Audit #11-06:

City Purchasing Cards

Detailed Audit Report

Office of the City Auditor and Clerk
Internal Audit

Prepared by:

Heather Riti, MPA, CIA, CGAP
Manager, Internal Audit

Reviewed and Approved by:

Pamela M. Nadalini
City Auditor and Clerk

Final Report Issued: April 22, 2011

You can obtain copies of this report by contacting us at:

Office of the City Auditor and Clerk
1565 1st Street
Sarasota, FL 34236
(941) 954-4135

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OFFICE OF THE CITY AUDITOR AND CLERK
Internal Audit Division

Date: April 22, 2011

To: Mayor Kelly Kirschner, Vice Mayor Fredd "Glossie" Atkins, Commissioner Richard Clapp, Commissioner Suzanne Atwell, and Commissioner Terry Turner

From: Pamela M. Nadalini, City Auditor and Clerk

Subject: Audit #11-06: City Purchasing Cards

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

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

Attachment(s):

Detailed Audit Report #11-06
Executive Summary Audit Report #11-06

c: Robert Bartolotta, City Manager
Robert Fournier, City Attorney
Heather Riti, MPA, CIA, CGAP, Manager, Internal Audit
File

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Executive Summary Audit Report #11-06

c: Robert Fournier, City Attorney
Marlon Brown, Deputy City Manager
Christopher Lyons, CPA, CGFO, CPFO, Director, Financial Administration
Mary Tucker, CPPO, FCPM, FCCN, Purchasing Manager
Heather Riti, MPA, CIA, CGAP, Manager, Internal Audit
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 quicker procurement of goods and services, while still requiring cardholders to abide by Administrative Regulation No. 024.A007.0195, *Purchasing Policies, Requirements and Procedures*, 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*. 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.

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.

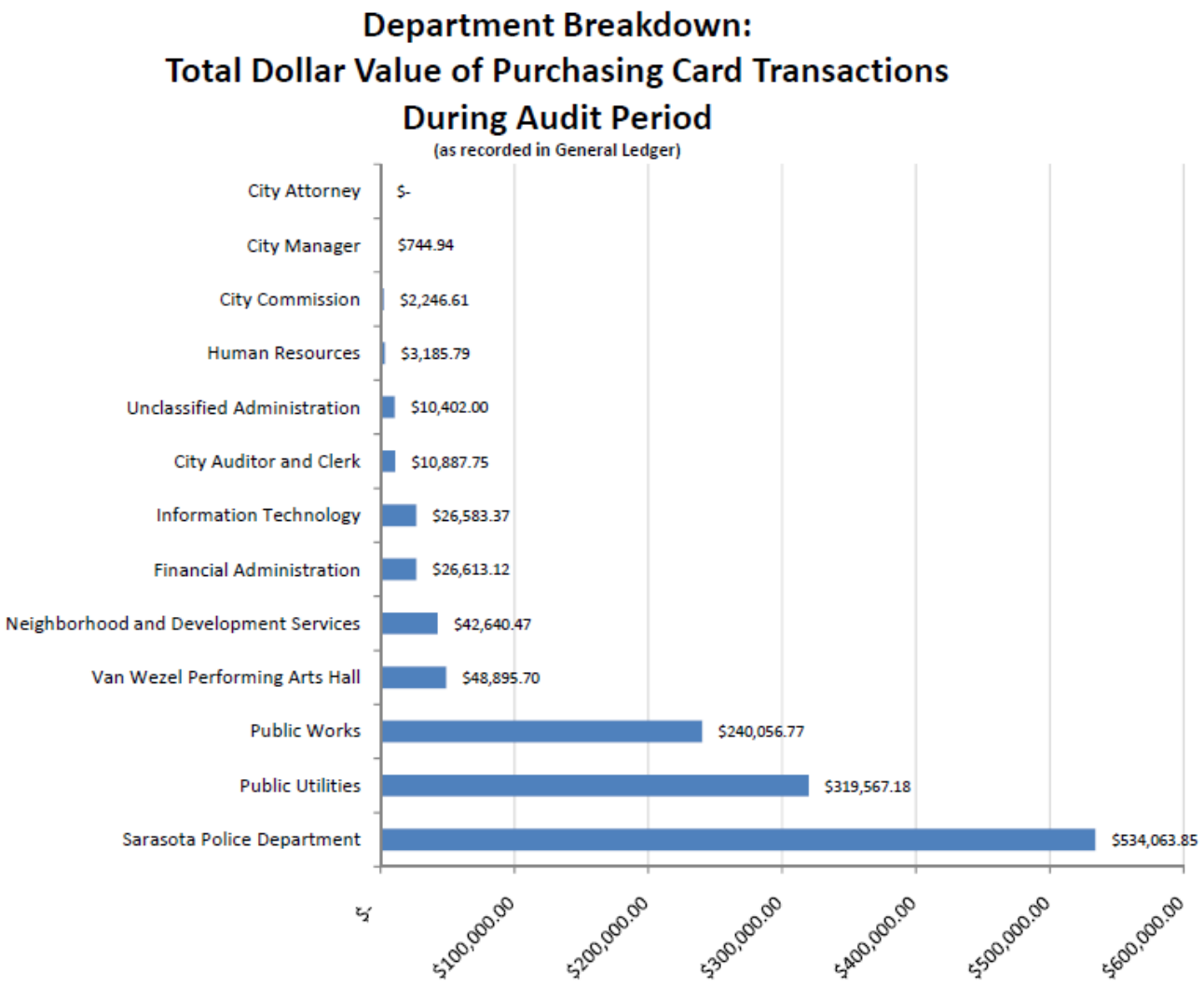
Administration of the purchasing card program is performed by the Purchasing Manager for all cardholders, including the Charter Officials and the City Commissioners. As of February 1, 2011, there were 61 active cardholders and a total corporate account credit limit of $2 million (the entire credit limit has not been allocated amongst cardholders).

For the 15 month audit period ending December 31, 2010, there were 2,204 transactions with purchase dates in the audit period, totaling $1,265,887.55. Individual purchase transactions ranged from $2.15 to $99,627.84. The following table illustrates cardholder activity for the audit period[1]; the chart on the following page displays purchasing card totals by department as they are reflected in the general ledger.

Department	# of Active Cardholders as of 2/1/11	Total Monthly Credit Limit for all Cardholders in Department as of 2/1/11	# 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	$0
City Auditor and Clerk	4	$10,500	33	$5,710.65	$173.05
City Commission	2	$10,000	12	$2,246.61	$187.22
City Manager	2	$10,000	13	$744.94	$57.30
Financial Administration[2]	6	$455,000	146	$499,014.38	$3,417.91
Human Resources	1	$4,000	21	$3,385.79	$161.23
Information Technology	2	$20,000	89	$25,192.02	$283.06
Neighborhood and Development Services	4	$20,000	205	$44,101.30	$215.13
Public Utilities	15	$380,000	423	$261,853.80	$619.04
Public Works	13	$276,000	797	$302,700.76	$379.80
Sarasota Police Department	8	$60,000	256	$72,281.60	$282.35
Van Wezel Performing Arts Hall	4	$16,000	209	$48,655.70	$232.80
	61	**$1,261,500**	**2,204**	**$1,265,887.55**	

[1] *Transactions with purchase dates between October 1, 2009- December 31, 2010*

[2] *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; the chart on the following page depicts purchase totals by department as they have been recorded in the general ledger.*



It should be noted that the high dollar volume of transactions associated with the Sarasota Police Department was due, in part, to several large direct materials purchases for the new Sarasota Police Department Headquarters and is not representative of normal day-to-day spending.

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; compliance has not been tested by Internal Audit since the purchasing card program first began. This audit was included on the 2011 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, 2009 to December 31, 2010 and a review of all cardholders as of February 1, 2011.

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 auditor conducted this audit in accordance with generally accepted government auditing standards. Those standards require that the auditor plan and perform the audit to provide a reasonable basis for findings and conclusions based on audit objectives. The auditor believes that the evidence obtained provides a reasonable basis for findings and conclusions based on the audit objectives.

The Internal Audit Division plans on having a peer review within the next two years by the Institute of Internal Auditors (IIA). While the Internal Audit Division strives to follow the guidance included in the IIA's International Professional Practices Framework, the *Standards* do not allow the department to note that the division is in accordance with IIA *Standards* until the peer review indicates such compliance.

TESTING METHODOLOGY

In order to fulfill the audit objectives, Internal Audit:

- Interviewed appropriate personnel;

- Used Computer Assisted Audit Tools (CAAT) to review and test $1,265,887 in transactions with purchase dates between October 1, 2009- December 31, 2010 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 2,204 purchasing card transactions with purchase dates in the audit period. Specifically, a judgmental sample of 327 transactions[3] was utilized for the purposes of testing compliance with requirements noted in the Purchasing Card Policy and Procedures. The auditor's sample was comprised of the 61 transactions with the highest dollar values, 109 transactions from December 2009, and 157 transactions from December 2010. 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.A007.0195- Purchasing Policies, Requirements, and Procedures
- Administrative Regulation No. 024.A017.0308- Policy for Food and Refreshments
- 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, were found to be thorough and comprehensive. Internal Audit noted that, while some minor updates to the policy are suggested due to the age of the policy, the overall policy for governing the purchasing card program is adequate.

[3] Sample size was determined by employing a 95% confidence level and 5% confidence interval.

AUDIT CONCLUSIONS

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 regular review of credit limit reasonableness and timely card deactivation.

A complete list of Internal Audit's observations and recommendations is located on page 14 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 327 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. A review of all transactions in the audit period revealed at least four instances of divided purchases, including one in which two employees appear to have split an invoice between their respective purchasing cards. The auditor found notations that indicate that the Purchasing Manager was able to identify two of these instances through regular monitoring and addressed the prohibited behavior with the cardholders. The two undetected instances were brought to the Purchasing Manager's attention during audit fieldwork for appropriate action.

- **Supporting documents** (including competing price quotes) are required to be attached to sales receipts where a single transaction exceeds $3,000. Of the transactions in the auditor's sample that required competing price quotes, the divided purchases noted above were the only exceptions to compliance. Price quotes were appropriately obtained and maintained for all other 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 ten instances in which a sales receipt was signed by someone other than the cardholder; eight of those instances are attributable to a single cardholder.

- **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. Audit testing of all transaction data obtained directly from Bank of America's WORKS system revealed $65.44 in sales tax actually paid; only 7 transactions of 2,204 included sales tax amounts. In other instances, the auditor noted that 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 327 transactions revealed no transactions that had the appearance of a purchase for personal use.

- **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 main exception to compliance where it was not always clear what was purchased or for whom; cardholders should be reminded of the requirement to obtain itemized receipts for food purchases.

1703 MAIN STREET
SARASOTA,FL 34236

CREDIT I.D. : 0075977 01
DEBIT I.D. :

PVISA
XXXXXXXXXXXX3444
SALE
BATCH: 000650
DATE: DEC 03, 09
RRN: 0039102

INVOICE: 375586
TIME: 15:22
AUTH NO: 030039

BASE $100.00
TIP
TOTAL

X

THANK YOU & HAVE A NICE DAY

I AGREE TO PAY ABOVE TOTAL AMOUNT
ACCORDING TO CARD ISSUER AGREEME
(MERCHANT AGREEMENT IF CREDIT VOUCH

Example:

Lack of itemization for this restaurant receipt makes it impossible to know what was purchased and whether the expense was justified.

- **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 exclusive groups of people which management should address.

Examples:

Screenshots from Bank of America's WORKS system show transactions totaling $497.04 for a "Holiday Party for board", an "Education Dinner", and a "Sponsorship Luncheon".

Further, the auditor noted one transaction in which a department paid test fees for a professional certification for a consultant. The City should only pay for employees' training and education and not that of consultants, as they are hired by the City to perform specific tasks; information was provided to the Purchasing Manager during audit fieldwork to correct this transaction.

- **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 transactions during the audit period found substantial compliance with the processing (77% compliance) and approval (79% compliance) deadlines where the average processing time was 4 days and the average approval time was 2 work days.

  The approximately 20% of transactions in non-compliance should be reviewed by management for consistent cardholder/ approver offenders. Of 61 active cardholders, 11 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, nine 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	4	4	100%	12
Cardholder #2	1	1	100%	13
Cardholder #3	11	12	92%	10
Cardholder #4	28	32	88%	13
Cardholder #5	2	3	67%	13
Cardholder #6	2	3	67%	20
Cardholder #7	11	17	65%	12
Cardholder #8	10	16	63%	11
Cardholder #9	54	89	61%	10
Cardholder #10	7	12	58%	13
Cardholder #11	25	45	56%	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 unable to find evidence that purchased items had inappropriately left the city premises.

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.

  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. Minor exceptions included card limits where outdated purchasing thresholds[4] were used as the single transaction limit, yet the purchasing card has an actual single transaction limit which is slightly higher than that stated on the card issuance paperwork.

  While credit limits appropriately matched amounts requested, prior department directors were responsible for the authorization of 41 of 61 active purchasing cards (67%). The majority of purchasing cards were authorized by individuals who are no longer employed by the City; there is no annual review of cardholders and credit limits for current department directors to determine whether purchasing cards are necessary and desired.

- **Credit limits** for each cardholder should be reasonable and commensurate with job responsibilities. Results of audit testing of 61 active cardholders suggest that some credit limit adjustments and/or elimination of non-used cards may be beneficial to reduce potential financial risk as:

  - Six purchasing cards have had no activity since the time of card issuance (one was issued September 2008, another was issued December 2008, and the remaining four were issued December 2009),

  - Five purchasing cards were used three times or fewer over the 15-month audit period (none of which had a transaction in excess of $180.48), and

  - Six purchasing cards had excessive credit limits given the cardholders' spending history.

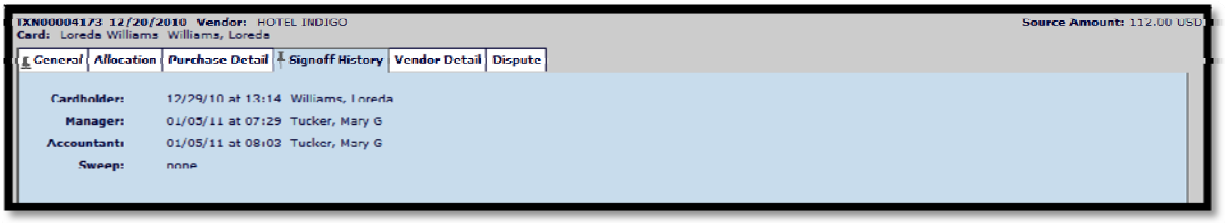
  Power users (Purchasing Manager and Purchasing Division employees) have substantially higher overall credit limits than other users in the City. While these limits are purposefully higher to accommodate large purchases on behalf of departments, none of the purchases made during the audit period necessitated the current $50,000 limits provided to Purchasing employees.

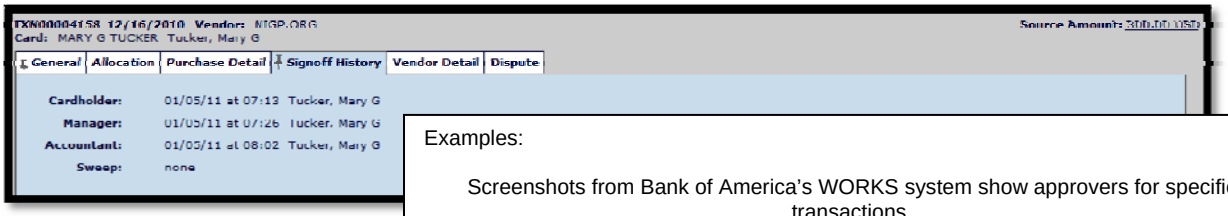
- **Leave of employment** should trigger immediate deactivation of a purchasing card. The current Purchasing Card Policy does not specify a deactivation time requirement. Of nine cardholders who terminated employment with the city during the audit period, six had their purchasing cards deactivated anywhere from 53 calendar days to 479 calendar days after their respective leave dates. The remaining

[4] Purchasing thresholds were updated by management in 2008 to increase the dollar value at which competing quotes and competitive bids are required.

three purchasing cards were terminated either prior to the employee's leave date or within two weeks of 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 transactions should include three distinct levels of approvals regardless of signatory authority. Currently, the monitoring and approval process is heavily reliant on the Purchasing Manager, where she often acts as the approval authority on a transaction twice.





Examples:

Screenshots from Bank of America's WORKS system show approvers for specific transactions.

The first example lacks department director approval, leaving the Purchasing Manager to determine appropriateness of the transaction for two levels of approval.

The second example demonstrates how the Purchasing Manager is able to make a purchase and approve it at all levels. The Director of Financial Administration signs off on the Purchasing Manager's monthly hard copy credit card statements, but his approval should also be evidenced in the system which displays information closer to real-time.

To properly prevent collusion and purchasing card abuse, the ideal approval process would include: 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 the Purchasing Manager indicated that two employees in the Accounting Division also review 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 employees' roles was designed to act as a control over monitoring appropriateness of items purchased.

The cardholder is responsible for certifying transactions in the WORKS system; however, instances were noted in which someone other than the cardholder performed this task. The auditor also noted that neither the majority of cardholders nor department directors were physically signing their monthly statements to attest to the accuracy of transactions (as is required by policy).

AUDIT OBSERVATIONS AND RECOMMENDATIONS

Issue #	Subject	Priority	Observation	Recommendation	Concur	Do not concur	Management Response (black) Auditor Comment to Management Response (red)	Committed Action Item Due Date
1	Reasonableness of Credit Limits	Medium	Of the 61 active purchasing cards (as of February 1, 2011): - 6 cards have not been used since the time of card issuance (two of which were issued in 2008, the other four were issued in 2009) - 6 cardholders' credit limits appeared excessive given their purchasing history - 5 cards were used three times or fewer over the 15 month audit period (none of which had a transaction in excess of $180.48) Infrequent or non-use of the purchasing card is an indication that the City's regular purchasing process is sufficient and that a purchasing card may not be necessary. While some employees require higher credit limits to achieve job functions, excessive credit limits expose the City to unnecessary financial risk.	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. New employees should not be issued purchasing cards prior to the end of their probationary periods.		X	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. 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.	9/30/11

Issue #	Subject	Priority	Observation	Recommendation	Concur	Do not concur	Management Response (black) Auditor Comment to Management Response (red)	Committed Action Item Due Date
2	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. Test results of the auditor's sample of purchasing card transactions revealed some instances of non-compliance with the Purchasing Card Policy and Procedures. Policy reminders and/ or training may mitigate future instances of non-compliance.	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: - 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.	X		In addition to the initial training, Purchasing will have periodic refresher training sessions for cardholders and management.	9/30/11
3	Deactivation of Cards	High	Purchasing cards were not deactivated in a timely manner with respect to a cardholder's employment termination date. 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.	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.	X		Cards will be deactivated prior to or upon cardholder's employment termination date.	4/18/11

Issue #	Subject	Priority	Observation	Recommendation	Concur	Do not concur	Management Response (black) Auditor Comment to Management Response (red)	Committed Action Item Due Date
4	Monitoring and Approval Flow	High	Approval levels for the processing/ approval authorizations for transactions lack effective controls to prevent collusion and ensure enforcement of the Purchasing Card Policy and Procedures. Rather than three distinct levels of approval, the Purchasing Manager often signs as the approval authority for a transaction twice for cardholders such as department directors, Charter Officials, City Commissioners, and Purchasing Division employees. The auditor also noted instances in which someone other than the cardholder certified the accuracy of the transaction as the "cardholder sign-off" in Bank of America's electronic system.	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. The ideal approval process would include approval sign-off from: 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.		X	The City currently only has two levels of approvals for other disbursements and the p-card approval levels are consistent those approval requirements. 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 (see page 13). 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.	N/A

Issue #	Subject	Priority	Observation	Recommendation	Concur	Do not concur	Management Response (black) Auditor Comment to Management Response (red)	Committed Action Item Due Date
5	Updates to Administrative Regulation	Medium	Administrative Regulation No. 024.A015.0707, Purchasing Card Policy and Procedures, includes comprehensive requirements for the City's purchasing card program. However, because the current version was written in 2007, some updates are necessary to bring the policy in line with actual practices and to further enhance the policy.	To ensure that the policy is current and outlines actual business practices, update Administrative Regulation No. 024.A015.0707 to reflect: - 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.	X		Purchasing will update Administrative Regulation No. 024.A015.0707.	9/30/11
6	Annual Certification of Cardholders	Medium	The majority of cardholders with purchasing cards obtained authorization for the card and had credit limits established by prior department directors who are no longer employed. Currently, there is no review and re-authorization process of active purchasing cards either periodically or at the time a new department director is appointed.	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). 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.	X		Purchasing will work with Information Technology to utilize e-point to setup an annual approval process.	9/30/11

Issue #	Subject	Priority	Observation	Recommendation	Concur	Do not concur	Management Response (black) Auditor Comment to Management Response (red)	Committed Action Item Due Date
7	Clarify the Food and Refreshment Policy	Medium	Administrative Regulation No. 024.A017.0308, the City's Food and Refreshment Policy, lacks clarity on permissions for unique events that involve serving of food. For example, the auditor noted three instances in which a department expended funds to rent a facility for social events; food was provided as an in-kind benefit from the facility. 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.	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.		X	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. Auditor Comment: One of the events identified by the auditor in this report was an exclusive holiday party, while the other two were exclusive lunch/dinner parties (see page 10). Auditor maintains that this is not a responsible use of city funds.	N/A

EXHIBIT A: INTERNAL AUDIT RECOMMENDATION PRIORITIES

Exhibit A- Internal Audit Recommendation Priorities

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

Priority Level[1]	Description	Implementation Action[3]
High	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.[2]	Immediate
Medium	A potential for incurring moderate financial or equivalent non-financial losses exists.[2]	Within 60 days
Routine	Operation or administrative process will be improved.	60 days to 6 months

[1] 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 level.

[2] 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.

[3] 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.