

**PURCHASING DEPARTMENT
PURCHASE CARD PROGRAM
AUDIT 06-12
MAY 2, 2006**



CITY OF TAMPA

Pam Iorio, Mayor

Internal Audit Department

Wayne Boytim, Acting Internal Audit Director

June 26, 2006

Honorable Pam Iorio
Mayor, City of Tampa
1 City Hall Plaza
Tampa, Florida

RE: Purchasing Card Program, Audit 06-12

Dear Mayor Iorio:

Attached is the Internal Audit Department's report on the Purchasing Card Program.

We thank the management and staff of the Purchasing Department for their cooperation and assistance during this audit.

Sincerely,

Wayne Boytim
Acting Internal Audit Director

cc: Darrell Smith, Chief of Staff
Steve Daignault, Public Works and Utility Services Administrator
Gregory Spearman, Purchasing Director
Brad Baird, Water Director

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Auditor



Audit Director

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INTRODUCTION

The City is a “participating entity” to the State of Florida’s VISA Purchasing Card Agreement with the Bank of America. The State renewed the agreement in July 2002 for an additional five years. The purpose of the program is to:

- Allow goods and services to be obtained faster and easier
- Reduce paperwork and processing time in the User department, Purchasing and Accounts Payable
- Enable employees to be more efficient, and to focus on the more value added aspects of their jobs
- Provide cost savings by consolidating payment to one vendor

Each standard Purchase Card (P-card) has a monthly transaction limit of \$15,000 with a \$1,999 per transaction limit. The City’s total monthly transaction limit is \$1,500,000. In addition, the City restricts (electronically) the type and number of available merchants by excluding certain Commodity Codes.

The City has five emergency cards. Four are stored in a vault for safekeeping and the Purchasing Director maintains the other card. Other than the Purchasing Director’s card, their usage is limited to declared emergencies. The cards have a monthly transaction limit of \$100,000 with no per transaction limit. The City also has five Mutual Aid Request (MAR) cards. Tampa Fire Rescue uses them when responding to disaster assistance requests from other governments within and without the state. The entity requesting the assistance reimburses the City for the costs incurred.

STATISTICS

	<u>FY03</u>	<u>FY04</u>	<u>FY05</u>
Number of cardholders	264	306	402
Percent Increase		15.9	31.4
Number of transactions	14,928	16,970	21,249
Percent Increase		13.7	25.2
Total transaction amount	\$3,355,648	\$3,999,802	\$4,823,884
Percent Increase		19.2	20.6

Source: The Purchasing Department provided the statistical information. We calculated the percentages.

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Department's FY06 Audit Agenda. The objectives of this audit were to determine if:

1. Cardholders were authorized employees.
2. Purchases were adequately supported.
3. Purchases were allowable under City policy.

STATEMENT OF SCOPE

The audit period covered purchase card activity that occurred from October 1, 2004, to March 31, 2006. Source documentation was obtained from Bank of America, the Purchasing Department and the City's financial system. Original records as well as copies were used as evidence and verified through physical examination.

STATEMENT OF METHODOLOGY

To achieve the audit's objectives, reliance was placed on computer-processed data contained in the City's financial system. The City's financial system was previously determined to be reliable and no additional work was necessary.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. Cardholders were authorized employees. However, departments did not always communicate changes in employee status to Purchasing in a timely manner.
2. Purchases were adequately supported except for one department.
3. Purchases, overall, were allowable under City policy. However, the policy regarding reimbursable travel expenses needs clarification.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Purchasing Department, they do present risks that can be more effectively controlled.

AUTHORIZED EMPLOYEES

We obtained a December 2005 cardholder listing from the Bank of America (BOA). Each cardholder was traced to the City's Human Resource system. We found two exceptions. A Water Department's cardholder retired in August 2005; however, the department used the P-card through February 2006. The other exception was a cardholder who married but failed to notify Purchasing of her name change.

Using a separated employee's P-card contravened the Purchase card policy. Change in the employment status of a cardholder was not reported to Purchasing. Purchase card policy is that the P-card of holders no longer employees are to be returned to the Program Administrator. It is management's responsibility to ensure that the internal control process is functioning properly.

A statistical sample of forty-six cardholders was selected to test the approval process for issuing P-cards. We verified that the appropriate department authority approved the card issuance and that the cardholder signed a Purchase Card Acknowledgment form. There were no exceptions. However, we noted that Supervisors as well as Managers could approve the issuance of a card without the User Department's Director approval. Purchasing stated the policy will be revised to require the Director's approval.

RECOMMENDATION 1

Purchasing should coordinate with Human Resources to be notified of any changes in employment status.

AUDITEE RESPONSE

Purchasing PSA staff, have taken steps to combat the problem of not receiving timely notification of employees who cardholders, retiring, transferring etc. so that their card can be canceled at the earliest possible date.

1. PSA Manager and P-Card Administrator will both be added to the list distributed by IT staff (Lisa Hoffower) of these employees who have a change in their employment status with the City.
2. PSA Manager will contact HR to inquire if there is a "separation" notification list distributed by their office on a periodic basis.
3. Departmental Reconciler will be reminded via email to notify Program Administrator and copy PSA Manager on all transfers and retirements of employees who hold Visa cards in their department.

RECOMMENDATION 2

Purchasing should determine if further administrative action should be pursued for the improper use of the P-card after the retirement of the employee who was issued the card.

AUDITEE RESPONSE

This would be viewed as a violation of current Purchasing Card Policy, under the “Authorization” section of the P-Card policy, which states:

“Purchasing Cards may be used by the person whose name appears on the face of the card and may not be loaned to any other person.”

The paragraph just before this statement under the “Authorization” section of the P-Card policy states:

“Employees who misuse or abuse card usage will be subject to disciplinary action up to and including termination of employment.”

Going forward, the Program Administrator will document a written warning to the employee/department committing the infraction.

RECOMMENDATION 3

Purchasing should request the BOA to deactivate the P-card of the separated employee.

AUDITEE RESPONSE

This has always been the policy. Cards are immediately canceled electronically via the “Card Program Administrator” system (desktop modem connection). This is done as soon as the Program Administrator is notified of the “separation.” Timeliness has been dependent on the department notifying the Card Program Administrator, but will be corrected as outlined in Recommendation 1.

PURCHASES

The previous statistical sample of cardholders was used to test P-card transactions. For each cardholder, we judgmentally selected one month of purchases to review. The object was to determine if:

- A sales receipt and/or invoice supported each purchase
- The item purchased was adequately described and was an eligible commodity
- There were no split purchases
- Sales tax was not charged
- The total sales receipts agreed to the BOA statement amount
- The sales receipts and/or Accounts Payable Invoice Header was approved by an authorized department official

We found twenty-one exceptions as follows:

- Two purchases were for a prohibited commodity (cell phone)
- One transaction did not have an item description
- Five purchases included sales tax
- One improper use of a P-card
- Twelve purchases did not have any supporting documentation

The Water Department's Administration Section was responsible for seventeen of the twenty-one exceptions. Three different departments incurred the remaining exceptions.

Approvals

City Council, Directors, and other senior staff approve their own invoices for payment. As a result, improper transactions (while unlikely) could be made and not detected. Monitoring and control are integral components of the internal control process. This includes the segregation of duties, which provides for the review and approval of transactions by someone other than the initiating party.

Policy

We found one cardholder used the P-card at restaurants in the City. According to the Purchasing Department, this is against policy citing the reimbursable travel expense clause. However, travel expense is only incurred when a City employee travels outside Hillsborough County. The Policy is vague and did not address use of the card inside the County at restaurants.

RECOMMENDATION 4

The Purchasing Department should provide the Water Department refresher training for the proper use of P-cards. Additionally, it should consider if expanded short term monitoring is needed.

AUDITEE RESPONSE

Given the circumstance of this sampling, Purchasing Department PSA staff would concur with these recommendations and upon publishing of these audit findings, PSA staff will contact Water Administration management staff to schedule this refresher training, and will ask the department to submit copies of all receipts with monthly reconciliation for a three-month period. We would recommend that the Water Department Director be copied on these Audit findings.

RECOMMENDATION 5

The Purchasing Department should determine how the approvals for City Council and senior staff should be made.

AUDITEE RESPONSE

Chief of Staff will sign P-card requests and payment approvals for cardholders that report directly to the Mayor. The Purchasing Card Program Administrator will continue to monitor charges for compliance with current City policy. Attached memo distributed to Council members. (*See Attachment A*).

RECOMMENDATION 6

The Purchasing Department should review the P-card policies to ensure that they clearly state the intended guidelines. Management should communicate any revisions to cardholders and conduct training sessions (if needed).

AUDITEE RESPONSE

A revised policy was implemented during this audit and the first such review and revision has been completed, and disseminated to department reconcilers in training sessions and to cardholders via the City's E-news. Purchasing will continue to hold annual review of P-card policy, as well as broadcast revisions and updates via the City's E-news, and emails to department reconcilers.

PURCHASE CARD ADMINISTRATION

The review of the Purchase Card Program found that the Program Administrator (Administrator) is responsible for all phases of the process. The Administrator is authorized to request purchase cards from BOA and receives the new cards for distribution. According to the Administrator, the reason new cards were not mailed directly to the new cardholder was to insure they attend the required training session where distribution is made. In addition, the Administrator is responsible for the annual verification of cardholders. Segregation of duties, a key control necessary to reduce risk, was not in place.

RECOMMENDATION 7

Management should revise the process for obtaining new P-cards to implement segregation of duty controls. One person should not control all steps in the process. For example, the person who orders the cards should not receive them.

AUDITEE RESPONSE

The Purchasing Methods Analyst will make new card requests directly to the bank. New cards will be received and logged by the Purchasing Systems Manager, and passed to the Purchasing methods Analyst to schedule cardholders for training. In addition, the Purchasing Systems Manager will assist PSA with the annual card inventory.

RECOMMENDATION 8

Someone, other than the P-card Administrator, should conduct the annual verification of cardholders.

AUDITEE RESPONSE

PSA Manager will incorporate this recommendation into the “segregation” of sensitive duties mentioned in Recommendation 7, for final approval by the Purchasing Director.

CARD USAGE

A BOA report listing the number of transactions by cardholder in calendar year 2005 was reviewed. Our analysis showed that almost thirty percent of the cardholders used their card twelve times or less during the year, (some had no use). P-cards are similar to cash; the elimination of unnecessary cards could reduce the risk of misuse and/or fraud. A survey of other cities found that most had a usage review program in place. The administration of the program varied, but in several cities, the P-card Administrator was responsible for analyzing annual usage. If the number of transactions were low, the cardholder was required to justify the need to retain the P-card.

RECOMMENDATION 9

Management should consider performing an annual card use analysis. Low use cardholders (12 or less uses per year) should be required to justify the need to retain their P-card.

AUDITEE RESPONSE

This recommendation will be incorporated into the annual verification of cardholders (see Recommendation 8), Department Directors will be asked to review the need for any cardholders who fall into the low usage category to consider canceling any unnecessary cards.