a Managing Director and is not so signed is returned to the department.*

**OUTSTANDING TRANSACTIONS ARE NOT CODED IN A TIMELY MANNER.**

**Recommendation: We Recommend** that Finance ensures that DPCs complete monthly reconciliation and distribution coding of P-Card charges in a timely manner. It is also recommended that DPCs review the previous monthly reconciliation report to keep track and update outstanding transactions.

**Management Response:**

*Finance concurs with this finding. Beginning March, 2008, DPC's have been instructed in quarterly meetings to reconcile, track and update outstanding P-Card transactions within 3 days of the calendar month-end. DPC's are further instructed to refrain from coding the transactions that are under dispute with*

*Chase bank. Monthly notifications are sent by Finance to each DPC who has outstanding transactions. Finance continues with follow-up until each transaction is resolved.*

## **NOT ALL CARDHOLDERS ARE SUBMITTING ORIGINAL DETAILED RECEIPTS**

**Recommendation: We Recommend** that the Purchasing Department ensures that all DPCs are aware of the importance of submitting original detailed receipts.

### **Management Response:**

*See Response #3. Due to the monthly review process, an occurrence of departments not including detailed receipts is 3.73% of all transactions tested.*

## **SALES TAXES ARE CHARGED ON PURCHASES.**

**Recommendation: We Recommend** that Purchasing ensures that all DPCs are aware of the responsibilities of assuring that taxes are not charged on purchases unless dictated by law or an attempt is made to recover any sales tax paid. That the tax exempt form is made readily available for all employees and that they familiarize themselves with it and they take the form with them especially when they know they will be going to a food establishment since some vendors request the form.

### **Management Response:**

*Since the inception of the program we have emphasized our tax exempt status, in the procedures, the directive, and the refresher course and periodically in the PurchasingLink (a communication from Purchasing to our customers). Additionally a p-card review was instituted in 2001 that reviews each department twice per calendar year. One criteria of the review is to question tax over one dollar and/or an aggregate of \$5.00. During the review process we encourage recovery of paid taxes and an explanation if they are not recovered.*

*The tax exempt form is on the G:city/purchase drive and has been since we created the G:city/purchase address. This and the federal tax form are also posted on the G;City/Official Documents/Forms address.*

## **P-CARDS ARE NOT PROPERLY SIGNED BY THE CARDHOLDER**

**Recommendation: We Recommend** that all P-card holders sign their P-card upon completing the training and/or receiving their card as is required by the guidelines.

**Management Response:**

*Cardholders have always been instructed to sign and activate their cards immediately upon receipt. When the card is picked up by the card holder they are asked to sign them in front of the distributor. If the DPC is picking up the cards for the department, the DPC signs for each card and is instructed to have the cardholder sign the card in front of the DPC. This has been the practice since the inception of the p-card program.*

**EMPLOYEES DID NOT HAVE THEIR P-CARDS IN THE CITY OF GARLAND (COG) SLEEVE THAT IS PROVIDED BY PURCHASING.**

**Recommendation: We Recommend** that the Purchasing Department should update the Procurement Card Program Directive #4 to state all P-card holders are required to keep their P-card in a COG sleeve. Once the update is made, Purchasing should ensure that all employees have a COG sleeve.

**Management Response:**

*Purchasing will suggest that departments keep their cards in sleeves. Purchasing has and does make the sleeves available to all cardholders. Starting with the November 19, 2008 refresher course we will make the sleeves available to all who attend. They will be free to take as many as they choose. Additionally Finance gives the sleeves to all cardholders picking up their cards.*

**P-CARD RECORDS WERE NOT SECURELY STORED.**

**Recommendation: We Recommend** that Purchasing ensures that DPCs follow P-card guidelines as related to the storage of all department cardholders, card numbers, and all p-card records like receipts and invoices.

**Management Response:**

*The security of p-card documentation is part of the refresher training and is included in the p-card procedures.*

**MANAGING DIRECTORS NEED TO ASSESS THEIR INVENTORY OF P-CARDS ON AN ANNUAL BASIS.**

**Recommendation: We Recommend** that the City Manager should have the Managing Directors reevaluate all the P-cards issued to their areas and determines if P-card holders should continue having P-cards. The Managing Directors need to assess whether or not a P-card is needed for the requirements of the job. If Managing Directors find they have employees that do not have a

need for a P-card then the DPC should coordinate with Purchasing to have those P-cards cancelled. This process should be performed on an annual basis.

**Management Response:**

*The City Manager concurs with this recommendation. I will follow up with Managing Directors and set up a process for each Director to review the justification on each employee with a P-card in their departments. This review process will start by January 1, 2009.*

We want to thank management and staff for their assistance in this audit. Their assistance was essential for the successful completion of our work.

## **Authorization**

We have conducted an audit of the Purchasing Card Program. 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.

## **Scope and Methodology**

We conducted the audit in accordance with Generally Accepted Government Auditing Standards, with the exception that no peer review has been performed on this audit entity in the past three years. 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 procedures assessing management controls, such as reviewing segregation of duties, checks and balances, proper authorizations and monitoring the P-card program. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit covered October 1, 2007 – January 21, 2008.

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 or 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.

The objectives of our audit were:

- To evaluate several departments' compliance with the City's directives and policies related to the Purchasing Card Program.

To adequately address the audit objectives, we:

- Reviewed each department and selected a predetermined transaction sample size based on the number of transactions made within the audit period.

Number of Transactions	Sample Size	Department	Transactions Reviewed	Department	Transactions Reviewed
0<100	20	Animal Services	20	GP&L - Operations	25
100 – 300	25	Building Inspection	20	GP&L - Transmission	32
301 – 500	30	Clinical Services	20	Granville Arts Center	25
501 – 700	35	Community Relations	20	Library	25
701 – 1000	40	GP&L - Administration	25	Parks	40
>1000	45	GP&L - Olinger	35	Police Department	35

- Selected transactions based on the following factors:
  - Transaction amount of each purchase
  - Vendor used
  - Consecutive transactions to determine bid splitting
- Reviewed transactions selected to ensure that all City Directives and policies were followed.
- Interviewed appropriate personnel.

### Overall Conclusion

We conclude that City wide compliance with the Procurement card guidelines and directives are being satisfied, although there are areas where improvements can be made.

### Background

The Purchase Card program, which is also referred to as (P-card), started with a pilot program on January 7, 1999 with First USA Financial Services, Inc. (“First USA”) with the City Secretary, Purchasing, Parks, Facilities and Administration departments. It was then introduced to the other departments in 2000. In April 2001 due to an acquisition, P-cards were changed to JP Morgan Chase.

The program was implemented to procure low dollar value maintenance, repair and operational expense items, other low dollar value 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 items. The program will result in a significant reduction in volume of purchase orders, invoices and checks processed. The cards are 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.

As of July 3, 2008, there were 926 active P-cards issued to employees.

The National Institute of Governmental Purchasing states that industry standards show that it costs \$125 to cut a purchase order (PO) and \$75 to process an accounts payable check. It only costs \$10 to process a P-card payment. Using a P-card is inexpensive and more cost effective than having to cut a check or PO. It is also more convenient and secure and vendors prefer them because they get their money much quicker than having to wait for a check in the mail.

The total for the last three fiscal years spent in purchases using P-cards were:

- FY2006 \$5,766,890
- FY2007 \$5,413,039
- FY2008 \$5,377,876

For each Contract Year, Chase shall pay to the City of Garland an incentive calculated as a percentage of the Net Spend for such period, in accordance with the following table and terms:

<b>Average Annual Net Spend</b>				
\$3,000,000 To \$3,499,999	\$3,500,000 To \$3,999,999	\$4,000,000 To \$4,499,999	\$4,500,000 To \$4,999,999	\$5,000,000 & Over

<b>Average Payment Term</b>					
<b>20 Days or less</b>	0.45%	0.50%	0.60%	0.70%	0.80%
<b>21 – 25 Days</b>	0.35%	0.40%	0.50%	0.60%	0.70%
<b>26 – 29 Days</b>	0.25%	0.30%	0.40%	0.50%	0.60%

Net Spend means the aggregate amount of individual purchases posted to Accounts during a quarterly period, net of the aggregate amount of all refunds to Accounts, such as credits for returned merchandise or disputed billing items. The Net Spend shall also exclude any fraudulent or unauthorized charges and

amounts posted to Accounts which Cards have been reported lost or stolen and which have not been subsequently replaced or reissued by Chase.

Average Payment Term means the average number of days between the billing date and the payment posting date of the full amount due.

The incentive is subject to losses incurred by Chase on the Company's Accounts during the twelve-month incentive period from the gross incentive amount for such period. "Losses" means losses incurred by Chase on Accounts due to fraud or other unauthorized use and all other amounts that are outstanding under Accounts and are not paid within 180 days of their respective due dates. The calculation of the incentive is done each contract year and Chase will pay the City of Garland an incentive calculated as a percentage of the Net Spend for such period. The incentive is calculated annually.

The incentives received in the last three fiscal years were:

- |          |             |
|----------|-------------|
| • FY2006 | \$33,672.42 |
| • FY2007 | \$44,117.08 |
| • FY2008 | \$43,905.68 |

Visa's CISP (Cardholder Information Security Program) and Master Card's SDP (Site Data Protection) programs are security initiatives that require merchants to safeguard card data. Visa and Master Card, along with the other card brands, have adopted common industry security requirements referred to as Payment Card Industry Data Security Standards (PCI DSS). These include:

- Building and maintaining a secure network
- Protecting cardholder data when stored and transmitted
- Maintaining a vulnerability management program
- Implementing strong access control measures
- Regular network monitoring and testing
- Maintaining an information security policy

PCI compliance helps protect the City of Garland and cardholders from fraud on a point-of-sale level.

Every department that was audited was given a memo at the end of the review for each of their areas identifying the areas where improvements needed to be made.

## Management Accomplishments

This audit report states “We conclude that city wide compliance with the Procurement card guidelines and directives are being satisfied, although areas exist for improvements”. We concur with this assessment. Any program that experiences annual expenditures at an average of \$5,519,268 always has room for improvement.

This past fiscal year we have implemented several systems to strengthen the checks and balances. They include:

- Segregation of duties between Purchasing and Finance
- Mandatory quarterly training of Department Purchasing Coordinators (DPC) presented by Purchasing, Finance, the City Secretary and Internal Audit.
- Renewed documentation of responsibility by cardholders and DPC’s. This was implemented because the program is eight years old and people need reminders.
- Deadlines for cardholders to pick up cards, for coding expenditures, for responses to p-card reviews. Deadlines are actively monitored.

P-Card reviews are conducted by Purchasing twice annually for every department. Our mission is to emphasize to the DPC’s the importance of following the processes and procedures, the importance of documentation of the expenditure of tax payer dollars and the accountability each person has in the process chain. The Managing Directors hold the ultimate responsibility for their employees. What we do is review, check processes and transactions and inform the department, and sometimes Internal Audit, if a problem is perceived.

P-Card information is given to the DPC’s, cardholders and managers through classes, individual training and the PurchasingLink. The Link is an email communication sent out to applicable employees about purchasing information. It is used to distribute p-card information, any new rules, tips and other Purchasing related information. All past PurchasingLinks are located on the G:City drive.

In benchmarking with other cities we have had a remarkable successful program. This is due to the constant vigilance of the p-card administrators, IA and the actively involved DPC’s. We could not say enough about the DPC and the dedication to being fiscally responsible. Room for improvement? Of course. This program is always “in process” and we will all combine to continue the success experienced to date.

Carol Cooper, C.P.M., CPPO, Director of Materials Management

## 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.

### **1. THERE WAS NO STATEMENT OF AUDITING STANDARDS #70 (SAS-70) OBTAINED FROM BY EITHER THE PURCHASING OR FINANCE DEPARTMENTS.**

A SAS-70 audit is conducted by an independent third party to ensure an organization's standards of control over information technology and related processes are at least minimally compliant with guidelines developed by the American Institute of Certified Public Accountants (AICPA).

Per Wiley's Practitioner's Guide to GAAS 2005, the original pronouncement for SAS 70 was in April 1992.

"AU 324.24 defines two types of service auditor's reports.

1. Report on controls placed in operation.
2. Report on controls placed in operation and tests of operating effectiveness.

Both types of service auditor's reports provide an opinion on whether

1. The accompanying description presents fairly, in all material respects, the aspects of the service organization's controls that may be relevant to a user organization's internal control, and
2. The controls have been placed in operation as of a date, and
3. The controls are suitably designed to provide reasonable assurance that the specified control objectives would be achieved.

The second type of service auditor's report adds a list of tests of controls performed by the service auditor, and an opinion on whether the controls tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the related control objectives were met during the period specified."

Chase Paymentech had a Statement of Auditing Standards #70 (SAS-70) conducted by KPMG, LLP. for the time period October 1, 2006 to September 30, 2007. There are two types of SAS-70 audits; Type I and Type II, the latter of which is much more comprehensive. Chase Paymentech's SAS-70 was a Type II

audit. The state of these control standards is of paramount importance given the sensitive nature of personal information of city employees.

At the time of the audit, we questioned the Purchasing and Finance departments as to whether or not they had received a SAS-70 audit. Neither Purchasing or Finance were familiar with what a SAS-70 audit was.

The SAS-70 is a highly specialized audit engagement. It is not reasonable for anyone outside the audit profession to be aware of its existence or importance. While it is reasonable the city assumed Chase Paymentech had these controls in place, a SAS-70 nonetheless provides formal assurance.

All eight areas of risk identified by Chase Paymentech's management team were tested. These include:

- Personnel Policies
- Operations and Distribution
- Tape and Disk Management
- System Software Change Management
- Access Restrictions to Program Data Files
- Facilities Access Restrictions and Environmental Controls
- Network Services
- Application Development, Testing and Implementation

KPMG, LLP. found no material weakness or other unaddressed risks in the evaluation and testing of Chase Paymentech's information technology controls. In addition, it is their opinion Chase Paymentech has successfully implemented internal IT controls sufficient to comply with the AICPA's minimal assurance guidelines. All risks identified by Chase Paymentech's management team were found to be complete and relevant to their system of internal controls as they relate to the financial statements. All controls were also found to be suitably designed, complied with satisfactorily and applied accordingly. Upon its completion the final audit report was timely communicated to Chase Paymentech's management team.

In addition, Chase Paymentech voluntarily provided information regarding Disaster Recovery Planning (DRP). Chase Paymentech's DRP has provisions for excess processing load and redundant communication pipelines should one of their two processing centers go offline. Disaster Recovery Planning is a going concern at Chase Paymentech with constant threat-environment evaluations, contingency testing and employee communication in the possibility a disaster could potentially disrupt operations.

In the absence of a SAS-70 audit, the City could not be certain sensitive personal information was being managed in such a way to provide reasonable assurances against fraud, identity theft or other potentially damaging acts.

**We Recommend** the Purchasing and Finance Departments as Co-Administrators of the P-card program ensure that they request SAS-70 audits from Chase on a periodic basis.

**Management Response:**

*Purchasing and Finance concur fraud and identity thefts are damaging acts that must be guarded against. We are pleased with the system Chase has in place and the quick actions taken by Chase to mitigate such occurrences.*

*Finance and Purchasing are co-administrators of the P-Card Program. Finance has volunteered to request the SAS-70 from Chase on a periodic basis.*

**2. A POTENTIAL RISK EXISTS OF AN EMPLOYEE MAKING A PURCHASE, RETURN IT FOR A CREDIT WITHOUT THE CREDIT GETTING PUT BACK ON THE P-CARD**

A test was made at a local Wal-Mart by the City Auditor and Audit Analyst to determine if a purchase could be made, returned and a credit given. Some items were purchased and then were taken to the Customer Service desk to make the return. The City Auditor asked the associate if there was any way possible that someone could get cash for a return and the associate stated they only gave gift cards and that is only when a receipt is not provided. The receipt was then given to the associate to return the item and the item was credited back to the p-card that was originally used although the Audit Analyst noticed the amount credited back to her P-card was more than what was originally paid for and as it turned out it was due to the sales tax charge. The original purchase was made as a tax exempt purchase but when the associate tried to do the return it was doing it for the entire amount including taxes which were not originally charged. Problems encountered during our test:

- During this whole process it was observed that the cashier who rang up the items nor the associate at the Customer Service desk ever asked for the Audit Analyst's P-card or ID to verify that it belonged to her.
- An item bought as a tax exempt purchase can be credited back for more than what was paid if the associate is not told upfront that it was a tax exempt purchase even if the receipt shows the correct amount.
- If an item is returned without a receipt and a gift card is issued, then there is no paper trail to verify that the return was made. The employee could then use the gift card for personal use and the item returned would no longer be part of the department's inventory.

**We Recommend** that Purchasing ensures that DPCs are aware of all purchases being made by their employees. That DPCs make monthly or quarterly reviews of items bought especially high dollar items to ensure that the item is still part of their inventory.

**Management Response:**

*Purchasing concurs with IA's concern in protecting high dollar purchases of materials/items made with City funds. Beginning with the November 19, 2008 quarterly P-Card Department Coordinator Refresher course presented by Purchasing, Finance and Internal Audit, will suggest periodic reviews of quasi assets be performed by the owner department. High dollar shall be defined as any asset-like purchase over \$1000 or the aggregate of \$1000. (i.e. 6 cameras purchased at \$300 each) Depreciable assets are defined as starting at \$5000 by Directive.*

**3. PROHIBITED EXPENDITURES COULD BE PURCHASED BECAUSE OF A VENDOR'S MCC (MERCHANT CATEGORY CODE)**

A MCC is a number assigned to a business and is used to classify the business by the type of goods or services it provides. Our Purchasing Director submitted a list of all MCCs to be allowed and disallowed to JP Morgan Chase.

During our testing of purchases and returning an item for credit we also tested the MCC of Wal-Mart. Wal-Mart is a retail store that sells all types of goods from groceries, clothing, auto repairs and alcohol. Because of their MCC, any item could be bought at their store with a City P-card. An MCC is tied to the vendor and not to items and can not be broken down to a specific item to allow the purchase or not.

Our Audit Analyst used her P-card at Wal-Mart and tested to see if a prohibited item could be bought. She obtained the prohibited item (alcohol) and made the purchase and it went through. She had already explained to the cashier what she was doing so the Audit Analyst was able to cancel the transaction without buying the item.

If an employee makes a purchase at Wal-Mart, Target or any other retail or grocery store that sells prohibited items such as alcohol it could go undetected especially if they do not submit a receipt. An original detailed receipt would give such information. This is the reason why it is very important that DPCs ensure that they obtain all original detailed receipts from their employees for all P-card purchases and that they review the receipts thoroughly to determine that no prohibited items were purchased.

**We Recommend** that Purchasing ensures that DPCs obtain all original detailed receipts and that they review the receipts thoroughly to ensure that no prohibited items are purchased. A DPC should question a purchase with the employee or supervisor if the DPC feels that a purchase is questionable. This is very important since our MCCs are based on a merchant and not on a specific item.

**Management Response:**

*As reflected in the current p-card policies, Purchasing concurs that original detailed receipts must be obtained and turned in to the DPC, especially from stores that sell a wide variety of items including prohibited items. Original detailed receipts are emphasized in the P-Card written procedures and in the quarterly class by all three presenters. We shall continue to emphasize the importance of original detailed receipts in the class, adding the Wal-Mart story above as an example.*

**4. THE P-CARD DIRECTIVE ON LOST RECEIPTS SHOULD INCLUDE DISCIPLINARY ACTION IF AN EMPLOYEE REPEATEDLY SUBMITS LOST RECEIPT FORMS.**

Purchasing staff created a form called, “Lost Receipt/Phone Transaction Report form for departments to use when a receipt was lost or a transaction was made through the phone and a receipt was not submitted. This form would serve as documentation for the transaction.

We found through our review of the departments that there were five “Lost Receipt/Phone Transaction Report forms submitted within three departments. We had selected twenty transactions for one department and three were submitted on the form because the receipts were lost. The other two departments had one each out of thirty-five transactions in each department

Cardholders are responsible for submitting their detailed original receipts to their DPC as soon as a purchase is made. There is a higher risk of a receipt getting lost or misplaced by the cardholder if they do not submit their detailed original receipts to their DPC as soon as they can.

If no reconciliations and/or reviews are done by the department then a cardholder could hide a purchase if they claim they lost their receipt and fill out a “Lost Receipt/Phone Transaction Report” form.

DPCs and Managing Directors should stay on top of how many of these forms are being submitted in a given point or time or by an employee. A Managing Director should counsel an employee on the P-card requirements if an employee consistently submits a “Lost Receipt/Phone Transaction Report” form.

**We Recommend** that the Purchasing Department emphasizes the responsibility of submitting original, detailed receipts in a timely manner to all DPCs and cardholders. Purchasing should add language to the Material Management Procurement Card Program Directive #4 that states that employees submitting frequent Lost Receipt/Phone Transaction Report forms may result in disciplinary action, up to and including termination.

**Management Response:**

*The P-Card Refresher Course for DPC's highlights the sparing use of this form and the danger related to consistent use by any one cardholder. Language will be added to Purchasing Directive #4 under the Cardholder Responsibilities and Manager Responsibilities that abuse of the Lost Receipt/Phone form may result in disciplinary action.*

**5. WE FOUND THAT SEVERAL P-CARDS WERE ISSUED TO TEMPORARY AND PART-TIME EMPLOYEES; THAT IN SOME CASES EMPLOYEES ARE ISSUED MORE THEN ONE CARD; THAT SOME EMPLOYEES WERE GIVEN P-CARDS WITH NO SET TRANSACTION LIMITS.**

**A.** According to the "Purchasing Card Program General Information," on "Card Issue Eligibility" it states that any department may request issuance of a P-card to a permanent, full-time City employee whose duties include procuring goods and services for that department under the existing policies and procedures. P-cards should only be issued to active Permanent Full-Time employees per the guidelines. With the same "Cardholder status with Hierarchy and Closed Date" report we also found five cardholders had more then one card issued in their name.

A "Cardholders Status with Hierarchy and Closed Date" report from PaymentNet was generated for all cardholders with an active status. The report showed as of February 7, 2008 there were 889 active accounts. From reviewing the report, we found one cardholder is a temporary City employee and two cardholders are part-time City employees. Temporary employees are normally hired only for six months to work on an assignment during someone's absence or short staff and should not be given duties as having a P-card. Part-time employees are more permanent.

**B.** With the same "Cardholders status with Hierarchy and Closed Date" report we also found five cardholders had more then one card issued in their name.

- C. Using the same report, we also found that seven cardholders had no set limits on a single P-card transaction and forty-four cardholders had different limits than what was on their original application and there was no documentation in their file authorizing the different credit limits which in most cases, was an increase. Increases should only be given when written approval is received from a Department Head and/or Managing Director.

P-Card credit limits can go beyond authorized limits if multiple cards are issued. P-Card spending can also be abused if improper limits are established.

Purchasing is not taking advantage of all the available reports provided by PaymentNet to ensure that the above situations do not occur. These reports can be used as a monitoring tool and could be run on at least a quarterly basis.

**We recommend that:**

- A. The Purchasing Department uses all available reports by PaymentNet to monitor and ensure that only active permanent full-time employees have a P-card or the policy be changed to include part-time employees. Careful consideration is needed about giving P-cards to temporary employees. Purchasing should add to the General Information guidelines that temporary employees will receive a P-card only under exceptional circumstances.
- B. No employee has more than one P-card issued in their name or the report corrected to show that only one card exists for each cardholder.
- C. Transaction/Credit limits be granted based on written approval only from a Managing Director.

**Management Response:**

- A. *Purchasing concurs temporary employees should not have City P-Cards. Purchasing will amend Directive #4 and any corresponding procedures to make an exception for permanent part-time employees. These exceptions will need to be made by the appropriate Managing Director. We have implemented a process with HR to determine the employment status of any new card applicant.*
- B. *While the canned report from the P-Card on-line system does appear to show employees with two cards, upon investigation we find no one has two active cards. Purchasing is working with Chase to purge the apparently duplicate cards.*
- C. *Only Managing Directors or higher can approve credit limits higher than \$5000 per month and \$2999 per transaction. This is done by email to one of the Purchasing p-card administrators. Some of that*

*documentation is not in the individual's folder. Purchasing will reconcile the documentation by the end of the second quarter of 2009, verifying the limits and adjusting as needed.*

**6. THERE IS NO RECONCILIATION MADE FROM P-CARD APPLICATIONS TO WHEN CARDS ARE RECEIVED AND THEN GIVEN TO EMPLOYEES.**

When Purchasing receives an application for a P-card they take the information and input it into the system and then cards are received. No reconciliation was made to determine that all cards requested were received. P-cards are then taken to training and issued with no reconciliation made at that point either. Reconciliation of P-cards needs to be made at the time the cards are received to determine that all cards were delivered. Reconciliation also needs to be done on a monthly basis of all cards not picked up to determine that none have been kept past the 90 days and if someone has not picked up their card within 90 days then it needs to be cancelled.

Purchasing Department had been holding on to thirty-two (32) P-cards that had been requested by departments and were never picked up by the employees. The applications had been submitted as early as March 2006 and the P-cards were issued by Chase which means some of these P-cards had been in the possession of the Purchasing department and not the employee for over 2 years. A review was made of all 32 P-cards and found that two employees were no longer employed by the City, and one employee had submitted two applications, two cards were requested and received by the Purchasing Department but the employee never picked up either of the cards. These P-cards were never activated by the employee and all but one had an "Active" status in the Paymentnet reports. Employees should pick up their P-cards at least within 90 days when their P-cards are received and if that is not the case then the P-card needs to be cancelled. Because Purchasing had no reconciliation process in place, and no monitoring was done of the P-cards, the P-cards were being held in their office rather than being in the possession of the employee. This situation caused a potential risk of the P-cards being compromised or lost. Also, Paymentnet reports show that a certain number of P-cards are issued to the City when actually in this situation, 32 P-cards were never in the possession of the employee.

If reconciliations were made, Purchasing would not have 32 P-cards that had not been picked up with some being over 2 years old.

**We Recommend** that reconciliations be made of all P-cards to applications when received and picked up by employees. Also monthly reconciliations need to be made of all cards not picked up to determine if any are close to the 90 days. If a P-card has been held for 90 days or more, the P-card should be cancelled.

## **Management Response:**

*Purchasing and Finance recognized the potential risk of holding cards that had not been activated. In March 2008, Purchasing and Finance put into place a coordinated process to assure all potential cardholders had been trained and the p-cards distributed within the 60 day time frame. To date, we have had to cancel one card for lack of pick up.*

### **7. REPORTS ARE NOT UPDATED AND DON'T PRESENT A TRUE PICTURE OF HOW MANY P-CARDS ARE REALLY ISSUED TO EMPLOYEES.**

Several reports were used to test and review P-cards and it was found that most of them were not accurate because they were not reporting correct information.

Reports were used from Paymentnet to determine how many P-cards are issued to the City of Garland, with names, status, expiration dates and activity. There were 5 employees that were showing to have more than one card in their name but when it was researched with the exception of one (which showed both cards to be active), one of the credit card accounts could not be found but the status still showed active. There were 2 employees who had been terminated. On one of them, it showed their card to be active and the other one, the account could not be found. We found 66 cards where there was no activity since the card was issued and 25 cards where there had been no activity in 12 months. The bank, Chase, is supposed to cancel the P-cards when there has been no activity in a 12 month period but we found this was not the case. There is also a report that shows if someone's P-card is being monitored for "fraud." When an employee reports their card as lost/stolen or reports fraudulent charges, Chase issues a new card to the employee but Purchasing is out of the loop since Chase does not notify them unless the employee or DPC notify Purchasing. If Purchasing uses the "monitoring" report, then they can see whose P-cards have been put on a "monitoring" status and Purchasing can then follow-up with the department to find out exactly what the situation is.

The Purchasing Department should be using the reports available to monitor employee's activity, to ensure that no employee has more than one card issued to them, that the status is correct and reflects what it should be. Purchasing has not used these reports to monitor some of the issues that have been pointed out in this audit. If Purchasing does not use the reports available, there is a potential risk that fraudulent charges can be taking place and they not be aware of it because they are not notified by Chase when someone has reported a P-card lost/stolen or used fraudulently. Using these reports can also help them to ensure that no employee is using 2 cards at the same time or using one that should be cancelled.

**We Recommend** that the Purchasing Department use all available reports at least on a quarterly basis to ensure that P-cards status' are accurate, that all employees are active, and that the employee does not have another card already activated. The Purchasing Department should run a quick report when setting up a new employee with a P-card to ensure that they do not already have a P-card issued to their name.

**Management Response:**

*As stated in 5(B), the Chase reports are not accurate. When a properly approved application for a new p-card is received the administrator runs a cardholder search to ensure that applicant does not already have an active card. This has been the practice since the inception of the program. However, that being said, checking the status of a cardholder is a step that can be rolled into the department monthly review cycle as performed by Purchasing. This will add an additional layer of due diligence.*

**8. CHASE DOES NOT CANCEL P-CARDS WHEN THERE HAS NOT BEEN ANY ACTIVITY IN A 12 MONTH PERIOD.**

We found through our review of determining how many P-cards are issued to City employees that there were 85 cards with no activity since the card was issued. The issue dates started in October 2001 and continued through July 2008. When the cards were reviewed further, we found that only 19 cards were active. We also found that there were 31 cards issued to employees who had not had any activity in a 12 month period. Per our Purchasing Director, Chase is suppose to cancel the P-card when there has been no activity on the card for 12 months. An employee could have a P-card that is still not expired but due to no activity would be cancelled by the bank and the employee would not know their card is not active only until they would try to use it. The Purchasing Director has tried to get this changed with the bank and was told that is their practice and could not make any changes. Testing was done of the P-cards to see if the status was still "active" and we found that Chase does not adhere to their practice of deactivating the P-cards. Some were still "active" while others were cancelled.

Chase not canceling the cards in a timely manner only creates inconsistencies in the program and an employee could be using their card when it should be deactivated. Purchasing could also run a report on last activity date and ensure that there are no employees with an active P-card that should be cancelled for no activity in a 12 month period.

**We Recommend** that the Purchasing Department ensures that Chase is canceling P-cards when there has been no activity in more then a 12 month period. Purchasing can run a last activity date report to determine what employees fall into this category and review in the system if their cards have

been cancelled, if not then Purchasing needs to ensure that they notify Chase about it so it can be cancelled.

**Management Response:**

*This administrator clarified with Chase that inactive cards are purged from the Chase system in 18 months. (We had been told by Chase it was 12 months previously). We were also informed of a report that can be requested on a monthly basis for inactive cards at or near the 18 month date. A report will be requested from Chase on a monthly basis for those who have been inactive for 18 months. Once a card has been cancelled by the bank, a request for a new card from a cancelled cardholder will have to be signed by the Managing Director or higher and the cardholder will sign a renewal/replacement cardholder agreement.*

**9. NO DOCUMENTATION WAS FOUND AT DEPARTMENTS WHEN THE PURCHASES WERE MADE BY ANOTHER DEPARTMENT.**

In most cases when departments need to purchase an item that is over the credit limit of the P-card holder or is something that needs to go through IT, the Purchasing or IT department will buy the item for the department and put it on the P-card of the IT and/or Purchasing employee making the purchase. They will then get an account number from the department that needs the item. Then the department making the purchase will enter the account number information when the transaction shows up on their PaymentNet report for coding. There were three transactions of 322 reviewed that were purchased by either Purchasing or other departments. The departments where these transactions were made did not have a copy of the invoice and/or receipt. In one case, the department that the charge was made to was not aware of the charge. We were able to locate the receipts but only when we contacted the department that had the charge. A DPC would not be aware of a purchase and/or expense being made if they are not given a copy of the receipt because when a transaction is charged to someone else's p-card that is not in their area, the transaction will not show up on their transaction detail report.

Anytime a transaction needs to be made that requires another department to do the purchasing, the two departments involved, the one needing the item and the other doing the purchase should be in agreement of such purchase taking place. There should be documentation available for both departments of communication or details involving the purchase. Once an invoice is received, the department that receives the invoice who would be the one doing the purchase should ensure that the other department has a copy of the invoice for their records.

There is a potential risk that a charge could be made to another department whether approved or by accident without a DPC having any knowledge of it. This can happen especially if departments do not communicate and do not keep copy of records, and if they do not review their budget accounts on a continuing basis.

**We Recommend** that Purchasing ensures when employees make purchases with their P-Card and then charge the expense to another department's account number, they should communicate and provide all proper documentation among the active departments for reconciliation purposes.

**Management Response:**

*We will add to the training on November 19, 2008 the necessity of documenting purchases made with an account from another department. Notification to all DPC's will be made via the PurchasingLink.*

**10. IN ONE DEPARTMENT MONTHLY TRANSACTION DETAIL REPORTS WERE NOT PROPERLY REVIEWED, APPROVED, SIGNED AND DATED BY THE MANAGING DIRECTOR.**

Part of our testing of each department we audited was to ensure we reviewed Transaction Detail Reports. We found in one department that three of the four Transaction Detail Reports were not properly reviewed, approved, signed, and dated by Managing Director.

The Material Management Directive #4, Procurement Card Program under the Reconciliation section it states: "At the end of each billing cycle, the DPC will download and reconcile, in PDF format, the consolidated Transaction Detail Report for all cardholders under his/her hierarchy.....for the Managing Director (or above) to review, approve, sign and date.

The DPC for this department ran the Transaction Detail Report but did not ensure that the Managing Director reviewed, approved, and signed the reports.

Part of the reconciliation process is to compare the receipts to the statements but to also run the Transaction Detail Report for the department to forward on to the Managing Director for his/her approval. Not submitting the reports to the Managing Directors creates a potential risk of unauthorized transactions being undetected.

**We Recommend** that Purchasing should ensure that all DPCs are aware that monthly Transaction Detail Reports need to be generated on a monthly basis but that they also need to be submitted to their Managing Director (or above), in a timely manner for review, approval and signature. The Managing Directors need to ensure that Transaction Detail Reports are reviewed, approved, signed and dated on a monthly basis.

**Management Response:**

*Purchasing concurs. The Managing Director Agreement states "Each month, review and approve department's total expenditure activity." The refresher course presenters will continue to talk about the importance of accountability by each Managing Director and we will ask for documentation during the monthly reviews.*

**11. AGREEMENTS COULD NOT BE FOUND OR WERE INCOMPLETE.**

In our review of documents in the Purchasing Department, we were not able to locate properly approved DPC agreements, Managing Director agreements and P-card agreements.

We could not find 8 of the 10 "Departmental Purchasing Coordinator agreements to Accept the Purchasing Card" (DPC Agreement). We could not locate one Managing Director agreement and found that two P-card agreements were not properly approved by their Department Head and/or Managing Director.

According to the "Purchasing Card Program Managing Director Agreement," it is the responsibility of the Managing Director to appoint the Department Purchasing Coordinator (DPC) and sign the DPC agreement. It is also the responsibility of the Managing Director to approve card program duties and responsibilities.

The Purchasing Department has not stayed on top of ensuring that all agreements are properly signed and/or submitted. Managing Directors have also not ensured that they appoint a DPC, sign the DPC agreement, ensure that there is a Managing Director's agreement on file for them and ensure that all P-card holder agreements are properly approved and signed.

Not submitting the proper paperwork or submitting incomplete paperwork could be a potential risk to an employee being granted a P-card without the proper approval or authorization and could be used for inappropriate charges.

**We Recommend** that the Purchasing Department ensures that all Managing Directors appoint and sign the DPC agreement for their areas, that a completed and signed Managing Director agreement is on file and that they fulfill their duties to confirm that all P-cardholder agreements are properly signed.

### **Management Response:**

- *Since March 2008, we have been working to replace cardholder agreements that are missing or miss-filed. Obviously there was an application in the beginning or the application information would not have been available. A very few are left whose cards will be cancelled if we have not received their agreement by December 31, 2008*
- *We created a DPC training agreement in March 2008 and are re-committing the DPC's as they attend their annual mandatory training*
- *We have all Managing Director agreements on file.*

*Additionally, since March 2008 any agreement or application that must be signed by a Managing Director and is not so signed is returned to the department.*

### **12. OUTSTANDING TRANSACTIONS ARE NOT CODED IN A TIMELY MANNER.**

Four of twelve departments failed to properly code their P-card transactions in a timely manner.

One of the DPCs responsibilities as part of reconciliation is to code all transactions to the proper account number. When purchases are made, they are put into a default code of "6998" but then it is the responsibility of the DPC to change the "6998" to the proper account number that reflects the purchase made.

The DPC failed to reconcile and distribute coding of P-Card charges in a timely manner.

According to the Procurement Card Program Directive #4, it is the DPCs responsibility to complete monthly reconciliation and distribution coding of P-Card charges by the third business day of the following month.

If reconciliation is not completed, there is a possibility that unauthorized transactions are approved. There can also be conflicting information that will reflect on any budgeting or reconciliation reports that are reviewed and approved by Managing Directors.

**We Recommend** that Finance ensures that DPCs complete monthly reconciliation and distribution coding of P-Card charges in a timely manner.

**Management Response:**

*Finance concurs with this finding. Beginning March, 2008, DPC's have been instructed in quarterly meetings to reconcile, track and update outstanding P-Card transactions within 3 days of the calendar month-end. DPC's are further instructed to refrain from coding the transactions that are under dispute with Chase bank. Monthly notifications are sent by Finance to each DPC who has outstanding transactions. Finance continues with follow-up until each transaction is resolved.*

**13. NOT ALL CARDHOLDERS ARE SUBMITTING ORIGINAL DETAILED RECEIPTS.**

Original detailed receipts are not being submitted for all purchases. There were 12 transactions of the 322 that were sampled that did not have an itemized receipt.

The Material Management Procurement Card Program Directive #4 states that original detailed receipts are required and the Cardholder agreement also states this. You can not determine what was purchased if an employee does not submit the original itemized receipt. Original itemized receipts provide information such as date and time a purchase was made, if taxes were charged and if any prohibited expenditures were made.

Cardholders should be held responsible for turning in all original itemized receipts to DPCs as soon as a purchase is made.

**We Recommend** that the Purchasing Department ensures that all DPCs are aware of the importance of submitting original itemized receipts.

**Management Response:**

*See Response #3. Due to the monthly review process, an occurrence of departments not including detailed receipts is 3.73% of all transactions tested.*

**14. SALES TAXES ARE CHARGED ON PURCHASES.**

A total amount of \$67.29 sales taxes were charged on 12 of the 322 transactions that were sampled.

The City of Garland is a tax exempt entity and cardholders should inform all vendors before a transaction is ran that the City is tax exempt. Employees do not take the time to notify vendors upfront before a charge is made that the purchase is tax exempt. This is the reason why taxes get charged especially at restaurant establishments. When a cardholder has taxes charged on their

purchase, they should be held responsible for ensuring that they recover the taxes. One of the cardholder responsibilities in the Material Management, Procurement Card Program Directive #4 is to "Assure sales tax is not charged on purchases, unless dictated by law."

Allowing employees to continue to have taxes charged on purchases and not having them take responsibility to ensure that they try to recover the taxes is a direct violation of the Procurement Program Directive #4.

**We Recommend** that Purchasing ensures that all DPCs are aware of the responsibilities of assuring that taxes are not charged on purchases unless dictated by law like state hotel occupancy tax or fuel tax. The tax exempt form should be readily available for all employees and they should familiarize themselves with it and they take the form with them especially when they know they will be going to a food establishment since some vendors request the form.

**Management Response:**

*Since the inception of the program we have emphasized our tax exempt status, in the procedures, the directive, and the refresher course and periodically in the PurchasingLink (a communication from Purchasing to our customers). Additionally a p-card review was instituted in 2001 that reviews each department twice per calendar year. One criteria of the review is to question tax over one dollar and/or an aggregate of \$5.00. During the review process we encourage recovery of paid taxes and an explanation if they are not recovered.*

*The tax exempt form is on the G:city/purchase drive and has been since we created the G:city/purchase address. This and the federal tax form are also posted on the G;City/Official Documents/Forms address.*

**15. P-CARDS ARE NOT PROPERLY SIGNED BY THE CARDHOLDER.**

Out of the 62 P-cards reviewed, we found that 10 P-cards were not signed by the cardholder. Employees are not asked to sign their cards at the time it is given to them and therefore some employees go without signing their P-card. According to the "Guidelines for Cardholders and Department Purchasing Coordinators," all P-cards must be signed by the cardholder immediately upon receipt. If P-cards are not signed properly, it may easily lead to fraudulent transactions if the card is lost or stolen.

**We Recommend** that all P-card holders sign their P-card upon completing the training and/or receiving their card as is required by the guidelines.

**Management Response:**

*Cardholders have always been instructed to sign and activate their cards immediately upon receipt. When the card is picked up by the card holder they are asked to sign them in front of the distributor. If the DPC is picking up the cards for the department, the DPC signs for each card and is instructed to have the cardholder sign the card in front of the DPC. This has been the practice since the inception of the p-card program.*

**16. EMPLOYEES DID NOT HAVE THEIR P-CARDS IN THE CITY OF GARLAND (COG) SLEEVE THAT IS PROVIDED BY PURCHASING.**

In our review we found that not all employees are keeping their P-cards in the COG sleeve that Purchasing provides. There were 22 of the 46 P-cards that we reviewed that were not stored in the COG sleeve. Some employees stated they never got such a sleeve while others stated they threw it away because it was too bulky to put in their wallets.

There is nothing written in the guidelines that requires cardholders to keep their card in a sleeve and that is the reason why some do not keep their P-card in a sleeve.

P-cards should be kept separate from employee's personal credit cards and one way to make the difference is to keep the P-card in a COG sleeve. Keeping the P-card in a COG sleeve prevents the employee from using it for personal purchases. If an employee makes a personal purchase and is not detected by the DPC or Managing Director, there is a potential risk of the employee not reporting the transaction as a personal transaction and not reimbursing the City for it.

**We Recommend** that the Purchasing Department should update the Procurement Card Program Directive #4 to state that all P-card holders are required to keep their P-card in a COG sleeve. Once the update is made, Purchasing should ensure that all employees have a COG sleeve.

**Management Response:**

*Purchasing will suggest that departments keep their cards in sleeves. Purchasing has and does make the sleeves available to all cardholders. Starting with the November 19, 2008 refresher course we will make the sleeves available to all who attend. They will be free to take as many as they choose. Additionally Finance gives the sleeves to all cardholders picking up their cards.*

## **17. P-CARD RECORDS WERE NOT SECURELY STORED.**

DPCs at two of the twelve departments reviewed were not keeping their P-card invoices and receipts in a secure location. One department had their records in an unlocked file cabinet while the other had theirs in an open bookshelf. According to the P-Card guidelines for DPCs, a list of all department cardholders, card numbers and default distribution codes must be kept in a secure locked place. The two departments were unaware of the policy in regards to securing their records and that is the reason why they had not done so. The departments moved their records to a secure location during the audit. P-card records have credit card information and other pertinent information that should be secured at all times; not doing so may lead to information being compromised by a third party.

**We Recommend** that Purchasing ensures that DPCs follow P-Card guidelines as related to the storage of all department cardholders, card numbers, and all P-card records like receipts and invoices.

### **Management Response:**

*The security of p-card documentation is part of the refresher training and is included in the p-card procedures.*

## **18. MANAGING DIRECTORS NEED TO ASSESS THEIR INVENTORY OF P-CARDS ON AN ANNUAL BASIS.**

As of July 3, 2008, there were 926 active P-cards issued to employees. Employees are given P-cards on authorization of their Department Head and/or Managing Director.

We ran reports of "Last Activity Date" and found that 85 employees had no activity on their P-card at all, and 31 employees had no activity in the last 12 months. If employees are not using their P-card at least once in a 12 month period then it is possible that they really do not need it and their P-card should be cancelled.

No monitoring is done at the department level as to whether or not an employee has used their card. An employee may not realize that their card is not valid until they try using it again because Chase will cancel P-cards when there has been no activity in 12 months. These types of situations cause more work of the department and Purchasing since the department has to make another request for a P-card for that employee and Purchasing also has to input the request into the system to have another P-card issued.

Managing Directors need to re-evaluate all P-cards issued to their areas and determine if an employee that has a P-card should have one or if an employee does not have one that needs one. Managing Directors may find that they have employees with P-cards that really have no use for one.

**We Recommend** that the City Manager should have the Managing Directors reevaluate all the P-cards issued to their areas and determines if P-card holders should continue having P-cards. The Managing Directors need to assess whether or not a P-card is needed for the requirements of the job. If Managing Directors find they have employees that do not have a need for a P-card then the DPC should coordinate with Purchasing to have those P-cards cancelled. This process should be performed on an annual basis.

**Management Response:**

*The City Manager concurs with this recommendation. I will follow up with Managing Directors and set up a process for each Director to review the justification on each employee with a P-card in their departments. This review process will start by January 1, 2009.*