



P-CARD AND EXPENSE REPORTS AUDIT

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EXECUTIVE SUMMARY

OBJECTIVES:

- To document and evaluate the system of internal controls at the departmental and citywide levels for P-Card purchases
- To examine a sample of payments for reasonableness and compliance with City Directives and policies for P-Card purchases
- To document and evaluate the system of internal controls and examine a sample of payments for reasonableness and compliance with City Directive and policies for Expense Reports issued

OVERALL CONCLUSION:

We conclude that City wide compliance with the P-Card and Expense Report guidelines and directives are being satisfied, although there are areas where improvements can be made.

OPPORTUNITIES FOR IMPROVEMENT:

1. **P-CARD TRANSACTION LIMITS** *(Reference Page 14)*

Recommendation: We Recommend 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.

Management Response: Concur. Purchasing will review monthly and take appropriate action. This takes place immediately.

2. **PROPER DESTRUCTION OF P-CARDS** *(Reference Page 14)*

Recommendation: We Recommend that the Purchasing Department:

- 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. The DPC's should retain a copy for their records
- In the case where a P-Card is sent to Purchasing, Purchasing should then destroy the P-Card and document that it was destroyed. Purchasing should ensure that documentation is placed in the employee's file.
- DPC's are made aware of this responsibility during DPC Training.

Management Response:

- **Concur.** Directives and all related documents have a target date for updating and revision of December 31, 2009.
- **Concur.** 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.
- **Concur.** This has been talked about in the training for sometime now. Beginning with the next DPC Refresher Course we will be more specific about destruction of a cancelled card.

As a point of process; the key to card safety is deactivation in the p-card software. If this does not happen and the card is destroyed, the number could still be used. Purchasing places higher priority on canceling cards in the software.

3. ACTIVE P-CARD FOR TERMINATED EMPLOYEE
(Reference Page 15)

Recommendation: We Recommend Purchasing ensures:

- The employee's P-Card is cancelled immediately upon notification from Human Resources
- Terminated documentation received from Human Resources is placed in the employee's P-Card file
- Employee's P-Card file is moved from the active to inactive file cabinet

Management Response:

- **Concur/ with comments.** Purchasing and HR have been coordinating terminations for several years now. We do cancel most cards immediately but may wait until the actual termination date for cardholders we know to be key in their departments. The decision to wait is mutual between the department and Purchasing. This will be our continued method of operation.
- **Concur.** Effective immediately we will place notification from HR in the cardholders file. To date we have been deleting the document when through with it. Note there are a variety of ways we obtain information about a terminated employee; the employee themselves, the DPC may contact us, rumor (which we check out) and last, HR will send a termination list. The HR list is our major source of information.
- **Concur.** This has always been the practice and will continue to be so.

4. JP MORGAN CHASE CARDHOLDER STATUS REPORTS
(Reference Page 16)

Recommendation: We Recommend 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.

Management Response: Concur. 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.

As stated in a previous audit, Chase reports are not always correct. A cardholder can appear to have two active accounts when in reality, only one is active. Purchasing is proactively working with Chase to clean these up.

5. VERIFYING EMPLOYEE IDENTIFICATION BEFORE ISSUING P-CARD
(Reference Page 17)

Recommendation: We Recommend that Purchasing and Finance create a written procedure regarding P-Card issuance with specifics relating to checking employee ID's before issuing new or replacements.

Management Response:

Finance Concur. Written procedures will be created relating to the verification of employee identification.

Purchasing Concur. 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.

6. OUTSIDE DEPARTMENTAL TRANSACTIONS
(Reference Page 17)

Recommendation: We Recommend that the 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.

Management Response: Concur. As stated above, directives and all related documents have a target date for updating and revision of December 31, 2009.

7. DPC AND TRAINING AGREEMENTS **(Reference Page 18)**

Recommendation: We Recommend Purchasing ensure that:

- Signed DPC Agreements for all DPC's are on file with Purchasing
- Signed DPC Training Agreements from all DPC's are obtained immediately following the completion of the training class and filed with Purchasing
- The Department Purchasing Coordinator (DPC) section in the Procurement Card Program Directive #4 is revised to include "a signed DPC Training Agreement will be obtained from all DPC's upon completion of the training."

We issued Managing Director Memos to each of the 10 departments detailing the testing performed for their departments. We completed a follow-up for each department and found that 9 of the 10 departments completed a DPC Agreement.

Management Response:

- **Concur.** 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.
- **Concur.** This has been and will continue to be the practice since the DPC Training Agreement document was created.
- **Concur.** Directives and all related documents have a target date for updating and revision of December 31, 2009.

8. PROPER P-CARD DOCUMENTATION **(Reference Page 22)**

We Recommend the Purchasing Department continues to ensure that the following issues are covered in the quarterly training provided to DPC's:

- DPC's are aware of the importance of submitting original itemized receipts
- DPC's are aware of the responsibilities of assuring that taxes are not charged on purchases
- The Guidelines for Cardholders and Department Purchasing Coordinators is revised to state that only Managing Directors are authorized to approve departmental monthly Transaction Detail Reports (TDR) and a TDR is generated for Managing Directors and not Department Heads to be signed by the City Manager
- DPC's are generating monthly TDR's and ensuring that approval is obtained from the Managing Directors. TDR's for the Managing Directors need to be approved by the City Manager or Deputy City Manager.

- All P-Card agreements and applications have appropriate approval before issuing P-Cards
- All cards are signed by cardholders immediately upon receipt
- Managing Directors are reviewing, approving, and signing departmental TDR's on a monthly basis
- Managing Directors' TDR's are reviewed and signed on a monthly basis
- Managing Directors are aware of their responsibilities over Departmental Purchasing Coordinators. Agreements and applications must have the appropriate approval before submitting the documents to Purchasing.

Management Response: 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.

9. DEPARTMENTAL EXPENSE REPORT IMPROVEMENTS
(Reference Page 20)

Recommendation: We Recommend the Purchasing Department and Finance Department

- Incorporate an overview of the Employee Business Expense Directive into the Departmental Purchasing Coordinator mandatory once-a-year training provided quarterly due to the P-Card being the preferred method of payment for all travel costs.

Recommendation: We Recommend the Finance Department ensure

- The Employee Business Expense Directive is updated to include instructions on coding time while traveling on City business.

Recommendation: We Recommend the 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.

Management Response:

Purchasing Concur: The Finance Employee Business Expense expert joined the DPC Refresher training April 15, 2009 and will continue to be part of the quarterly training.

Finance Concur. An Employee Business Expense Directive overview was included in the Departmental Purchasing Coordinator training on April 15, 2009. The overview will be included in future training sessions.

The Employee Business Expense Directive will be updated to include instructions on coding time while traveling on City Business.

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.

Authorization

We have conducted an audit of the P-Card and Expense Reports. 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 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 October 1, 2008 – December 31, 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 document and evaluate the system of internal controls at the departmental and citywide levels for P-Card purchases
- To examine a sample of payments for reasonableness and compliance with City Directives and policies for P-Card purchases
- To document and evaluate the system of internal controls and examine a sample of payments for reasonableness and compliance with City Directive and policies for Expense Reports issued

To adequately address the audit objectives, we:

- Ensured accurate payment to JP Morgan Chase by comparing the G/L to the wire transfers within the audit period
- Reviewed active cardholders for data accuracy, duplication, termination, transaction limits, and activity
- Observed a new P-Card application process from application to delivery

- Reviewed the P-Card agreement between JP Morgan Chase and the City
- Ensured each department tested had an authorized DPC and that the DPC attended required training
- Sampled employees' P-Card for signatures and COG sleeves and ensured an authorized P-Card application and cardholder agreement was on file with Purchasing
- Reviewed each department and selected a predetermined transaction sample size based on the number of transactions made within the audit period. We sampled a total of 230 transactions

Number of Transactions	Sample Size	Department	Transactions Reviewed	Department	Transactions Reviewed
0<100	20	Financial Services	20	Planning	25
100 – 300	25	Municipal Court	20	Water	30
301 – 500	30	Facilities Management	25	Health	25
501 – 700	35	Customer Service	25	Wastewater	25
701 – 1000	40	Environmental Waste	20	Landfill	20

- 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
- For our audit period we ran reports from the Finance System to see if checks were issued to employees related to travel expenses, we reviewed each selected departments' P-Card Transaction Detail Report to determine if there were any travel related purchases on an employee's P-Card, and we obtained a report from Colwick Travel of all employees that have booked travel. From these reports we found all related travel for each department and obtained the Expense Report forms submitted to Finance

- Reviewed all Expense Reports issued during audit period to ensure that all City Directives and policies were followed. Colwick Reports, P-card Transactions and Petty Cash Vouchers were reviewed to determine travel related expenses. The following departments were selected this time for Expense Reports review:

NAME	EXPENSE REPORTS
Financial Services	7
Municipal Court	2
Customer Service	5
Environmental Waste	3
Water	3
Health	9
Wastewater	6
Landfill	1
TOTAL REVIEWED	36

Overall Conclusion

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

Background

PURCHASE CARD PROGRAM

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 January 15, 2009 there were 937 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
- FY 2009 First Quarter \$1,200,894

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:

Average Annual Net Spend				
\$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

Average Payment Term

20 Days or less	0.45%	0.50%	0.60%	0.70%	0.80%
21 – 25 Days	0.35%	0.40%	0.50%	0.60%	0.70%
26 – 29 Days	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.

A comparative analysis was prepared to show the last three audits completed for the Purchasing Card Program. The results are as follows:

AUDIT	# Departments Reviewed	# Transactions Reviewed	Missing Original Itemized Receipt/Invoice	Lost Receipt Phone Form	Taxes Charged	Personal Purchases Reimbursed to City
FY2007 P-Card Audit	16	356	39	N/A	\$154.86	N/A
FY2008 P-Card Audit	12	320	13	5	\$67.29	4
FY2009 P-Card Audit	10	230	27	1	\$40.35	4

EMPLOYEE EXPENSE REPORTS

The City of Garland will bear all costs associated with an employee conducting City business both inside and outside the City limits. It is the City's intent that while conducting City business, an employee shall incur no financial loss nor realize any financial gain. Most expense reports are submitted for travel-related expenditures, mileage reimbursements, business-related meals, training and professional development. The City's "Employee Business Expense" directive specifically addresses paying "all allowable expenses for employee travel, registration, transportation, meals/GSA allowance, lodging, phone calls, and incidentals." A completed Employee Business Expense Report form shall be submitted to the Financial Services Department, whether or not a reimbursement is required, within 20 working days upon return from the trip or incurring the expense.

The "Employee Business Expense" directive was revised and updated March, 2008 which included more detailed procedures and an updated expense report form.

The City's Procurement Card (P-Card) is the preferred method of payment for all travel costs. There may be situations where an allowable travel expense cannot be paid by the City's P-Card and another form of payment, (i.e. cash, personal credit card or personal check) may be used. Documented expenses will be reimbursed when an employee uses personal funds. If the amount is greater than \$75 an accounts payable check request needs to be processed but if it is under \$75 then the employee can get reimbursed through their department's petty cash fund or Accountings petty cash fund.

At the completion of each review at each department, memos were issued to the department heads and Managing Directors communicating the areas where improvements could be made. Each department was given a timeline to comply and follow-ups were made to ensure the departments had taken care of any outstanding issues.

Management Accomplishments

Purchasing Management Accomplishments

In the past six months Purchasing has been training a new P-Card Administrator. She had demonstrated great ability to grasp the bigger picture of what we do and has fully contributed to the safety of our program.

In the last year, administration of the p-card program on the Purchasing side has been accomplished by using a team approach. Four employees devote approximately 100 hours per month maintaining the p-card system, reviewing department transactions, training new cardholders and DPC's, responding to Internal Audit and answering questions from cardholders and departments.

As maintenance of the program becomes more sophisticated, we will be devoting more hours. This is necessary to continue a very successful p-card program of which we are very proud.

This team effort is not just within the Purchasing department. Finance, Internal Audit and every DPC from each department complete the group that diligently protects the City of Garland finances while using this payment tool for efficiency and effectiveness. We all understand our fiduciary responsibility and do not shy away from it.

Financial Services Management Accomplishments

Management appreciates the work completed by Internal Audit in its review of the Departmental Expense Reports. The findings and recommendations were helpful.

The changes in the Travel Directive and the Expense Report form addressed complete and timely reporting. Procedures were implemented to control travel costs whenever possible. Because of the significant changes, Financial Services has conducted several training sessions regarding the revised Travel Directive and completing and filing an Expense Report form. Financial Services also participates in Departmental Payment Coordinator (DPC) training meetings. These meetings are an opportunity to highlight the major points of the Travel Directive and the Expense Report form and to answer questions from the DPCs.

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. *P-CARD TRANSACTION LIMITS*

For the 10 departments reviewed, we found that transaction limits were increased for 6 employees. Three were permanent increases but three were not. Three limits were increased on a temporary basis or for a one time purchase and were supposed to have been changed back to the original transaction limits. One employee's monthly transaction limit was incorrectly entered at the time the application was input.

Transaction limits should be entered directly from the "Purchasing Card Application" form and should only be increased after receiving authorization from a Managing Director.

An employee can purchase more than necessary when temporary transaction limits are not decreased back to the original transaction limit. Purchasing has not used the reports available from JP Morgan Chase on a regular basis to monitor transaction limits to ensure employees do not have unauthorized higher limits.

We Recommend 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.

Management Response: Concur. Purchasing will review monthly and take appropriate action. This takes place immediately.

2. *PROPER DESTRUCTION OF P-CARDS*

There is no record kept in the employees file in Purchasing as to when a P-Card was destroyed, how and by whom. The Purchasing department should have a record in an employee's file documenting when a P-Card was destroyed, how it was destroyed, and by whom.

Proper destruction of a P-Card can mitigate the risk of a card being used if an employee terminates, if it is not picked up by the employee, or if it is not deactivated in a timely manner.

In the Guidelines for Cardholders and Department Purchasing Coordinators in the “End of Employment” section it states: “If a cardholder leaves the employ of the City or is transferred to another City Department, it is the responsibility of the cardholder to return the card to the DPC for cancellation.” The policies do not state that the DPC should destroy the card and to keep a record of when that was done and how.

We Recommend that the Purchasing Department:

- 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. The DPC’s should retain a copy for their records
- In the case where a P-Card is sent to Purchasing, Purchasing should then destroy the P-Card and document that it was destroyed. Purchasing should ensure that documentation is placed in the employee’s file
- DPC’s are made aware of this responsibility during DPC Training.

Management Response:

- **Concur.** Directives and all related documents have a target date for updating and revision of December 31, 2009.
- **Concur.** 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.
- **Concur.** This has been talked about in the training for sometime now. Beginning with the next DPC Refresher Course we will be more specific about destruction of a cancelled card.

As a point of process; the key to card safety is deactivation in the p-card software. If this does not happen and the card is destroyed, the number could still be used. Purchasing places higher priority on canceling cards in the software.

3. ACTIVE P-CARD FOR TERMINATED EMPLOYEE

We found that one employee who was terminated in August 2008 had an active P-Card. When an employee is terminated, Human Resources sends notification to Purchasing and Purchasing cancels the card immediately.

To prevent fraudulent activity, it is important to have proper channels of communication between Purchasing and Human Resources. A terminated employee should not have an active P-Card because they could still use the P-Card after termination. Purchasing failed to cancel a terminated employee’s P-Card after receiving documentation from Human Resources. Purchasing has

been notified of the terminated employee's active account and the account has been closed.

We Recommend Purchasing ensures:

- The employee's P-Card is cancelled immediately upon notification from Human Resources
- Terminated documentation received from Human Resources is placed in the employee's P-Card file
- Employee's P-Card file is moved from the active to inactive file cabinet.

Management Response:

- **Concur/ with comments.** Purchasing and HR have been coordinating terminations for several years now. We do cancel most cards immediately but may wait until the actual termination date for cardholders we know to be key in their departments. The decision to wait is mutual between the department and Purchasing. This will be our continued method of operation.
- **Concur.** Effective immediately we will place notification from HR in the cardholders file. To date we have been deleting the document when through with it. Note there are a variety of ways we obtain information about a terminated employee; the employee themselves, the DPC may contact us, rumor (which we check out) and last, HR will send a termination list. The HR list is our major source of information.
- **Concur.** This has always been the practice and will continue to be so.

4. JP MORGAN CHASE CARDHOLDER STATUS REPORTS

We generated a JP Morgan Chase Cardholder Status Report and found the following:

- On a City wide level, 12 cardholders had multiple active accounts. Of the 12, three cardholders did have two active card accounts while the remaining 9 were stated in error as being active on the Report. Audit furnished the cardholder names to Purchasing and two of the three cardholders did have their second account closed but one cardholder still has two open accounts.

It is unnecessary for employees to have multiple active cardholder accounts. The JP Morgan Chase report of active cardholders should be an accurate report. It is very important for the City of Garland to have accurate reports especially when someone from our Audit Committee or Council is asking us as to how many active P-Cards are issued to City employees.

Purchasing has not used the reports available from JP Morgan Chase to monitor the activity for employees to ensure that no one has multiple cardholder accounts. If Purchasing ran the reports available to them on a periodic basis they

could review them and communicate to JP Morgan Chase when the cardholder status needs to be updated or when cards need to be cancelled.

We Recommend 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.

Management Response: Concur. 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.

As stated in a previous audit, Chase reports are not always correct. A cardholder can appear to have two active accounts when in reality, only one is active. Purchasing is proactively working with Chase to clean these up.

5. VERIFYING EMPLOYEE IDENTIFICATION BEFORE ISSUING P-CARD

During P-Card training, we observed the Accounting Supervisor issue a new P-Card to an employee without checking their ID. ID's should be checked before issuance to ensure that the P-Card is given to the correct cardholder.

In order to prevent unauthorized use and to mitigate risk, it is important to check for proper identification before issuing a P-Card to an employee. Purchasing or Finance does not have a written procedure regarding P-Card issuance.

We Recommend that Purchasing and Finance create a written procedure regarding P-Card issuance with specifics relating to checking employee ID's before issuing new or replacements.

Management Response:

Finance Concur. Written procedures will be created relating to the verification of employee identification.

Purchasing Concur. 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.

6. OUTSIDE DEPARTMENTAL TRANSACTIONS

From the 10 departments selected we found 19 transactions that were made during our audit period by other departments. We determined if each department was aware of the purchases made to their budget and if the DPC had transaction documents for the purchases made by other departments. We found that 3

departments were not aware of the outside purchases and 7 departments did not have all copies of the transaction documents for the purchases made by other departments.

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 a purchase taking place. There should be documentation available for both departments involving the purchase. Once an invoice is received, the department receiving the invoice 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. Per Guidelines for Cardholders and Department Purchasing Coordinators, it is the responsibility of each department to make sure that there is money in each account that will have goods or services charged to them. Failure to have sufficient budget to cover charges at the year-end may result in a department's participation in the program being discontinued.

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.

We Recommend that the 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.

Management Response: Concur. As stated above, directives and all related documents have a target date for updating and revision of December 31, 2009.

7. DPC AND TRAINING AGREEMENTS

From the 10 departments sampled, we found no signed DPC Agreements filed with Purchasing for 8 of the 10 DPC's. We also did not find a signed Training Agreement for one DPC. The Purchasing Card Program General Information states that Managing Director's responsibilities include appointing the Department Purchasing Coordinator (DPC) and signing the DPC Agreement.

During the P-Card Audit completed in FY07, Purchasing said they would *create a bullet point document that each DPC will sign at the conclusion of the quarterly*

training. This will serve two purposes, (1) to document attendance of the DPC at the annual mandatory training and (2) to obtain concurrence for the DPC that an understanding of their responsibilities are clear. Although we did not find a signed DPC Training Agreement for one DPC, we verified through the HR Department that the employee had indeed attended the training. Purchasing did not ensure to obtain the signed DPC Training Agreement from the DPC.

Not having an authorized DPC assigned to a department means that they can not be held accountable when proper procedures of the P-Card program fail to be followed. Managing Directors need to ensure that DPC's are aware of their responsibilities to perform all the DPC duties and are properly trained.

Purchasing needs to stay current on obtaining signed DPC and Training Agreements. When a new DPC is assigned by a Managing Director, they should be required to attend the training and sign the DPC Agreement before assuming DPC responsibilities for their department.

We Recommend Purchasing ensure that:

- Signed DPC Agreements for all DPC's are on file with Purchasing
- Signed DPC Training Agreements from all DPC's are obtained immediately following the completion of the training class and filed with Purchasing
- The Department Purchasing Coordinator (DPC) section in the Procurement Card Program Directive #4 is revised to include "a signed DPC Training Agreement will be obtained from all DPC's upon completion of the training."

We issued Managing Director Memos to each of the 10 departments detailing the testing performed for their departments. We completed a follow-up for each department and found that 9 of the 10 departments completed a DPC Agreement.

Management Response:

- **Concur.** 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.
- **Concur.** This has been and will continue to be the practice since the DPC Training Agreement document was created.
- **Concur.** Directives and all related documents have a target date for updating and revision of December 31, 2009.

8. **PROPER P-CARD DOCUMENTATION**

For the 10 departments reviewed, we found the following:

# Transactions Reviewed	Missing Original Itemized Receipt/Invoice	Lost Receipt / Phone Form	Taxes Charged	Personal Purchases Reimbursed to City
230	27	1	\$ 40.35	4

- One department did not have reviewed, signed and approved Transaction Detail Reports for the months of October, November and December 2008.
- Three Managing Directors were not having their Transaction Detail Reports generated to be signed by the City Manager or Deputy City Manager.
- Of the 58 employees sampled, 13 did not sign the back of their P-Card, 9 P-Card applications were not signed by their appropriate supervisor, and 2 cardholder agreements were not signed by their appropriate supervisor.

Per the Guidelines for Cardholders and Department Purchasing Coordinators:

- All original itemized receipts, invoices and supporting documentation should be acquired and maintained by the cardholder for delivery to the DPC in a timely manner
- The City is sales tax-exempt. Card purchases should not include sales tax
- At the end of each month, the DPC will generate a report from the system showing their department's monthly activity. The DPC should submit the report to their department head or managing director for review and approval. After the department head or managing director signs off on this report, the DPC should maintain the signed copy with other P-Card Program documentation.
- At month end, the DPC should prepare a report of the department head or managing director's expenses that can be submitted to the Assistant City Manager responsible for that area. The appropriate level of supervision should review all charges in the P-Card program.
- The card must be signed by the cardholder immediately upon receipt.
- All P-Card applications and Cardholder Agreements must be signed by the appropriate supervisor.

Purchases should be made for City business only and not for personal use. In the event that an original receipt has been misplaced, a Lost Receipt/Phone Transaction Report should be completed.

The DPC 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. 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.

P-Cards should be signed for identification purposes when making a purchase. P-Card applications and Cardholder Agreements need to be signed by the appropriate supervisor to indicate that the employee is authorized to have a P-Card. The Purchasing Department should not be issuing P-Cards to employees without proper approval on all P-Card agreements and applications.

In many departments where original itemized receipts were missing, shipping tickets, packing lists, order receipts, service call tickets, and delivery order receipts were used as invoices. These forms of documentation should not be considered an actual receipt and/or invoice. They can be submitted together with an invoice and/or receipt but not alone. Cardholders should be held responsible for turning in all original itemized receipts to DPC's as soon as a purchase is made. Cardholders should inform all vendors before a transaction is processed that the City of Garland is a tax exempt entity. Employees are not taking the time to notify vendors upfront before a charge is made that the purchase is tax exempt.

While the Purchasing Department and the Department Purchasing Coordinators are very involved in their responsibilities, the Purchasing Department and the DPC's need to ensure cardholder agreements and applications are signed by the appropriate supervisor and cardholders are signing the back of their P-Cards. DPC's should have thorough knowledge of the Guidelines for Cardholders and Department Purchasing Coordinators.

We Recommend the Purchasing Department continues to ensure that the following issues are covered in the quarterly training provided to DPC's:

- DPC's are aware of the importance of submitting original itemized receipts
- DPC's are aware of the responsibilities of assuring that taxes are not charged on purchases
- The Guidelines for Cardholders and Department Purchasing Coordinators is revised to state that only Managing Directors are authorized to approve departmental monthly Transaction Detail Reports (TDR) and a TDR is generated for Managing Directors and not Department Heads to be signed by the City Manager
- DPC's are generating monthly TDR's and ensuring that approval is obtained from the Managing Directors. TDR's for the Managing Directors need to be approved by the City Manager or Deputy City Manager
- All P-Card agreements and applications have appropriate approval before issuing P-Cards
- All cards are signed by cardholders immediately upon receipt

- Managing Directors are reviewing, approving, and signing departmental TDR's on a monthly basis
- Managing Directors' TDR's are reviewed and signed on a monthly basis
- Managing Directors are aware of their responsibilities over Departmental Purchasing Coordinators. Agreements and applications must have the appropriate approval before submitting the documents to Purchasing.

Management Response: 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.

9. **DEPARTMENTAL EXPENSE REPORT IMPROVEMENTS**

During our review of the 10 departments selected, we sampled a total of 36 expense reports and found the following to be areas of improvement:

	Out of 36 Expense Reports Sampled:
Incorrect Expense Report Form	8
Lacking Appropriate Approval	5
Not Submitted within 20 Business Days	9
Missing Completed GSA Form	20
Missing Original Itemized Receipt	18
Tips Exceeded 20%	7
Missing Itinerary	17
Inaccurate Mileage Sheet	6
Colwick Travel Not Used	1
Missing Flight Itinerary	1
Money Due City Not Reimbursed within 20 Business Days	1
Time Not Coded to Training/City Business	16

Per the Financial Services Directive #4, Employee Business Expense, the following should be followed:

- Employees should use the correct expense report form located at G:\CITY\Official City Documents\Forms\Employee Expense Report Form.xls
- The Managing Director or the Managing Director's designee shall review and approve, by signature, the Employee Expense Report Form
- A completed Employee Business Expense Report form shall be submitted to the Financial Services Department, whether or not a reimbursement is required, within 20 business days upon return from the trip or incurring the expense

- The Determination of Meal and Incidental Allowance worksheet must be attached to the Employee Expense Report submitted to Financial Services
- Original detailed receipts are required for all expenses. In the event a receipt is unavailable, such as for some parking, tolls, baggage handling, etc. the employee will document the details on a sheet of paper and submit it as a receipt
- Disallowed travel expenses include gratuities and tips in excess of 20%
- A copy of the completed seminar registration form and the seminar itinerary must be attached to the Employee Expense Report
- For further information concerning mileage, refer to the "Personal Mileage Reimbursement" Directive. Employees should be aware that mileage should be calculated to and from place of employment. Per Financial Services, the mileage directive is in the process of being updated to reflect this new procedure
- All airline and rental vehicle reservations shall be made through the City's assigned travel agent, which is Colwick Travel
- A copy of the flight itinerary from Colwick must be attached to the Employee Expense Report
- If any amount is due the City, the employee must reimburse the City within 20 business days after completing the travel or incurring the expense
- Payroll Staff recommends that when traveling on regular working days, time be coded to Training or City Business.

Each expense report should show all related expenses to the employee's travel, including all prepaid expenses. If another employee made a P-Card or out of pocket purchase in regards to another employee's expenses, for example hotel, airfare, combined meals, or vehicle travel, each employee should make a note in the comments section of the report and specify the accurate amount on the expense report form.

Department Directors need to ensure all of their employees who travel are fully aware of the travel directive and they understand their responsibility of submitting expense reports with all required documentation. Ensuring employees properly document all their travel expenses allows a department to have a better picture of how their budget is spent in regards to travel. It is the City's intent that while conducting City business, an employee shall incur no financial loss nor realize any financial gain.

The Managing Director or the Managing Director's designee who, as a function of their assigned managerial duties within the organization, are expressly and ultimately responsible for complete and accurate recordkeeping and reporting of all business related expenses and for the written approval of the Employee Business Expense Report that is submitted to Financial Services. The Managing Director or the Managing Director's designee is accountable to the City Manager in all matters relating to the incurrence and reporting of employee business expenses.

Recommendation: We Recommend the Purchasing Department and Finance Department

- Incorporate an overview of the Employee Business Expense Directive into the Departmental Purchasing Coordinator mandatory once-a-year training provided quarterly due to the P-Card being the preferred method of payment for all travel costs.

Recommendation: We Recommend the Finance Department ensure

- The Employee Business Expense Directive is updated to include instructions on coding time while traveling on City business.

Recommendation: We Recommend the 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.

Management Response:

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.

Finance Concurs. An Employee Business Expense Directive overview was included in the Departmental Purchasing Coordinator training on April 15, 2009. The overview will be included in future training sessions.

The Employee Business Expense Directive will be updated to include instructions on coding time while traveling on City Business.

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.