

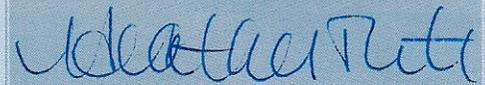
Audit #11-06:

City Purchasing Cards

Executive Summary Report

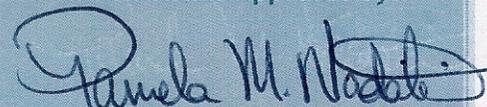
Office of the City Auditor and Clerk
Internal Audit

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EXECUTIVE SUMMARY

AUDIT 11-06: CITY PURCHASING CARDS

AUDIT SCOPE

The scope of this audit included a review of purchasing card transactions, related supporting documentation and cardholder administration information and documents. The audit period included transactions with purchase dates between October 1, 2009 to December 31, 2010 and a review of all cardholders as of February 1, 2011.

REPORT CONTENT AND LIMITATION OF USE

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

AUDIT CONCLUSIONS

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

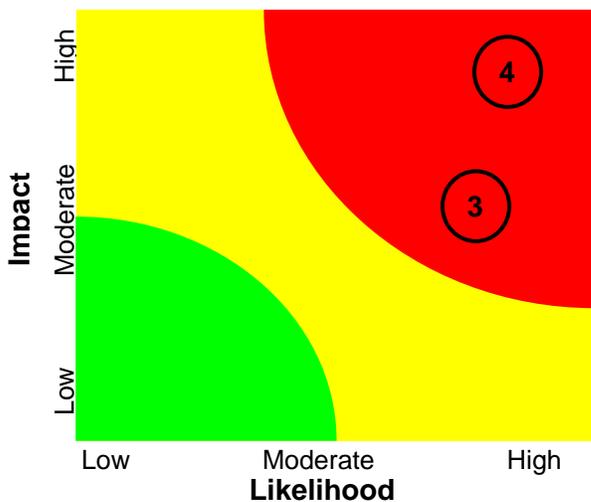
Internal controls over the administration and monitoring of the purchasing card program were also found to be adequate, with some opportunity for enhancement, specifically with regards to regular review of credit limit reasonableness and timely card deactivation.

This audit focused on the following objectives:

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

Two significant audit observations (high-priority items) are highlighted below. For a complete list of audit items, see page 3 of this report.

Risk Exposure Map



Significant Remaining Open Issues

Observation	Original Priority
#3- Purchasing cards were not deactivated in a timely manner with respect to a cardholder's employment termination date.	High
#4- Approval levels for transactions lack effective controls to prevent collusion and ensure enforcement of the Purchasing Card Policy and Procedures.	High
Rather than three distinct levels of approval, the Purchasing Manager often signs as the approval authority twice.	

**AUDIT 11-06: CITY PURCHASING CARDS
OBSERVATIONS AND RECOMMENDATIONS**

Management Action Plans					
Audit Recommendation	Priority	Concur	Do not concur	Proposed Management Action	Action Item Due Date
<p>1. In order to reduce unnecessary financial exposure, management should consider eliminating purchasing cards that are used infrequently and those which have not been used since the time of issuance. Excessive credit limits should be reviewed and reduced to an amount that more closely reflects spending habits.</p> <p>New employees should not be issued purchasing cards prior to the end of their probationary periods.</p>	Medium		X	<p>Management will review the cardholders with no or infrequent use to determine the need for the card by the department. We don't agree with the elimination of p-cards just by the criteria of infrequent use. P-cards are issued for various reasons such as routine use, travel and emergencies. We will review P-card credit limits based on department, employee position and uses to determine if changes need to be made. We also don't agree that no cards should be issued during the probationary period. New employees will be reviewed on a case by case basis to determine if a p-card will be issued during their probationary period. For example directors and managers may not be required to wait until they are off probation prior to a p-card being issued.</p> <p style="color: red;">Auditor Comment: Management has indicated "do not concur", but the response indicates otherwise as management plans to review employees who should/ should not have cards. Auditor will follow-up at time of action due date.</p>	9/30/11
<p>2. 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"> - Purchasing cards are to be used only by the cardholder whose name is embossed on the front of the card; - Dividing transactions into smaller purchases in order to achieve the purchasing thresholds and circumvent the purchasing rules is prohibited; - Every effort should be made to ensure sales tax is not included in the purchase total; - Itemized receipts with item descriptions, quantities, and unit costs should always be obtained from the vendor (specifically including food/ restaurant purchases); and - Cardholders and Approvers should abide by processing and approval timelines specified by policy. 	Medium	X		<p>In addition to the initial training, Purchasing will have periodic refresher training sessions for cardholders and management.</p>	9/30/11
<p>3. To eliminate the potential that a purchasing card could be used after a cardholder's employment termination date, the deactivation of a purchasing card should either occur prior to or coincide with the cardholder's termination date.</p>	High	X		<p>Cards will be deactivated prior to or upon cardholder's employment termination date.</p>	4/18/11

Management Action Plans

Audit Recommendation	Priority	Concur	Do not concur	Proposed Management Action	Action Item Due Date
<p>4. To prevent purchasing card misuse and collusion and for adequate enforcement of Administrative Regulation No. 024.A015.0707, revise the current purchasing card transaction approval flow to ensure that there are three distinct approvers of transactions.</p> <p>The ideal approval process would include approval sign-off from:</p> <ol style="list-style-type: none"> 1) The Cardholder: Certifies the accuracy of the transaction [In the event that the cardholder is unable to certify his/ her own transaction, the hardcopy back-up documentation should reflect signature certification; no designee]; 2) A Direct Supervisor or Manager: Approves the transaction based on understanding of business needs and appropriateness of the transaction [In some cases this may be a department director and, for higher positions, should be the Financial Administration Director]; and 3) The Purchasing Card Program Administrator: Reviews all transactions for appropriateness and compliance with regards to City purchasing policies and rules. 	High		X	<p>The City currently only has two levels of approvals for other disbursements and the p-card approval levels are consistent those approval requirements.</p> <p><i>Auditor Comment: To strengthen current purchasing practices and ensure funds are being spent appropriately and in accordance with business needs, the auditor encourages management to implement the three-tier sign-off process. Under the current process, too much reliance is placed on the Purchasing Manager to detect violations and questionable expenses.</i></p> <p><i>Utilizing the City's current tools, this recommendation can be easily implemented as it only requires that certain individuals be added to the approver list in the p-card approval system.</i></p>	N/A
<p>5. To ensure that the policy is current and outlines actual business practices, update Administrative Regulation No. 024.A015.0707 to reflect:</p> <ul style="list-style-type: none"> - Changes in purchasing limits (thresholds for quotes have increased); - A "designee" may provide purchasing transaction approval in lieu of a department director; - Employee social security numbers are no longer needed to establish a purchasing card; - A reference on the Cardholder Understanding Agreement that acknowledges an employee must also abide by the City's Food and Refreshment Policy; - Circumstances under which cardholders may purchase gift cards; - Card deactivation timelines for terminated employees; and - Departments not under the purview of the City Manager may purchase their own IT equipment with the purchasing card. 	Medium	X		Purchasing will update Administrative Regulation No. 024.A015.0707.	9/30/11

Management Action Plans

Audit Recommendation	Priority	Concur	Do not concur	Proposed Management Action	Action Item Due Date
<p>6. To allow a periodic opportunity to modify or delegate purchasing authorities department directors should certify, on an annual basis, that they approve of the employees who have been issued purchasing cards and agree with the established credit limits (or delete/ modify accordingly).</p> <p>Since an annual certification is already performed to establish signatory authority, management should consider adding purchasing card credit limits to the current signatory authorization forms.</p>	Medium	X		Purchasing will work with Information Technology to utilize e-point to setup an annual approval process.	9/30/11
<p>7. To ensure that City funds are used for appropriate purchases, management should clarify the approval process and spending limitations for social events held for exclusive groups, such as Advisory Boards and donors.</p>	Medium		X	<p>Administrative Regulation No. 024.A017.0308 delineates when it is allowable to provide food and refreshments. As stated in the policy, social events are not allowed. However, the policy states appreciation and planning events are allowed under certain circumstances. In the cases noted, the events, where the food and refreshments were provided, apparently met the established standards.</p> <p><i>Auditor Comment: One of the events identified by the auditor in the detailed report was an exclusive holiday party, while the other two were exclusive lunch/dinner parties. Auditor maintains that this is not a responsible use of city funds.</i></p>	N/A

APPENDIX AUDIT RATING SYSTEM

The audit ratings listed below are based on the auditor's assessment of whether the audit objectives were met.

Red- A red control rating denotes significant business risk or exposure to the City that requires immediate attention and remediation efforts. The controls reviewed do not appear to provide reasonable assurance that the control objectives are being met. The City is being exposed to a high level of business risk and exposure. Management is advised to immediately review the design and effectiveness of existing controls or consider implementing new or additional controls.

Yellow- A yellow control rating denotes opportunities for improvement exist relating to the controls reviewed. If this state of control is not improved, it could lead to a higher than acceptable level of business risk or exposure to the City. The controls reviewed provide some, but not sufficient assurance that control objectives are being met. Management is advised to review the design and effectiveness of existing controls or consider implementing new or additional controls on a priority basis.

Green- A green control rating indicates that the controls reviewed at the time of the audit indicated a satisfactory or acceptable state of control, where risk appears to be minimized and appropriately managed. Controls reviewed appear to provide a high degree of assurance that control objectives are being met. To maintain this rating management is advised to continue to assess the control systems and monitor existing controls for efficiency and effectiveness as business and organizational changes occur.