

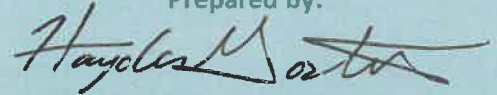
Audit #17-04:

# City Purchasing Cards

Detailed Audit Report

Office of the City Auditor and Clerk  
Internal Audit

Prepared by:



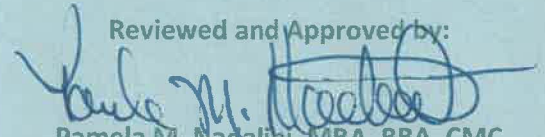
Hayden Gaston

Senior Internal Auditor



D. Edward Daugherty, CPA  
Manager Internal Audit

Reviewed and Approved by:



Pamela M. Nadalini, MBA, BBA, CMC  
City Auditor and Clerk /  
Chief Audit Executive

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**Date:** May 1, 2017

**To:** Mayor Willie Charles Shaw  
Vice Mayor Shelli Freeland Eddie  
Commissioner Liz Alpert  
Commissioner Suzanne Atwell  
Commissioner Susan Chapman

**From:** Pamela M. Nadalini, MBA, BBA, CMC, City Auditor and Clerk / Chief Audit Executive

**Subject:** Final Report #17-04: Purchasing Card Audit

Good afternoon, Mayor, Vice Mayor and Commissioners:

Attached for your information and review are copies of the detailed and executive summary audit reports.

If you have any questions, please do not hesitate to call me at (941) 954-4169.

Attachment(s):

Detailed Audit Report #17-04  
Executive Summary Audit Report #17-04

c: Thomas Barwin, City Manager  
Robert Fournier, City Attorney  
D. Edward Daugherty, CPA, Manager Internal Audit  
Hayden Gaston, Senior Internal Auditor  
File



**Date:** May 1, 2017  
**To:** Thomas Barwin, City Manager  
**From:** Pamela M. Nadalini, MBA, BBA, CMC, City Auditor and Clerk / Chief Audit Executive  
**Subject:** Final Report #17-04: Purchasing Card Audit

Attached for your information and review are copies of the detailed and executive summary audit reports.

If you have any questions, please do not hesitate to call me at (941) 954-4169.

Attachment(s):

Detailed Audit Report #17-04  
Executive Summary Audit Report #17-04

c: John Lege, Assistant City Manager  
Kelly Strickland, Director of Finance  
David Boswell, Purchasing General Manager  
D. Edward Daugherty, CPA, Manager, Internal Audit  
Hayden Gaston, Senior Internal Auditor  
File



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## BACKGROUND AND INTRODUCTION

The City of Sarasota's purchasing card program was first introduced in 2006 as a pilot program and included a limited number of cardholders. By 2007, a policy governing the program was adopted and purchasing cards were rolled out to all departments. The purpose was to allow cardholders to purchase goods and services directly from vendors and bypass the normal purchasing process of obtaining a purchase order, which can be time-consuming. The purchasing card program was implemented as a way to enhance the purchasing process through expedited procurement of goods and services, while still requiring cardholders to abide by Ordinance No. 12-5009, *City Procurement Code*, which includes rules such as thresholds for price quotations and competitive bids and prohibitions on certain types of purchases.

The purchasing card program is governed by Administrative Regulation No. 024.A015.0707, *Purchasing Card Policy and Procedures* and is administered by the City of Sarasota Purchasing Division. The Administrative Regulation contains, but is not limited to, guidelines for employee roles and responsibilities, approval levels, transaction limits, prohibitions of card use, and consequences for card misuse. Administration of the purchasing card program is performed by the Purchasing Division for all cardholders, including the Charter Officials and the City Commissioners.

The City piggybacks off the State of Florida's purchasing card contract with Bank of America, who issues the purchasing cards. Bank of America has an automated system, WORKS, which reports all cardholder activity and allows users to access real-time purchasing data. Through WORKS, cardholders and respective approvers certify the accuracy of and process transactions for payment. In addition, Purchasing Division Administrators are able to request new purchasing cards, make changes to existing purchasing cards, and deactivate purchasing cards.

The Purchasing General Manager has implemented multiple controls throughout the purchasing card process designed to prevent misuse of the cards. Some of these controls include Department Director or designee review and approval, purchasing card administrator approval, merchant category code (MCC) restrictions for cash transactions, single transaction limit (optional) and card limits (determined by department director and re-authorized annually).

During fiscal year 2016 there were 81 active cardholders and a total corporate account credit limit of \$2 million (the entire credit limit has not been allocated amongst cardholders).

For the 12-month audit period ending September 30, 2016, there were 4,974 purchase transactions, totaling \$1,894,683. Individual purchase transactions ranged from \$0.46 to \$10,000.

The following table illustrates cardholder activity for the audit period<sup>1</sup>.

Department	# of Active Cardholders during FY 2016	# of Transactions During the Audit Period	Total Dollar Value of Transactions During the Audit Period	Average Transaction Dollar Value During the Audit Period
City Attorney	0	0	\$0	\$0
City Auditor and Clerk	5	235	\$56,320.91	\$239.66
City Commission	2	37	\$6,792.35	\$183.75
City Manager	4	208	\$48,254.15	\$231.99
Financial Administration <sup>2</sup>	10	181	\$51,704.92	\$285.66
Human Resources	3	115	\$35,678.22	\$310.25
Information Technology	1	214	\$98,032.34	\$458.10
Neighborhood and Development Services	5	304	\$59,360.22	\$195.26
Public Utilities	12	383	\$168,283.69	\$439.38
Public Works	9	765	\$502,541.89	\$656.92
Parks and Recreation	8	988	\$328,158.87	\$332.14
Sarasota Police Department	18	936	\$324,190.98	\$346.36
Van Wezel Performing Arts Hall	4	608	\$215,364.66	\$354.22
<b>Total</b>	<b>81</b>	<b>4,974</b>	<b>\$1,894,683.20</b>	<b>\$380.92</b>

## AUDIT PURPOSE

This audit was performed to assess the effectiveness and adequacy of internal controls associated with City purchasing cards. It was also performed to assess compliance with the City's procurement rules and regulations. This audit was included on the 2017 Audit Schedule.

## AUDIT SCOPE

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

## AUDIT OBJECTIVES

The audit focused on the following objectives:

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

## AUDIT STANDARDS

The auditors conducted this audit in conformance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require 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. We believe that the evidence obtained provides a reasonable basis for findings and conclusions based on the audit objectives.

<sup>1</sup> Transactions with purchase dates between October 1, 2015 – September 30, 2016

<sup>2</sup> Because of higher credit limits for procurement specialists and direct materials purchase requirements, cardholders in the Purchasing Division often buy goods/ services for other departments; therefore, the total amount reflected under "Financial Administration" was not expended solely for that department, rather it includes purchases for several departments. The table on this page is meant to highlight cardholder activity.



## TESTING METHODOLOGY

In order to fulfill the audit objectives, Internal Audit:

- Interviewed appropriate personnel;
- Used Computer Assisted Audit Tools (CAAT) to review and test transactions with purchase dates between October 1, 2015 - September 30, 2016 against a variety of compliance attributes (sampling techniques were employed for certain aspects of audit testing);
- Reviewed the training materials provided to new cardholders by the Purchasing Division;
- Reviewed supporting documentation for purchase transactions in the auditor's sample including receipts, price quotes for purchased items, and credit card statements;
- Conducted random site visits to observe the physical existence of purchased items in the departments;
- Reviewed and evaluated Administrative Regulation No. 024.A015.0707, Purchasing Card Policy and Procedures, and other related purchasing rules and regulations;
- Compared employee termination dates with purchasing card deactivation dates; and
- Reviewed Purchasing Card Request Forms and Cardholder Understanding Agreements.

To achieve the audit objectives, sampling techniques were utilized to select transactions from a population of 4,974 purchasing card transactions with purchase dates in the audit period. Specifically, a sample of 220 transactions consisting of judgmentally selected and randomly selected transactions were utilized for the purposes of testing compliance with requirements noted in the Purchasing Card Policy and Procedures. The "Audit Conclusions" section of this report indicates whether results reflect all transactions or the sample population.

## AUDIT CRITERIA

Conditions noted by Internal Audit during testing and fieldwork were compared to criteria noted in the following City rules and regulations. In determining the effectiveness of the administrative controls over the purchasing card program, the auditor also referred to professional literature regarding best practices for purchasing programs.

The following sources were used as audit criteria:

### City of Sarasota

- Administrative Regulation No. 024.A015.0707- Purchasing Card Policy and Procedures
- Administrative Regulation No. 024.A004.0605- Travel and Related Expenditures
- Administrative Regulation No. 024.A017.0308- Policy for Food and Refreshments
- Ordinance No. 12-5009 - City Procurement Code
- Cardholder Understanding Agreement and Request Form

### Outside Sources

- Government Finance Officer Association's (GFOA) *Best Practice: Purchasing Card Programs*, Approved by the GFOA's Executive Board, February 22, 2008.

## NOTEWORTHY ACCOMPLISHMENTS

The Purchasing Card Policy and Procedures, which are enumerated in Administrative Regulation No. 0.24.A015.0707, while thorough and comprehensive are in the process of being updated. Internal Audit noted that the overall policy governing the purchasing card program is adequate.

The Purchasing Card program also provides a rebate to the City based on the amount of purchases made during the year. For fiscal year 2016 the purchasing card program rebate was \$18,112. There may be an opportunity for the City to receive additional cash rebates by identifying other vendor payments, currently processed by check or ACH, which could be made using purchasing cards, thereby increasing the potential for additional cash rebates.

## OBSERVATIONS AND RECOMMENDATIONS FOR IMPROVEMENTS

Observations and recommendations in this report are offered as independent guidance to management for their consideration in strengthening controls. **Overall, the auditor determined that internal controls were generally in place and functioning effectively to prevent non-compliance with purchasing card rules and regulations; exceptions are noted below. Internal controls over the administration and monitoring of the purchasing card program were also found to be adequate**, with some opportunity for enhancement, specifically with regards to cardholder approval of transaction and timely card deactivation.

A complete list of Internal Audit's observations and recommendations is located on page 13 of this report. For information on priority levels assigned to audit recommendations, please see [Exhibit A](#).

### PURCHASING CARD TRANSACTIONS IN THE AUDITOR'S SAMPLE WERE GENERALLY IN COMPLIANCE WITH THE CITY'S PURCHASING RULES AND REGULATIONS.

For a sample of 220 purchasing card transactions, the auditor found that, generally, there was compliance with requirements noted in various City purchasing rules and regulations. A few exceptions to compliance were noted and management is encouraged to address those exceptions, especially where certain cardholders repeatedly exercise non-compliance.

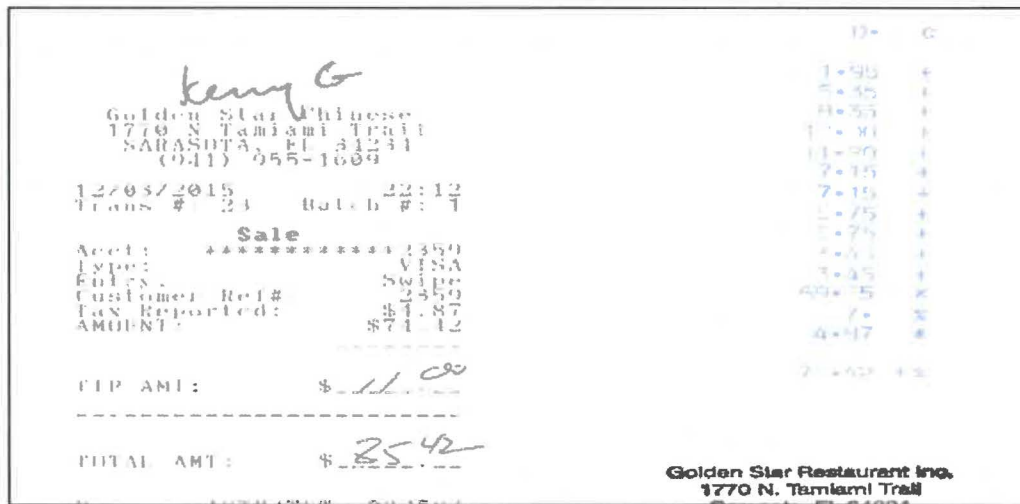
- **Splitting purchases** into multiple smaller purchases in order to meet the single transaction limit is prohibited. For the audit sample of 220 purchasing card transactions, two instances of divided purchases were identified. The auditor found that the Purchasing Manager was aware of one of these instances through regular monitoring and addressed the prohibited behavior with the cardholder.
- **Supporting documents** (including competing price quotes) are required to be attached to sales receipts where a single transaction exceeds \$5,000. Of the transactions in the auditor's sample that required competing price quotes, there were no exceptions to compliance identified. Price quotes were appropriately obtained and maintained for all items in the auditor's sample.
- Purchasing cards should be **utilized only by the cardholder to whom the card is assigned**. Test results from the auditor's sample revealed that there were instances in which a purchase was by someone other than the cardholder; however, based on further review the purchaser was listed as a secondary signer on the card.
- **Sales tax** should not be applied to purchases; the City's tax exempt number is printed on the front of the credit card to assist with obtaining the exemption. Additionally, a sales tax exempt certificate should be maintained by each employee making purchases and be provided to the vendors as needed. Audit testing



of purchase transaction data identified 7 transactions that included sales tax amounts. Several cardholders were proactive in correcting transactions where sales tax had mistakenly been charged.

- **Personal purchases** are prohibited by the Purchasing Card Policy and Procedures. Test results for the auditor’s sample of 220 transactions revealed 4 transactions that were for a purchase for personal use totaling \$157.13. In each instance the cardholder identified the error and repaid the City for the purchase.
- **Itemized sales receipts** are required to be maintained within department files and outline the details of each purchase. Test results for transactions in the auditor’s sample found substantial compliance with maintaining itemized documentation of purchases. Food purchases were the noted exceptions to compliance where it was not always clear what was purchased; cardholders should be reminded of the requirement to obtain itemized receipts for food purchases so the type of item purchased is identified.

Below is an example of a receipt that included sales tax and did not provide a description of the items purchased:



- **Prohibited purchases** are outlined in the purchasing card policy and procedures. While the auditor noted compliance with the prohibitions listed in the policy for transactions in the auditor’s sample, there was some question as to the appropriateness of certain purchases regarding food and hosted social events for City employees that management should address. These events are not allowed under the City’s current policy unless pre-approved by the Charter Officials or Human Resources. Consistent with City policy, the transactions that we noted were pre-approved. However, as noted in the previous audit (11-06) we recommend you revise the Administrative Regulation to provide additional clarity as to allowable expenditures.
- **Procedures after purchase** require cardholders to process transactions for payment within 5 work days and, subsequently, department directors must approve the transactions within 3 work days of the process date. Audit testing of all purchases during the audit period found substantial compliance with the processing (68% compliance) and approval (76% compliance) deadlines where the average processing time was 5 work days and the average approval time was 3 work days.

The 32% of transactions in non-compliance should be reviewed by management for consistent cardholder/ approver offenders. Of 81 active cardholders during the audit period, 23 active cardholders processed at least 50% or more of their total transactions in a manner not consistent with policy; data is below. A list of non-compliant cardholders was provided to the Purchasing Manager during audit

fieldwork. In contrast, 10 cardholders appropriately processed 100% of their transactions in a timely manner during the audit period.

**Cardholders who Repeatedly Processed Transactions Later than Five Work Days During the Audit Period**

Cardholder	# of Cardholder Transactions Processed in Excess of 5 Work Days	Cardholder's Total Number of Transactions	% of Cardholder Total Transactions Not Compliant with Policy	Of the Cardholder's Non-Compliant Transactions, Average Number of Work Days for Cardholder to Process Transaction
Cardholder #1	163	325	50%	9
Cardholder #2	22	42	52%	10
Cardholder #3	61	90	68%	10
Cardholder #4	7	7	100%	15
Cardholder #5	26	43	60%	10
Cardholder #6	8	11	73%	9
Cardholder #7	38	56	68%	10
Cardholder #8	19	21	90%	12
Cardholder #9	1	1	100%	9
Cardholder #10	32	35	91%	14
Cardholder #11	21	30	70%	9
Cardholder #12	15	23	65%	9
Cardholder #13	17	22	77%	11
Cardholder #14	26	40	65%	9
Cardholder #15	1	2	50%	8
Cardholder #16	104	130	80%	11
Cardholder #17	234	402	58%	10
Cardholder #18	11	21	52%	10
Cardholder #19	23	42	55%	10
Cardholder #20	26	34	76%	10
Cardholder #21	13	24	54%	7
Cardholder #22	18	31	58%	10
Cardholder #23	77	106	73%	11

- **Cash advances** are a prohibited use of the purchasing card. Data obtained directly from Bank of America's WORKS system indicates that none of the cardholders are able to obtain cash with their cards as all cards have cash limits of \$0.
- The auditor selected a sample of **tangible items** purchased with the purchasing cards to ensure they physically resided within the departments. For the sample of selected items, the auditor was able to find the purchased items in the respective departments.



**INTERNAL CONTROLS OVER THE ADMINISTRATION AND MONITORING OF THE PURCHASING CARD PROGRAM WERE GENERALLY ADEQUATE WITH AN OPPORTUNITY TO ENHANCE SOME CONTROLS.**

Administration and monitoring controls for the purchasing card program were generally adequate to ensure approval for obtaining a card and establishing appropriate credit limits. Enhancements are encouraged to strengthen controls over monitoring the reasonableness of card limits, regular review of cardholder authority, and timely deactivation of cards. Observations based on results of audit testing are offered below.

- **Requirements to obtain a purchasing card** include completion of a Purchasing Card Request form on which a department director requests the card and determines credit limits based on an employee's job responsibilities. The Purchasing Manager then authorizes the request and requests a purchasing card from the Card Issuer. The employee signs a Cardholder Understanding form and must complete a purchasing card training session before the employee can receive a card. There is currently no additional/refresher training employees must complete after they have completed the initial training session. Additionally, the original Purchasing Card Request form or the Cardholder Understanding Forms are not being retained by the Purchasing Division.

During tests performed over Purchasing Card Request forms it was noted that cardholders may have a secondary cardholder listed as possible signer of the card. These secondary cardholders are not currently listed on the Purchasing Card Request Form.

Audit testing of credit limits obtained directly from Bank of America's WORKS system found that actual credit limits set on purchasing cards adequately reflected the amounts requested by the department directors and authorized by the Purchasing Manager for both single transactions and overall credit limits.

There is an annual review of cardholders and credit limits for current department directors to determine whether purchasing cards are necessary and desired. During discussions regarding this annual review process with City staff it was noted that it could be beneficial to also provide the respective cardholder's credit utilization during the year as another tool to determine the appropriateness of the cardholder's credit limit.

- **Leave of employment** should trigger immediate deactivation of a purchasing card. The current Purchasing Card Policy does not specify a deactivation time requirement. Of six cardholders who terminated employment with the city during the audit period, one had their purchasing card deactivated 12 calendar days after termination, one had their card deactivated 20 calendar days and one other cardholder 43 calendar days after their respective leave dates. The remaining three purchasing cards were terminated either prior to the employee's leave date or on the leave date. The auditor verified that no purchases were made by the employees after their leave dates; however, timelier deactivation of cards is encouraged to fully prevent potential card misuse.
- **Monitoring and approval** of purchases is one of the key controls to a successful purchasing card program. When the monitoring function is designed, implemented and operating effectively the City can benefit by identifying and correcting potential issues in a timely manner, having more accurate and reliable information to use in decision making, increasing efficiency and reducing costs.

The current monitoring and approval of transactions includes three distinct levels of approvals regardless of signatory authority: 1) Certification of the transaction by the cardholder (no designees); 2) Approval by a direct supervisor or authority who understands the need for the purchase; and 3) Approval by the Purchasing Card Program Administrator.

While an employee in the Accounting Division also reviewed transactions, the auditor determined that their roles were to certify fund availability and ensure purchases were properly recorded to the general ledger; neither of the employee's roles were designed to be controls over monitoring appropriateness of items purchased.

The cardholder is responsible for certifying transactions in the WORKS system; however, purchases in the WORKS system do not provide evidence that the goods or services were received (receiving document). Although not every purchase would have a traditional receiving document, i.e. purchases made at Publix, Home Depot, etc., there is no supporting documentation attached that someone other than the cardholder verified the purchase was fully received and is on-site.

## AUDIT CONCLUSIONS

The City has designed and implemented strong controls over the purchasing card program. However, items have been identified above which has caused a breakdown in compliance with rules, regulations, and policies and procedures over purchasing cards. While none of the observations identified or indicated potential fraudulent activity, it is important that the City take steps to correct issues and ensure the purchasing card program is operating as intended.

The City's purchasing card program is a great way to be able to make small dollar purchases in an effective and efficient manner. It also helps to reduce the processing costs of checks that would otherwise be issued to pay for the purchases and at the same time provides an opportunity for the City to receive a cash rebate for purchases made during the year.

We would like to thank the Purchasing and Accounting Divisions along with the multiple City departments that provided their time and assistance during the audit.

## AUDIT OBSERVATIONS AND RECOMMENDATIONS

#	Subject	Priority	Observation	Recommendation	Concur	Do Not Concur	Management Response	Committed Action Item Due Date
1	Training	Medium	Training on proper usage of the purchasing card is provided to all cardholders prior to initial card issuance; however, no further training is required of cardholders after card issuance.	<p>To encourage proper spending habits and promote awareness of Administrative Regulation No. 024.A015.0707, periodic purchasing card refresher training sessions should be required of cardholders. Specifically, training should emphasize:</p> <ul style="list-style-type: none"> <li>- Dividing transactions into smaller purchases in order to achieve the purchasing thresholds and circumvent the purchasing rules is prohibited;</li> <li>- Every effort should be made to ensure sales tax is not included in the purchase total;</li> <li>- Itemized receipts with item descriptions, quantities, and unit costs should always be obtained from the vendor (specifically including food/ restaurant purchases); and</li> <li>- Cardholders and Approvers should abide by processing and approval timelines specified by policy.</li> </ul>	Yes		<p>We started working on this issue last year. We identified that a refresher training curriculum needed be develop. The new P-card Administrative Regulation (024.A015.0117) is currently being routed for signature. This new Regulation contains requirements for refresher training every two years. The Human Resource (HR) Department will be tracking training dates. We are anticipating starting the new training program at the beginning of FY2018. It will include a review of the new P-card Regulation and the items recommended by the audit. We currently have not decided whether this will be an instructor lead course or a video based course. Once the Accountholder completes the course they will be required to execute a new Cardholder Agreement verifying the training date. This will also be signed by the Department Director or designee. A complete Procurement Class catalog was developed in October 2015 and Purchasing Card Refresher Training was included in this initial catalog for development.</p>	<p>Currently in Work. Anticipated implementation date would be November 1, 2017</p>

#	Subject	Priority	Observation	Recommendation	Concur	Do Not Concur	Management Response	Committed Action Item Due Date
2	Deactivation of Cards	High	<p>Purchasing cards were not deactivated in a timely manner with respect to a cardholder's employment termination date.</p> <p>While the auditor verified that the terminated employees' purchasing cards were not inappropriately used after their respective leave dates, timely deactivation of purchasing cards effectively ensures that misuse will not occur.</p>	To eliminate the potential that a purchasing card could be used after a cardholder's employment termination date, the deactivation of a purchasing card should either occur prior to or coincide with the cardholder's termination date.	Yes		The Purchasing Division is now receiving automatic notification of termination of an employee. When the Human Resources Department updates an employee's status to terminated in the system it send out automatic notifications. The Purchasing General Manager and the Assistant Purchasing General Manager are now receiving these notifications.	4/1/2017

3	Cardholder and Department Director Approval of Purchases	High	<p>Administrative Regulation No. 024.A017.0308 section 3.1 requires open transactions to be approved by the cardholder within 5 business days and for the Department Director to approve the transaction within 3 business days of the cardholder having approved the transaction.</p> <p>Audit testing identified 68% compliance by cardholders and 76% compliance by Department Directors with the timeliness of approvals.</p>	<p>To prevent purchasing card misuse and for adequate enforcement of Administrative Regulation No. 024.A015.0707 section 3.1, identify the cardholders that are in noncompliance. Determine the cause, if any, for the noncompliance and possible solutions or consequences to help the cardholder and or Department Director achieve timely approval of transactions.</p>	Yes	<p>The Purchasing Division began in November 2015 issuing reports an average of twice during each billing cycle that identifies overdue sign-offs. This report is sent to all Cardholders and Charter Officials. In addition, the Division has determined that transaction not signed of by the last business day of the month will result in the Accountholders card being locked or frozen. As of FY2017 the Division is conducting quarterly audits on transaction sign-off. The 1st FY2017 Report was finalized on February 22, 2017. The report revealed that sign-off rates are now at 85%. This is an improvement over the audit findings from FY2016. This audit will be conducted each quarter of FY2017. Beginning in FY2018 the Purchasing Division will begin an rigid enforcement program. The audit will identify Cardholders who are at a 40% or more sign-off failure rate each quarter. The following will be implemented and cover a 24 month period:</p> <ol style="list-style-type: none"> <li>1. 1st Violation: Sign-offs receiving a rating of 40% or more within a quarter will be notified by email that they have exceed the 40% threshold.</li> <li>2. 2nd Violation: If Accountholder exceeds the threshold a second time during the same 24 month period as the 1st violation, the Accountholder must meet with the Purchasing General Manager or Designee.</li> </ol>	Already being completed
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#	Subject	Priority	Observation	Recommendation	Concur	Do Not Concur	Management Response	Committed Action Item Due Date
							<p>3. If Accountholder exceeds the threshold for a third time during the same 24 month period as the 1st and 2nd violation, the Accountholder and their Approver must meet with the Purchasing General Manager and justify why the Accountholders card should not be cancelled.</p> <p>4. If an Accountholder exceeds the threshold for four quarters within the same 24 month period year, then the Accountholder's P-Card privileges will be suspended for the next Fiscal Year. The Accountholders Charter Official or designee may waive this suspension.</p>	



#	Subject	Priority	Observation	Recommendation	Concur	Do Not Concur	Management Response	Committed Action Item Due Date
4	City Purpose of Purchase and Receipt of Goods	Medium	<p>The cardholder is responsible for certifying transactions in the WORKS system; however, purchases in the WORKS system do not provide evidence that the goods or services were received (receiving document). There is no supporting documentation attached in WORKS that someone other than the cardholder verified the purchase was fully received and is on-site. Scanned or pdf invoices can be easily manipulated and changed to list anything the cardholder wants.</p> <p>Additionally not all purchases provide support for what the city purpose/program.</p>	<p>Purchasing card transactions should provide support of the purpose/program of the transaction. This not only provides more validity to the purchase but it also identifies and matches costs to individual projects, if applicable.</p> <p>The support should also include verified receipt of goods by someone other than the cardholder. This provides stronger controls over verifying that the goods and services purchased have been received and are for City purposes.</p>	Yes		<p>The Purchasing Division reviews each transaction to ensure that every transaction has adequate detail. This is reviewed at a minimum of two levels within the Department, two levels in the Purchasing Division and a review in the Finance Department. The invoice cannot be modified by the Cardholder once it is sent to the Approver. However, based on the recommendation of this Audit, the Purchasing Division will examine a possible process for providing verification of physical receipt of the items purchased. After examine previous transactions, there have been no fraudulent transactions attributed to altered invoices. Depending on the process it could increase the cost and time of processing transactions. This may defeat the purpose of the P-card Program. In any process there is a level of trust and integrity that must be considered. This is emphasized with the "Cardholder Understanding" form. There is a point where too many controls make a program counter productive. The Purchasing Division will examine a pilot program for FY2018. Consideration will be given to the cost of the control verses the benefit and has past fraud been identified due to lack of this control.</p>	Complete pilot program by December 31, 2017



#	Subject	Priority	Observation	Recommendation	Concur	Do Not Concur	Management Response	Committed Action Item Due Date
5	Cardholder Agreement Retention Policy	High	<p>"Request for Purchasing Card" and "Cardholder's Understanding" forms are not maintained. These two forms, the first of which requests a purchasing card for the employee signed by the department director and the second of which is the cardholder acknowledging and agreeing to purchasing card policies and procedures are not being maintained by the Purchasing Division to support the authorization of a card or the cardholder's understanding.</p> <p>Secondary authorized card users are not being included in the Request for Purchasing Card form.</p>	<p>The "Request for Purchasing Card" and "Cardholder's Understanding" forms should be maintained in a cardholder file to provide evidence and support for cardholder's issuance and ownership of the purchasing card. Retaining these forms provides evidence that the cardholder understands the policies and procedures of the card and the cardholder is aware of potential disciplinary action due to abuse or misuse.</p> <p>Secondary authorized card users should be issued their own purchasing card and complete the same processes as any other cardholder: Request for Purchasing Card, Cardholder Understanding and purchasing card user training.</p>	Yes		<p>Beginning FY2017 the Purchasing Division maintains these forms. The previous Procurement Management policy was to dispose of the forms once the Cardholder appeared on the annual recertification list. In addition, beginning with FY2018 a copy of all "Cardholder Understanding" forms will be forwarded to the HR Department to be filed in the Cardholders personnel file. The Cardholder will also complete a new form every two years when they complete refresher training. Secondary users, as of FY2017, also complete a "Cardholder Understanding" form. However, secondary users or proxy approvers <b>do not</b> make purchases. They only serve in an administrative capacity for the Cardholder. There has been no fraudulent transaction identified with the Proxy Program.</p>	Already being completed.
6	Annual Certification of Cardholders	Low	<p>On an annual basis there is a re-authorization of cardholders list provided by the Purchasing Division, of active purchasing cards that must be approved by the Department Director. The list includes the cardholders' names, credit limit, single transaction limit if any, and any requested changes to the card.</p>	<p>In addition to the items currently included in the re-authorization process each cardholder's credit utilization during the year could be included to help provide a greater understanding of the cardholder's uses of the card/monthly limit. This would be another way for department directors to determine if cardholders have excessive limits relative to actual use.</p>	Yes		<p>In the past the Purchasing Division has done reviews to include the numbers. The Division will examine the feasibility of adding this numbers to the annual report. This may require an adjustment in the current tracking program. However, the Division is in agreement that this is an excellent recommendation.</p>	9/30/2017

#	Subject	Priority	Observation	Recommendation	Concur	Do Not Concur	Management Response	Committed Action Item Due Date
7	Clarify the Food and Refreshment Policy	Medium	<p>Administrative Regulation No. 024.A017.0308, the City's Food and Refreshment Policy, lacks clarity on permissions for events that involve serving of food.</p> <p>While the Food and Refreshment Policy does not specifically prohibit the department from using funds to host social events, it is not clear that this is an appropriate use of City funds to accomplish City business.</p>	To ensure that City funds are used for appropriate purchases, management should clarify the approval process and spending limitations for social events held for exclusive groups, such as Advisory Boards and donors.	Yes		This Administrative Regulation is under review. It is anticipated to be routed for review in as soon as management review is completed.	11/1/2017

## EXHIBIT A: AUDIT PRIORITY CLASSIFICATION SYSTEM

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

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

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

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

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

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

