

P-CARD AUDIT

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Report 0718

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CITY OF GARLAND

AUDIT #0718

P-CARD AUDIT

OVERALL EVALUATION

Improvements can be made in how P-card transactions are being handled. The following are areas that could be improved:

- P-card transactions are not always approved and are not reconciled to the credit card statement.
- Prohibited expenditures have occurred.
- Original detailed receipts were not submitted as support for purchases.
- Taxes are being paid.
- Transaction coding is not done in a timely manner.
- Department Purchasing Coordinators (DPCs) have not attended the required training.

BACKGROUND

The City of Garland Procurement Credit Card program, referred to as P-card, was introduced to all City departments in January 2000. It is to be used for small, low dollar value purchases and travel. The purpose of the P-card program is to provide an efficient, cost-effective method of purchasing and paying for items. The program has resulted in a significant reduction in volume of purchase orders, invoices, and checks processed for purchases less than \$3,000. The P-card is 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.

P-cards are assigned to individual employees and each employee is responsible for their credit card. Each P-card is assigned a single transaction limit and a monthly spending limit. The P-card program does not change the purchase authorization, payment, or competition requirements. It is the responsibility of each department to monitor and ensure compliance with procurement rules and regulations. City Directive #4 "Procurement Card Program" details the responsibilities and guidelines for cardholders, DPCs, and managers.

For FY 2006 there were 32,625 P-card transactions totaling \$5,766,890. Cards were assigned to 894 employees. For FY 2005 there were 31,762 P-card transactions totaling \$5,168,805 and 876 cards were assigned to employees.

SCOPE AND OBJECTIVES

This audit was conducted in accordance with Generally Accepted Government Auditing Standards and included review of internal controls and other auditing procedures deemed necessary under the circumstances. The scope of this audit was Fiscal Year 2006. The objectives of this audit were to:

- Document and evaluate the system of internal controls related to authorized purchases, use of appropriate account codes, and management oversight and controls;
- To examine a sample of payments for reasonableness and compliance with City Directives and policies, and
- To analyze areas for improvements.

METHODOLOGY

P-card transactions and transaction detailed reports were reviewed at each department. Only the departments listed below were reviewed for P-card purchases. Transaction Detail Reports for each department were generated for FY 2006 and a judgmental sample was made based on the vendor, where the purchase was made, the dollar amount, and the description of what the purchase was for. Those selections were reviewed at the each department. A schedule was set up and divided into three groups where each department would be audited each year but for a different area. The groups were Cash Drawer Counts/Petty Cash, P-card and Expense Reports. At the completion of the review for each of the departments, memos were issued to the department heads and Managing Directors communicating the areas where improvements could be made. The following departments were selected this time for P-card review:

Department	Transactions
	Reviewed
Administration	19
Budget	27
City Attorney's Office	9
City Secretary	22
Engineering	37
Fair Housing	10
Fire	36
Fleet Services	18
Garland Housing Agency	9
Human Resources	39
MIS	36
Neighborhood Services	16
Public Information	18
Purchasing	16
Street	24
Telecommunications	20

Management Accomplishment Section

The P-card program was created to decrease the cost of doing business and add flexibility to existing purchasing procedures. Statistics show that the plan is working. Low dollar value, high transaction expenditures account for 92% of the transactions and 5% of the dollars expended through Purchase Orders and P-cards. The program has been fully active since the 2000. The last four years have seen activity level off at around 32,000 transactions per year. P-Card expenditures are \$5,000,000 plus. There is an average of 900 cards active at any given time.

This type of activity demands a stringent review and audit program. The Purchasing department reviews the transaction activity of every department twice per year. Additionally, Purchasing works with Finance and HR to monitor unusual activity and track terminations of P-card holders. Monthly reports are sent to all Program Administrators, a team of Finance, Purchasing and Internal Audit and to the Managing Directors of Finance, Purchasing and Internal Audit. Additionally, Internal Audit performs a through audit on 1/3 of the City departments each year.

Training is a necessary ingredient to a successful program. Every cardholder, without exception, must receive training and sign an agreement before a card, in their name, is issued to them. The cards are managed at the department level by employees called Department Purchasing Coordinators (DPC). The DPCs are mandated to receive refresher training once every twelve months. Purchasing, with Finance and Internal Audit, conduct this training through COGU.

Our p-card program and training has been so successful we have been asked to present at several workshops and conferences. Our program is a model for other entities.

In conclusion, the stated goal to grow the usage of the p-cards for high transaction, low dollar spend has been realized. The program continues to grow and our customer departments are very happy with the convenience and ease of transacting their frequent, daily needs. Our vendors appreciate the use of the cards for these expenditures. They are paid in a timely manner and are saved the expense of invoicing or sending monthly statements. The Purchasing Buyers can use their time and expertise in the more fiscally impacted areas. The P-card program is one part of the successful Purchasing mission of providing the best value for the tax dollar.

AREAS FOR IMPROVEMENT

1. THE GENERATING, RECONCILIATION AND APPROVAL OF P-CARD MONTHLY REPORTS NEEDS IMPROVEMENT

P-card transactions have not been adequately monitored or approved by the responsible department. The monthly Transaction Detail Report is not generated by all departments and appropriate approvals are not always obtained. Of the 16 departments reviewed, 8 were either not generating Transaction Detail Reports, or were not getting supervisor's approval.

DPCs that hold a P-card should reconcile their Transaction Detail Report to their individual P-card Statement as stated in Directive #4, "Procurement Card Program." It was found through our review that 7 departments with DPCs were not reconciling the Transaction Detail Report to their individual P-card statement. Not reconciling can result in duplicate charges, transactions being missed by the DPC, and transactions needing research not getting resolved in a timely manner. If reconciliations were done on a monthly basis these issues could be resolved. A total of \$172.19 was recovered due to a duplicate and a fraud charge. The charges were discovered because of the audit and were pointed out to the DPCs which were then able to get credits for the charges.

City Directive #4 "Procurement Card Program" states that "At the end of each billing cycle, the DPC will download, in PDF format, the consolidated Transaction Detail Report for all cardholders under his/her hierarchy. DPCs holding a City P-card are required to reconcile their individual Transaction Detail Report to the P-Card statement, or simply use the statement with backup for the Managing Director (or above) to review, approve, sign and date. DPCs NOT holding a P-Card may reconcile to the Transaction Detail Report."

RECOMMENDATION

The Director of Purchasing needs to ensure:

- That DPCs are made aware of their responsibilities of generating monthly Transaction Detail Reports
- To perform timely monthly reconciliations
- To reconcile to their own individual credit card statements
- To obtain approvals on all Transaction Detail Reports by the appropriate supervisors.

RESPONSE

We concur in principal. Training is provided through COGU to the DPCs quarterly. Since there are reoccurring concerns with individual departments, Purchasing will work with Finance and Internal Audit to identify these departments and work with them on an individual basis. We will determine the method of extra training in conjunction with Finance and Internal Audit; will start such training in January 2008 and will conduct this training on an as needed basis throughout each year. We will keep records when such training occurs.

2. WE FOUND ITEMS CLASSIFIED IN ACCOUNTING DIRECTIVE #9, "PROHIBITED EXPENDITURES" AS BEING EXPENSED BY EMPLOYEES

Employees made prohibited purchases with their P-cards in the amount of \$4,851.76. Departments were found to be using the P-card for flower purchases for employees and/or employee family members' funerals and hospital stays. Other departments were using the P-card for departmental and birthday celebrations. These types of expenses are prohibited per city directive and unless it is specified in the "Prohibited Expenditures" Directive, these types of expenses should be paid by the employees.

Accounting Directive #9, "Prohibited Expenditures" specifically prohibits any item that is of personal benefit or not related to the performance of assigned responsibilities and party and gift expenditures for promotions, secretary's day, showers, farewells (excluding retirements), birthdays, or other departmental celebrations.

In Audit #0522 "P-card and Expense Reports Audit," issued March 2, 2006, the City Manager responded that the "Prohibited Expenditures Directive" was currently being reviewed for possible conflicts with the incentive/alternative compensation programs. Once the revised directive was finalized, departments would be notified and trained on the new guidelines and that the "Prohibited Expenditures Directive" was going to be reviewed and changed where appropriate. As of November 7, 2007 the "Prohibited Expenditures Directive" had not been revised.

RECOMMENDATIONS

a) The City Manager should ensure that Directive #9, "Prohibited Expenditures" be reviewed, revised and finalized as was previously stated in Audit #0522.

b) The City Manager should ensure that all City employees have an understanding of what are considered "prohibited expenditures" and should cease charging prohibited expenditures to the City.

RESPONSES

- a) Directive #9," Prohibited Expenditure" has been revised to eliminate any conflicts relating to our employee incentive/ alternative compensation program.
- b) Agree. I have discussed this with my Managing Director Team. We are all clear on what expenditures are allowable.

3. SOME DEPARTMENTS ARE NOT SUBMITTING ORIGINAL DETAILED RECEIPTS

During our review it was found that 11 departments did not submit original detailed receipts or any receipts at all to the DPCs. Detailed receipts provide information such as

- Date and time a purchase was made
- Avoiding duplicate payments
- Paying unaltered receipts
- If taxes were charged
- Provide enough information to prove if any prohibited expenditures were made.

Our review found that most departments are submitting credit card slips as documentation of a receipt instead of submitting the detailed receipt that shows what was actually bought or consumed.

P-card holders should be held responsible for turning in all receipts to DPCs as soon as a purchase is made. If a receipt is lost or stolen then the cardholder should fill out a "Lost Receipt/Phone Transaction Report" which can be located on the City network.

City Directive #4, "Procurement Card Program" states that "DPCs are required to obtain original detailed receipts from cardholders."

RECOMMENDATIONS

a) The Purchasing Director should ensure that at the required P-card training all DPCs are aware of their requirement to obtain original detailed receipts from all cardholders. P-card holders should be held responsible for turning in all receipts to DPCs as soon as a purchase is made.

- b) The Purchasing Director should also update the P-card directive on the Reconciliation section, section 2 to include that if a detailed receipt is lost or stolen that a "Lost Receipt/Phone Transaction Report should be completed."
- c) The Purchasing Director should also ensure as part of the mandatory training that DPCs sign an acknowledgement stating that they understand their requirements as a DPC to collect all detailed original receipts.

RESPONSES

- a) Concur. Mandatory DPC training was established in 2007 from a collaboration of Purchasing, Finance and Internal Audit. Original detailed receipts are emphasized in this training as will as the initial training all cardholders receive.
- b) Concur. The update will include the intranet path to the form.
- c) Concur. We will 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.

4. WE FOUND IN SOME CASES THAT SALES TAXES ARE BEING PAID BY THE CITY

Of the 16 departments reviewed, 11 allowed cardholders to submit receipts with taxes charged for an amount of \$154.86. Most of the receipts reviewed were point of service where the employee had the opportunity to let the vendor know that the City of Garland is a tax exempt entity and where they could have had the taxes refunded at the time of service and/or purchase but that has not always been done. The City of Garland is a tax exempt entity and allowing cardholders to continue to allow taxes being charged is a violation of City Directive #4 and increases the cost of purchase.

City Directive #4, "Procurement Card Program" states that "It is the cardholder's responsibility to assure sales tax is not charged on purchases, unless dictated by law and that an attempt is made to recover any sales tax paid."

RECOMMENDATION

The Director of Purchasing should:

 Ensure that at the required P-card training all DPCs are made aware of their responsibilities of assuring that taxes are not charged on purchases or an attempt is made to recover any sales tax paid

- and that DPCs need to relay this information to cardholders in their department
- Ensure as part of the mandatory training that DPCs sign an acknowledgement stating that they understand their requirements as a DPC to ensure that cardholder's are not charged sales tax on purchases, unless dictated by law and that an attempt is made to recover any sales tax paid.

RESPONSE

Concur. While this is emphasized in every training session, both initial training and quarterly training and in the policy and procedures, we will create a bullet point document that each DPC will sign at the conclusion of the quarterly training.

5. PROPER TRANSACTION CODING WAS LACKING FOR \$20,680 OF PURCHASES

For FY 2006 there was a total of \$20,680 in uncoded transactions. When a cardholder makes a purchase, the amount is put into the default code of 6998 for their respective department. If DPCs would check their 6998 account on a monthly basis, they would determine if something is still pending in that account and at that time they could research the item and determine what to do. Also, if Financial Services would send out monthly reports to each department that has pending transactions those could be taken care of at that time instead of waiting until the end of the year. It is the responsibility of the DPC to code the transactions to the appropriate account number by no later then the third business day of the following month. If timely coding is not done on a monthly basis then department's budgets do not show a true picture of what was spent for a specific account number or if accounts were over or under the budget. Coding to the proper account numbers also allows departments to determine if accounts need to be increased or decreased at the time of budget preparation. Not coding in a timely manner creates more work for the Accounting Supervisor who has to do journal entries to change the account from 6998 to the proper account number.

At the time of review, a total of 9 departments had outstanding transactions in 6998 that had not been coded in a timely manner to the appropriate account number. As of October 19, 2007 there was a total of \$17,130 in uncoded transactions for FY 2007 which will not get coded to the proper account numbers because the deadline to submit changes for journal entries to the Accounting staff was October 12, 2007.

This same issue was noted in Audit #0522 issued March 2, 2006 which at the time showed:

- FY 2003 \$69,598.94
- FY 2004 \$59,080.11
- FY 2005 \$1,286.25
- FY 2006 \$20,680

in uncoded transactions. This report showed that an improvement was being made in the coding of transactions but it appears that Finance staff needs to continue working closely with the operating departments to correct any uncoded transactions.

City Directive #4, "Procurement Card Program" states that "It is the DPCs responsibility to do distribution coding of P-card charges by the third business day of the following month." In addition, Accounting Directive #9 Prohibited Expenditures states, "All items of expenditure shall be correctly charged to the object code that most appropriately reflects the type of expenditure being made."

RECOMMENDATIONS

- a) The Managing Director of Financial Services should ensure the Accounts Payable Supervisor notifies, on a monthly basis, the departments that have outstanding transactions in the 6998 account that have not been coded prior to the deadline of the third business day of the following month.
- b) The Managing Director of Financial Services should inform the Managing Directors of the respective departments that the transactions are not being coded in a timely manner.

RESPONSES:

a) The Accounts Payable Supervisor will provide monthly notification to the departments that have a balance in their 6998 P-Card default account. This process proved to be effective in FY 2005 when the uncoded balance was only \$1,286.25.

The \$20,680 FY 2006 balance is due to 14 departments (City Attorney, Emergency Management, Budget & Research, Purchasing, Community Relations, Police, Engineering, Traffic, Library, Electric, Solid Waste, Firewheel, Risk Management and Fleet) not adhering to P-Card procedures. Financial Services will take the necessary enforcement steps prescribed in the P-Card procedures to achieve timely coding of transactions.

b) The Managing Director for Financial Services will inform the Managing Directors of the respective departments when P-Card transactions are not being coded in a timely manner. The Managing Director for Financial Services may delegate this duty to Financial Services staff.

6. TWO DPCs WERE LACKING THE REQUIRED TRAINING

In Audit #0522, issued March 2, 2006 it was recommended that DPCs be required to attend once a year training. This training was made a requirement due to the inconsistencies of how DPCs were handling transaction detail reports, receipt requirements, transaction coding, and reconciliations. In our review, we found 2 departments where the DPCs had not attended the required training. Standardized and continual training will help ensure that staff throughout the City who process \$5 million in transactions annually will know how to properly account for those transactions.

City Directive #4, "Procurement Card Program" states that "DPCs should attend mandatory training once a year. Training is provided quarterly by Purchasing and Finance."

Training records can be obtained from HR and Purchasing staff should use those records to determine who is non-compliant and get with those DPCs individually to ensure that they attend the mandatory training.

RECOMMENDATIONS:

- a) The Director of Purchasing should ensure that all DPCs attend the mandatory training once a year. The Managing Directors will be informed of the training schedule. The Purchasing Director should ensure that a Managing Director is notified when a DPC in their area has not attended the mandatory training. The Purchasing Director should use the training records available from HR to determine who has not attended the mandatory training.
- b) The City Manager should ensure that Managing Directors and Department Heads are made aware that they should notify the Purchasing Department each time they have a change in DPCs so that Purchasing can offer individual training for them.

RESPONSES

- a) We concur that all DPC must attend mandatory training once per year and their Managing Directors or direct report should be informed when this has not happened. The above recommended practice was followed in FY 2006-07. The above mentioned signed acknowledgement obtained from each trained DPC will give us the tool we need to track attendance. We will work with HR and COGU to be certain all departments are aware of the quarterly training dates.
- b) Agree. I will ask all Managing Directors to notify Purchasing when they change their DPC.