



October 29, 2014

Performance Audit

Purchasing Card Use and Oversight

Citywide

Report No. 14-106



**CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT**

PERFORMANCE AUDIT REPORT
PURCHASING CARD USE AND OVERSIGHT
CITYWIDE
REPORT NO. 14-106

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Executive Summary

Background

As of March 31, 2014, the City of Albuquerque's (City) purchasing card (P-Card) program had been in place for approximately 14 years and consisted of 379 active P-Cards. During the period of April 1, 2013 through March 31, 2014, 21 City departments made 12,545 purchases in the amount of \$3,227,006. Those purchases consisted of a wide variety of items such as food, computers/tablets, plumbing and vehicle parts, books, and office supplies, just to name a few. The key positions involved in ensuring the P-Card program operates in accordance with rules, regulations, policies and procedures (P&P) are the P-Card Holders (Cardholders), Card Coordinators, Department Directors or designees, and Program Administrators.

The City has implemented certain controls over all P-Cards to try and reduce the risk of inappropriate or fraudulent purchases. For instance, all P-Cards have certain merchant category codes (MCCs) blocked so that items like airline tickets, alcohol, and fuel cannot be purchased using the card. In addition, credit limits are placed on all P-Cards and can range from single transaction credit limits of \$500 to \$5,000. The use of P-Cards provides a variety of benefits to the City, and is an easy way of obtaining the items needed to continue business in an effective and efficient manner, but must be monitored closely to ensure no inappropriate or fraudulent activity occurs.

Findings

In performing the P-Card use and oversight audit, the Office of Internal Audit (OIA) did not discover any significant violations of rules, regulations, or P&P. In addition, OIA did not identify any findings that may indicate potential fraudulent activity. Overall the City has designed and implemented strong internal controls for the P-Card program; however, over time there has been some breakdown on the operation and monitoring of those controls.

In order to ensure controls over P-Cards are performing as intended, the City should consider updating the current P-Card training classes to add greater detail on Card Coordinator responsibilities and processes. A large number of the exceptions noted were due to the limited knowledge of the Card Coordinators on all of the process steps that must be performed within their roles. Also, to ensure that all Cardholders and Card Coordinators have received the proper training, the City should implement a tracking system that can be utilized to identify who is in need of initial training, and who is due for renewal training in both the P-Card P&P and the Works User Interface System (Works).

Monitoring over transactions, documentation files, and processes by the Program Administrators was not being performed as frequently, or as detailed enough, to prevent some issues with P-Cards. Currently the Program Administrators are relying on Card Coordinators to perform most monitoring functions. The Purchasing Division does perform a review of transactions on a quarterly and random basis. However, there should be more frequent detailed reviews performed by the Purchasing Division in coordination with the Accounting Division, since purchasing issues are not always identified and corrected with the current review process. Also, Program Administrators are independent of the departments making the purchases and have more authority than Card Coordinators to take corrective actions for purchasing violations made by Cardholders. With frequent detailed monitoring in place the City can have confidence that controls over P-Card purchases are working effectively.

Recommendations and management responses are included within the audit report.



City of Albuquerque

Office of Internal Audit

October 29, 2014

Accountability in Government Oversight Committee
P.O. Box 1293
Albuquerque, New Mexico 87103

Audit: Performance
Citywide – Purchasing Card Use and Oversight
Audit No. 14-106

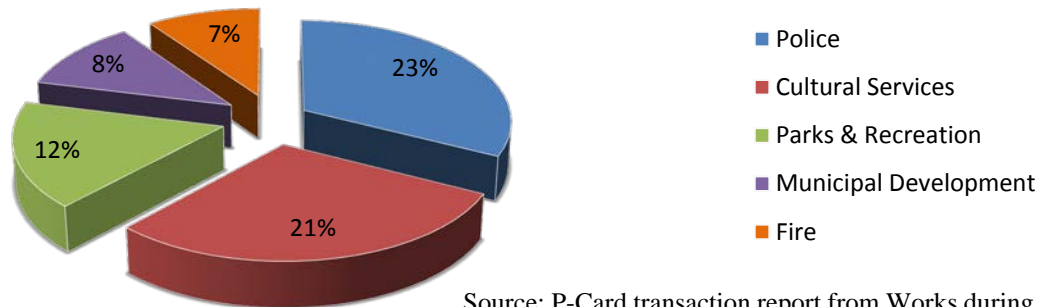
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INTRODUCTION

OIA conducted a Citywide performance audit of P-Card use and oversight. The audit was included in OIA's fiscal year (FY) 2014 audit plan. Information pertaining to the audit objectives, scope and methodology can be found in **Appendix A**.

The City began using P-Cards in 2000, and as of March 31, 2014 had 379 active P-Cards distributed throughout City departments. During the 12-month period of April 1, 2013 through March 31, 2014 there were 12,545 purchases made on P-Cards in the total amount of \$3,227,006. The number and dollar value of P-Card purchases varied widely among City departments. The graph below represents the top five departments who spent the highest percentage of the \$3,227,006. Detail of the exact number and amount of purchases made by each City department can be found in **Appendix B**.

Top Five Departments with the Largest Percentage of P-Card Purchases



Source: P-Card transaction report from Works during the period of April 1, 2013 through March 31, 2014.

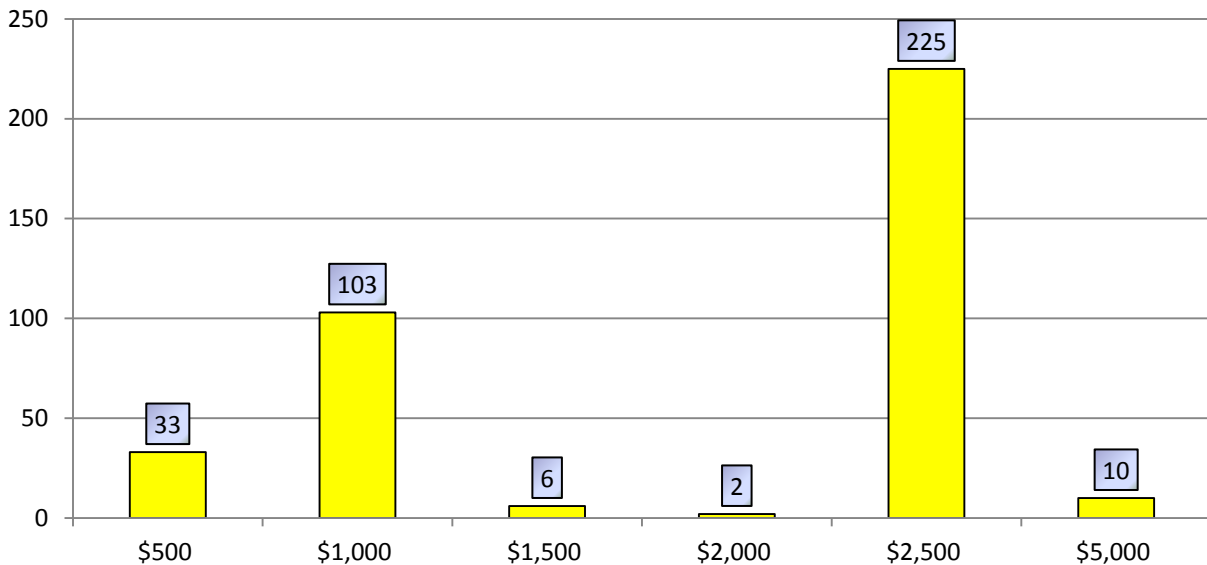
The City uses Works, which is provided by the Bank of America to maintain data related to each P-Card. Through Works the Program Administrators are able to request new P-Cards, make changes to existing P-Cards, and deactivate P-Cards. In addition, Works is extensively used by the Card Coordinators to perform their weekly reconciliation and sign off process for purchase transactions. The P-Card process involves the following roles, each of which has responsibilities vital to the success to the P-Card program:

- The Cardholders are responsible for making the purchases in accordance with City Ordinance, City Administrative Instructions, and P-Card P&P.
- The Card Coordinators are responsible for the review and reconciliation of the purchase supporting documentation submitted by the Cardholders, and the sign off of transactions within the Works system.
- The Department Directors or designees are responsible for the prior and post review and approval of purchases made by the Cardholders.
- The Program Administrators from the Purchasing and Accounting Divisions of the Department of Finance and Administrative Services (DFAS) are responsible for the distribution, maintenance, and termination of all P-Cards.

The Program Administrators have implemented multiple controls throughout the P-Card process designed to prevent misuse of the cards. Some of these controls include Department Director or designee review and approval, reconciliations and sign offs performed by the Card Coordinators, and retention of purchase supporting documentation. Please see **Appendix C** for flowcharts of the P-Card processes and controls.

The City has multiple departments that provide a wide array of services to the citizens, and because of this, purchases made on the P-Cards ranged from items such as food, computers/tablets, plumbing and vehicle parts, books, and office supplies, just to name a few. Due to the need of so many items that can be purchased using P-Cards, the City has implemented certain controls on all cards to try and prevent misuse of funds. For example, all City P-Cards have a set single transaction credit limit. While the limit is anywhere from \$500 to \$5,000, the majority of P-Cards are set at a \$2,500 single transaction credit limit. The graph on page 3 shows the number of Cardholders that have the various single transaction credit limits.

Number of Cardholders by Single Transaction Credit Limit



Source: Cardholder detail report from Works as of March 31, 2014.

In addition, all P-Cards have MCCs that restrict the type of items that can be purchased when using the P-Card. These codes are set up so that if a Cardholder were to try and purchase airline tickets, fuel, alcohol, or other restricted items, the transaction would automatically be declined. The Purchasing Division does have the authority to temporarily lift blocked MCCs so that a Cardholder is able to make the purchase with a P-Card if needed.

The use of P-Cards provides a variety of benefits to the City, and is an easy way of obtaining the items needed to continue business in an effective and efficient manner. While the City has designed and implemented strong controls over the use and oversight of P-Cards, the operation and monitoring of the controls are not always followed. Below are the findings identified by OIA of the breakdown in operation of P-Card controls noted during the P-Card use and oversight audit.

FINDINGS

The following findings concern areas that OIA believes could be improved by the implementation of the related recommendations.

1. DFAS SHOULD ENSURE ALL CARD COORDINATORS ARE PROPERLY TRAINED ON THEIR ROLES AND RESPONSIBILITIES.

Currently the Purchasing Division conducts a training session on P-Card P&P for all Cardholders and Card Coordinators. In addition, the Accounting Division conducts a training session for Card Coordinators on the Works system, and provides a review of the Card Coordinator duties as detailed in the P-Card P&P. However, while the Purchasing and Accounting Divisions provide training to Card Coordinators on their responsibilities, there is a breakdown between what is taught in the training classes and what is actually being performed by the Card Coordinators. The following tables detail the exceptions noted of the breakdown in operation of the controls in place over Card Coordinator processes.

OIA selected a statistical random sample of 63 P-Card purchases made by 55 Cardholders and reviewed by 22 Card Coordinators during the period of April 1, 2013 through March 31, 2014, and identified the exceptions listed in the table below.

| Description of Exception | Criteria | Number of Purchases Tested | Number of Exceptions Noted |
|--|--|----------------------------|----------------------------|
| Card Coordinators did not submit the P-Card purchase supporting documentation to the Department Director or designee for review and approval within five days of signing off on the purchase within Works. | According to the P-Card P&P, the Card Coordinator should submit all purchase supporting documentation to the Department Director or designee within five days of the Works sign off. | 63 | 36 |
| Card Coordinators did not sign off on purchases in Works within five days of the purchase being posted to the system. | According to the P-Card P&P, the Card Coordinator should sign off on purchases in Works within five days of the purchase being posted to the system. | 63 | 24 |

| Description of Exception | Criteria | Number of Purchases Tested | Number of Exceptions Noted |
|--|---|----------------------------|----------------------------|
| Card Coordinators did not complete the purchase envelope or log by initialing or signing to show that they had completed the reconciliation and sign off in Works. | According to the P-Card P&P, the Card Coordinator should complete the purchase card envelope or log after they perform the reconciliation and sign off in Works. | 63 | 5 |
| The City was overcharged by \$90 on a purchase because the Card Coordinator did not ensure the amount charged by the vendor in the Works system matched the amount on the purchase receipt or invoice, nor did the Card Coordinator forward the reconciled transaction report from Works to the Department Director designee for review. Therefore, the Department Director designee was unable to review the P-Card documentation to catch the discrepancy that the Card Coordinator missed. | According to the P-Card P&P, the Card Coordinator should submit all purchase supporting documentation, including the Works sign off report, to the Department Director or designee for review and approval. | 63 | 1 |
| Card Coordinators were not able to ensure that Cardholders obtained approval from the Department Director or designee prior to making a purchase on the P-Card, since most Cardholders only obtain verbal approval. While the criteria does not specifically state that the approval must be in writing, and therefore, the 50 transactions noted were not actual exceptions to the P-Card P&P, the Card Coordinator would not be able to verify approval was obtained prior to the purchase being made if the Cardholder only received verbal approval. | According to the P-Card P&P, prior to making a purchase with the card, the Cardholder must obtain approval of the Department Director or designee. In most cases the department designee is the Cardholder's manager. | 63 | 50 |

OIA performed inquiry and observation testing of 10 judgmentally selected Card Coordinators’ review and reconciliation processes, and identified the exceptions listed in the table below.

| Description of Exception | Criteria | Number of Card Coordinators Observed | Number of Exceptions Noted |
|--|---|--------------------------------------|----------------------------|
| Card Coordinators did not provide detail transaction reports from Works to the Cardholders on a weekly basis. However, it was noted that all receipts had been submitted for the purchases tested. | According to the P-Card P&P, Card Coordinators can generate transaction reports from Works on a weekly basis, and should give these reports to the Cardholder for review on the same day. | 10 | 5 |

OIA selected a statistical random sample of 24 deactivated P-Cards during the period of April 1, 2013 through March 31, 2014, and identified the exceptions listed in the table below.

| Description of Exception | Criteria | Number of Deactivated Cards Tested | Number of Exceptions Noted |
|--|--|------------------------------------|----------------------------|
| Card Coordinators did not submit the Card Maintenance Form to the Accounting Division to deactivate the P-Card on or before a Cardholders’ termination or transfer date. | According to the Bank of America Corporate Card Service Agreement, the City is responsible for informing Bank of America of any terminated P-Cards. In addition, the City is responsible for any unauthorized purchases on those cards until Bank of America receives notice of the termination. | 24 | 12 |

Card Coordinators are the first line of defense for ensuring all rules and regulations are followed by the Cardholders when making P-Card purchases. By ensuring all Card Coordinators have a complete understanding of the responsibilities and process steps within their roles the City decreases the possibility of any misuse, whether due to accidental error or fraud. In addition, when Card Coordinators are extensively trained they become a valuable resource to their department and are able to assist others in determining if the use of a P-Card

is the best means of making a purchase, and ensuring purchases are made in accordance with all City rules, regulations, and P&P.

RECOMMENDATIONS:

DFAS Purchasing and/or Accounting Divisions should:

- A. Obtain a refund for the overcharge of \$90 by the vendor.
- B. Update the P-Card P&P to:
 - o Require that the Department Director or designee pre-approval of purchases be done in writing or through email.
 - o State that the P-Card purchase envelope must be signed by the Cardholder to certify all documentation is included, by the Card Coordinator to certify that they have completed the review and reconciliation of the purchases, and by the Department Director or designee to certify that they have reviewed and approved all purchase and reconciliation documentation.
 - o Require all departments to use the updated P-Card purchase envelope so that there is consistency within the City.
 - o State that to cancel a P-Card for a terminated or transferred employee, the Card Coordinator must complete the Card Maintenance Form and submit it to the Accounting Division on or before the Cardholders' termination or transfer date.
 - o Require that all Department Directors or designees also attend the P-Card P&P training every two years.
- C. Create a form that documents the Department Director or designee's pre-approval of the P-Card purchase. The form should include the name of the purchaser; the date the purchase will be made; a description of the items to be purchased and what they are intended for; the quantity of items to be purchased; the approximate cost of the purchase; and the Department Director or designee's signature and date of approval. This will make it easy for the Card Coordinator to verify that the Cardholder obtained approval prior to making the purchase, and for the Department Director or designee, during the post purchase review, to ensure that what was pre-approved to be purchased is what was actually purchased.
- D. Update the current training classes for Card Coordinators to go into more step-by-step detail of their responsibilities and process steps, which must be completed upon becoming the Card Coordinator, with renewal training every two years after that. Perhaps create a flowchart that shows step-by-step what to do during the Card Coordinator review and sign off process, or provide a test at the end of training where Card Coordinators must list the process steps.

- E. Update the P-Card purchase envelope to include signature lines for the Cardholder, Card Coordinator, and Department Director or designee. This way it will be easy for the Card Coordinator to ensure all individuals have reviewed and completed their portion of the P-Card approval process.
- F. Implement consequences for Card Coordinators who repeatedly do not sign off on purchases within five days of the purchase being posted to Works.

RESPONSE FROM DFAS:

“DFAS agrees with the finding that all Card Coordinators should be properly trained on their roles and responsibilities.

“With respect to item A, the Accounting Program Administrator has already started to work on obtaining a refund for the \$90.00 overcharge.”

ESTIMATED COMPLETION DATE:

“DFAS will undertake to complete items B – F by January 30, 2015. DFAS will seek Executive sponsorship to ensure that Department Directors attend mandatory training.”

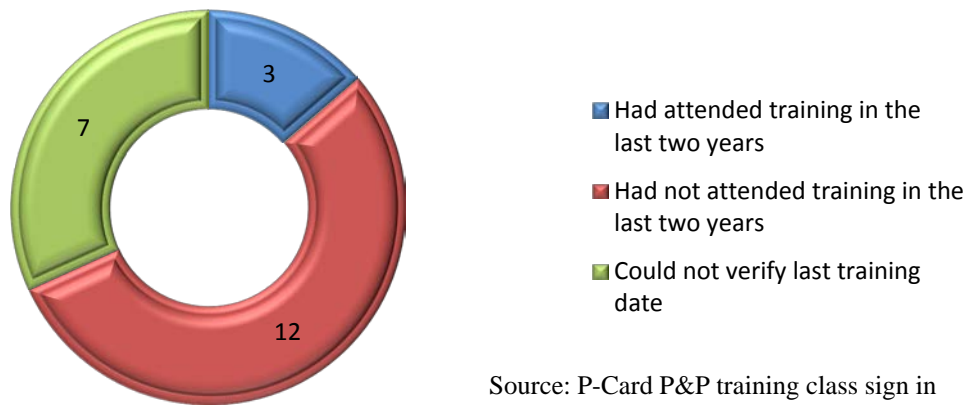
2. DFAS SHOULD ENSURE ALL CARDHOLDERS AND CARD COORDINATORS ARE TRAINED IN ACCORDANCE WITH THE P-CARD P&P AND WORKS SYSTEM TRAINING SCHEDULE.

According to the Chief Procurement Officer of the Purchasing Division and the current P-Card P&P training class PowerPoint presentation, all Cardholders and Card Coordinators are required to attend the P-Card P&P training class at least once every two years. In addition, Card Coordinators are required to attend the Works system training before they are given access to the system. While these training policies are a great control to ensure Cardholders and Card Coordinators are kept up-to-date on the rules and regulations surrounding P-Cards, they are not always followed and/or tracked.

A statistical random sample was selected for 63 P-Card transactions made by 55 Cardholders and reviewed by 22 Card Coordinators. Any of the selected Cardholders or Card Coordinators who had not taken the required P-Card P&P training class within the last two years were identified. As of March 31, 2014, 12 of the 55 Cardholders and 12 of the 22 Card Coordinators had not attended the P-Card P&P training within the last two years. Also, for seven of the 22 Card Coordinators tested, no record could be found verifying that the

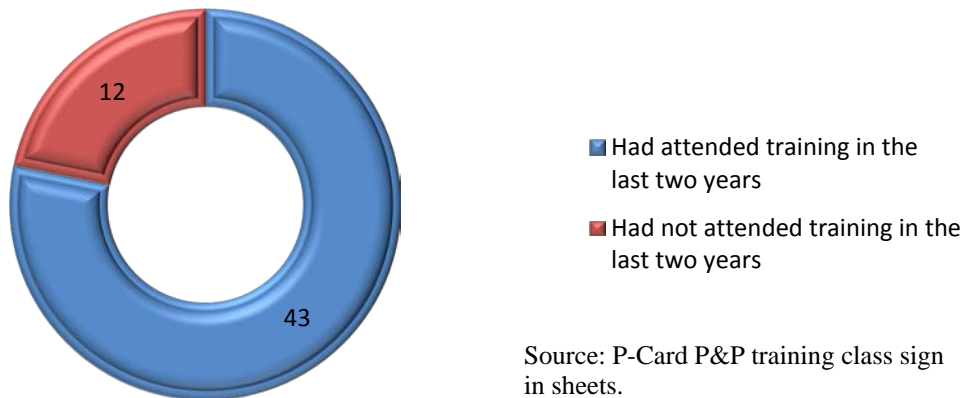
individuals had attended training. OIA examined P-Card P&P training class sign in sheets dating back to 2004, but the names of the seven individuals were not found.

P-Card P&P Training Class Card Coordinator Attendance



Source: P-Card P&P training class sign in sheets.

P-Card P&P Training Class Cardholder Attendance



Source: P-Card P&P training class sign in sheets.

The Purchasing Division does not maintain a tracking system or spreadsheet that details when the initial and, if applicable, renewal P-Card P&P training class was completed by each Cardholder and Card Coordinator. Instead the Purchasing Division identifies who needs

initial or renewal training based on the new or reissued P-Cards received from the Bank of America. The Purchasing Division stated that P-Card expiration dates are every two years, and therefore, the Cardholder would have to come and take the training class to get the new card. However, when reviewing documentation it was discovered that not all P-Cards have the two year expiration date; and some extend beyond that. Also, this method does not take into consideration Card Coordinators, since they do not receive a P-Card. Therefore, the Purchasing Division currently has no consistent way of determining which Cardholders and Card Coordinators are due for initial or renewal training.

OIA attempted to verify that all current Card Coordinators had also attended the required Works system training prior to being given access to the system. However, no tracking system or spreadsheet is maintained by the Accounting Division to indicate the date that each Card Coordinator attended the training. Based on the P-Card P&P, “all Card Coordinators and Cardholders must attend training before obtaining a Card or access to the Card Maintenance Program...” (i.e. Works). According to the Accounting Division, although they do not maintain a tracking system or spreadsheet showing that Card Coordinators have received the Works training, they only assign Works logon credentials to the Card Coordinators at the time the training is completed. Some Card Coordinators stated that they did not think they took the Works training because they had no recollection of the class. Whether all Card Coordinators had taken the Works training class, and do not recall, or there are current Card Coordinators who have never taken the class, attendance could not be verified.

By maintaining a tracking system or spreadsheet that details the date the Cardholders and Card Coordinators last received training, the Purchasing and Accounting Divisions will be able to ensure that all individuals in those roles have the most up-to-date information, and that no one was able to gain or maintain access to a P-Card or the Works system without being properly trained. In addition, continuous training helps strengthen employees’ knowledge, and in turn they are able to then help inform others of the P-Card P&P.

RECOMMENDATIONS:

DFAS Purchasing and/or Accounting Divisions should:

- A. Update the P-Card P&P to state that the P-Card P&P training must be completed every two years. Currently the P-Card P&P state that Cardholders and Card Coordinators are encouraged to attend training every two years.
- B. Implement a tracking system or spreadsheet for the Purchasing Division that details all Cardholders and Card Coordinators and the last time P-Card P&P training was completed. This tracking system or spreadsheet should be

continuously monitored to ensure all Cardholders and Card Coordinators receive the P-Card P&P training at least once every two years.

- C. Implement a tracking system or spreadsheet for the Accounting Division that details all Card Coordinators and the date they received Works training. This tracking system or spreadsheet should be periodically reviewed against a list of current Card Coordinators to ensure they have all received the Works training.

RESPONSE FROM DFAS:

“DFAS agrees with the finding that all Cardholders and Card Coordinators should be trained in accordance with the P-Card P&P and Works System Training Schedule.”

ESTIMATED COMPLETION DATE:

“DFAS will complete A by January 30, 2015. Work on items B and C has already commenced and the expected completion date for these items is October 30, 2014. This item will be handled jointly by the Purchasing and Accounting Divisions.”

3. DFAS SHOULD ENSURE PERIODIC REVIEWS ARE CONDUCTED OVER P-CARD INFORMATION AND DOCUMENTATION.

The City has designed and implemented many strong controls over P-Cards; however, currently there is not frequent and detailed enough monitoring of P-Card information in place to ensure that the controls are operating effectively. Without proper and frequent monitoring the City puts itself at a higher risk for unauthorized or fraudulent purchases. During testing it was noted that several issues with P-Card related functions could have been identified and resolved before the audit was conducted if monitoring of P-Card activity and documentation was being performed more often and at a more detailed level.

The exceptions in the table below are noncompliance issues that might have been identified by the Card Coordinators and the Program Administrators if there had been more frequent detailed monitoring. Currently, the Program Administrators are mostly relying on the Card Coordinators to identify any purchasing issues or violations. The Purchasing Division does perform a review of transactions on a quarterly and random basis to look for unusual items, split purchases, and other purchasing issues. However, there should be more frequent and more detailed reviews performed by the Program Administrators since purchasing issues are not always identified and corrected with the current review process.

| Description of Exception | Criteria | Number of Items Tested | Number of Exceptions Noted |
|--|---|------------------------|----------------------------|
| Restricted purchase of an airline ticket in the amount of \$280 was made on a P-Card because the Cardholder accidentally used the P-Card instead of the travel card (T-Card) due to the similarity in appearance. | According to the P-Card P&P, Cardholders should not purchase airline tickets using their P-Cards. | 63 | 1 |
| Cardholder did not request a vendor to credit gross receipts tax of \$2 that was charged on the purchase of goods. | According to the P-Card P&P, the City is exempt from paying gross receipts tax on goods, and the Cardholder should contact the vendor to see if they need a copy of the City’s Tax-Exempt Certificate before making the purchase. | 63 | 1 |
| Spilt purchases in the total amount of \$54,265 were made on P-Cards. A split purchase is when a Cardholder makes two or more purchases of the same or similar item(s), from the same vendor, within a close timeframe, and the total value is above the Cardholder’s single transaction credit limit. | According to the City Purchasing Ordinance and the P-Card P&P, purchase splitting is prohibited. | 12,545 | 15 |
| Technical Review Committee (TRC) approval was not obtained for IT purchases over the Cardholders’ single transaction credit limit. | The IT Polices and Standards state, TRC approval is required for IT purchases between the maximum City purchasing card limit and \$25,000. | 8 | 8 |

The exceptions in the table on page 13 might have been identified by the Program Administrators if there had been more frequent detailed monitoring. Program Administrators are responsible for ensuring that the P-Card program overall is running as efficiently and effectively as possible, and that all purchasing activity follows the rules, regulations, and P&P. In addition, they are responsible for ensuring that all required documentation for the

acquisition, maintenance, and deactivation of P-Cards is approved by the appropriate individuals, and maintained for as long as the individual is a Cardholder or Card Coordinator.

| Description of Exception | Criteria | Number of Items Tested | Number of Exceptions Noted |
|---|--|------------------------|----------------------------|
| Access to Cardholder and Card Coordinator privileges were held by the same individual. | According to the Governmental Accounting, Auditing, and Financial Reporting Blue Book, no single individual should be involved in the authorization, recordkeeping, and custody of assets. | 442 | 1 |
| Cardholder single transaction credit limit is over the \$2,500 small purchase limit, and therefore, those Cardholders are able to make purchases over the small purchase limit without having to obtain quotes. | The City Purchasing Ordinance states that at least three quotes should be obtained from vendors to obtain the best possible price when making purchases over the small purchase limit of \$2,500 | 379 | 10 |
| P-Cards were not being used by the Cardholders, and therefore, do not justify the risk of possible fraudulent activity or inappropriate use by continuing to have the cards active. | According to the Bank of America Corporate Card Service Agreement, the City is responsible for informing the Bank of America of any terminated P-Cards. In addition, the City is responsible for any unauthorized purchases on those cards until the Bank of America receives notice of the termination. | 379 | 22 |
| Card Maintenance Forms requesting the deactivation of P-Cards were missing from Cardholders' files. | The P-Card P&P state, that to request cancellation of a card the Card Maintenance Form must be submitted to the Accounting Administrator. | 24 | 2 |
| Card Maintenance Form requesting the deactivation of a P-Card was not approved by the Department Director or designee. | The P-Card P&P state, the Card Maintenance Form must contain authorization from the appropriate Department personnel before enactment. | 24 | 1 |

| Description of Exception | Criteria | Number of Items Tested | Number of Exceptions Noted |
|---|--|------------------------|----------------------------|
| Card Maintenance Forms completed to make changes to the card credit limit were not signed by the Department Director. | P-Card P&P state, Department Directors requesting to change the dollar limits on a card must submit the request to the Accounting Administrator. The Policies also state, the Card Maintenance Form must contain authorization from the appropriate Department personnel before enactment. | 55 | 2 |
| The P-Card Request/Employee Agreements to show approval for the acquisition of the P-Card for employees was missing from Cardholders' files. | The P-Card P&P state, the Department Director must give final approval for the P-Card Request/Employee Agreement, and submit the Request to the Accounting Administrator. | 55 | 2 |
| The Card Coordinator Setup Request to show approval for Card Coordinator duties and for access to Works was missing from a Card Coordinator file. | The P-Card P&P state that the Card Coordinator Setup Request requires the signature of both the Card Coordinator and the Department Director. | 22 | 1 |
| The Card Coordinator Setup Request was not approved by the Department Director. | The P-Card P&P state that the Card Coordinator Setup Request requires the signature of both the Card Coordinator and the Department Director. | 22 | 1 |

Monitoring of P-Card purchases and documentation is one of the key controls to a successful P-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. If the Purchasing Division Program Administrators work in coordination with the Accounting Division Program Administrators the City will be able to design a frequent and detailed monitoring process that identifies purchasing issues, and can take immediate corrective action.

RECOMMENDATIONS:

DFAS Purchasing and/or Accounting Divisions should:

- A. Implement a more frequent and detailed review of P-Card activity to identify:
 - o Violations of segregation of duties between Cardholders and Card Coordinators;
 - o Purchase of restricted items, such as airline tickets;
 - o Payment of gross receipts tax on the purchase of goods that was not credited by the vendor;
 - o Split purchases;
 - o TRC approval not being obtained for the purchase of IT items over the Cardholders' single transaction credit limit; and
 - o Unused P-Cards.
- B. Implement a periodic review of P-Card files to identify:
 - o Missing required forms;
 - o Unapproved required forms; and
 - o Required forms approved by unauthorized individuals.
- C. Request that the Bank of America issue P-Cards and T-Cards that are significantly different looking so that Cardholders are less likely to get the two cards mixed up.
- D. Request that the Bank of America include the City's tax exempt ID number on the face of all P-Cards.
- E. Implement consequences for Cardholders who make split purchases.
- F. Update P-Card P&P regarding TRC approval to match the IT Policies and Standards.

RESPONSE FROM DFAS:

"DFAS agrees in part with the finding that it must ensure periodic reviews are conducted over P-Card information and documentation."

ESTIMATED COMPLETION DATE:

"The DFAS Purchasing Division currently conducts quarterly audits to review and address such items as outlined in items A and B, but agrees that there is a benefit to conducting more detailed reviews of these items."

“Items C and D will be more appropriately addressed with the issuance of the new banking services contract scheduled to be in effect by December 30, 2014.

“Items E and F will be corrected by January 30, 2015, in the revisions that will be made to the P-Card Policies and Procedures Manual.

“This item will be handled jointly by the Purchasing and Accounting Divisions.”

4. DFAS SHOULD IMPLEMENT LIMITATIONS ON THE NUMBER OF CARDHOLDERS EACH CARD COORDINATOR IS RESPONSIBLE FOR.

The Card Coordinator role is vital to the success of the P-Card program, and Card Coordinators should not be burdened with reviewing purchases from an overwhelming number of Cardholders. During the P-Card audit it was noted that large departments such as the Albuquerque Police Department (APD) and the Department of Municipal Development (DMD), that make a large number of purchases every week, only had one Card Coordinator each. APD had 81 active Cardholders as of March 31, 2014 and made 1,898 purchases in 12 months, with only one Card Coordinator to review and reconcile all of those purchases.

Being a Card Coordinator is only a portion of the employee’s job, and having a large number of purchases to review every week may cause the Card Coordinator to rush through the review and reconciliation processes and miss errors or purchasing violations. Because the Card Coordinator position is so important in ensuring P-Card purchases are made properly, it would greatly benefit the City to limit the number of Cardholders that an individual Card Coordinator is responsible for. Taking more steps to ensure funds are spent as intended will help the City continue to run efficiently and effectively.

RECOMMENDATIONS:

DFAS Purchasing Division should update the P-Card P&P to establish a limit for the number of Cardholders that a single Card Coordinator should be responsible for.

RESPONSE FROM DFAS:

“DFAS agrees with the finding that it should implement limitations on the number of Cardholders for which each Card Coordinator is responsible.”

ESTIMATED COMPLETION DATE:

“While DFAS agrees with this finding, it does not agree that a finite number of Cardholders should be established for each Card Coordinator, but rather that guidelines should be established in the Policies and Procedures Manual to address the issue of ineffective review. These limitations relating to a Card Coordinator's responsibilities for review will be fully addressed in the Policies and Procedures Manual, to be completed by January 30, 2015.

“This item will be handled jointly by the Purchasing and Accounting Divisions.”

CONCLUSION

The City has designed and implemented strong controls over the P-Card program. However, there has been a breakdown of the operation and monitoring of those controls, which has caused a breakdown in compliance with rules, regulations, and P&P over P-Cards. While none of the findings noted were significant or indicated potential fraudulent activity, it is still important that the City take steps to correct issues and ensure the P-Card program is operating as intended.

One of the most impactful ways the City can correct the issues over operation of controls would be more extensive training classes for Card Coordinators. A large number of the findings noted were due to Card Coordinators being unaware of all the steps required to complete their processes. By providing the Card Coordinators with more in depth training that details step-by-step what needs to be done within their roles it would decrease the chance of purchasing issues going undetected and uncorrected. Card Coordinators are the first line in defense against purchasing violations, and therefore, need to be extensively and properly trained on a regular basis.

In addition, more frequent and detailed monitoring activities over purchase transactions, documentation files, and processes, needs to be performed by the Program Administrators. Currently, the Program Administrators are relying on the Card Coordinators to perform the majority of the monitoring activities. However, because Card Coordinators may not have a complete understanding of their process steps, and may not have enough authority to take corrective actions against Cardholders who repeatedly have purchasing violations, more frequent and detailed monitoring should also be conducted by the Program Administrators from the Purchasing and Accounting Divisions. This will help ensure that Card Coordinators are performing proper reviews and that corrective action for P-Card violations is promptly addressed.

The City's P-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. As long as the appropriate actions are taken to address the findings noted above, the City will be able to have confidence that the P-Card program is operating as intended, and purchases are being made in accordance with rules, regulations, and P&P.

We wish to thank the Purchasing and Accounting Divisions along with the multiple City departments that provided their time and assistance during the P-Card use and oversight audit.

Principal Auditor

REVIEWED and APPROVED:

Debra Yoshimura, CPA, CIA, CGAP, CICA
Director, Office of Internal Audit

APPROVED FOR PUBLICATION:

Chairperson, Accountability in
Government Oversight Committee

APPENDIX A

OBJECTIVES

The objectives of the P-Card use and oversight audit were to determine:

- Are P-Card transactions and approvals made in accordance with P-Card P&P, City Purchasing Ordinance, and City Purchasing Administrative Instructions?
- Are P-Card reconciliations being performed timely and accurately by the department Card Coordinators?
- Are P-Cards for terminated or transferred employees deactivated in a timely manner?
- Are P-Cards periodically reviewed for frequency, type of use, and/or abuse?

SCOPE

OIA's responsibility is to offer reasonable and not absolute assurance as to the operating effectiveness of portions of the P-Card program. Therefore, our audit did not include an examination of all functions, activities, and transactions related to P-Card use and oversight. Our scope was limited to the objectives above for the period of April 1, 2013 through March 31, 2014.

This report and its conclusions are based on information taken from a sample of transactions and do not represent an examination of all related transactions and activities. The audit report is based on our examination of transactions and activities through the completion of fieldwork on September 23, 2014 and does not reflect events or transactions after that date.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that 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 our findings and conclusions based on our audit objectives.

METHODOLOGY

Methodologies used to accomplish the audit objectives include, but are not limited to the following:

- Reviewing State and City regulations, P&P, and other standards applicable to the P-Card program.

- Interviewing key personnel and performing walkthrough observations to gain a better understanding of P-Card operations and processes.
- Identifying key internal controls over P-Card use and oversight.
- Testing of key internal controls and processes over P-Cards to ensure rules, regulations, and P&P were being followed, and to determine if the P-Card program was operating in the most effective manner.
- Summarizing all findings and providing the auditees with recommendations that will help to strengthen internal control, and increase operating effectiveness.

Audit sampling software was used to generate statistical and random attribute test samples to accomplish audit objectives. Judgmental sampling was used to complete inquiry and observation test work over P-Card processes. The population data was derived from the Works system.

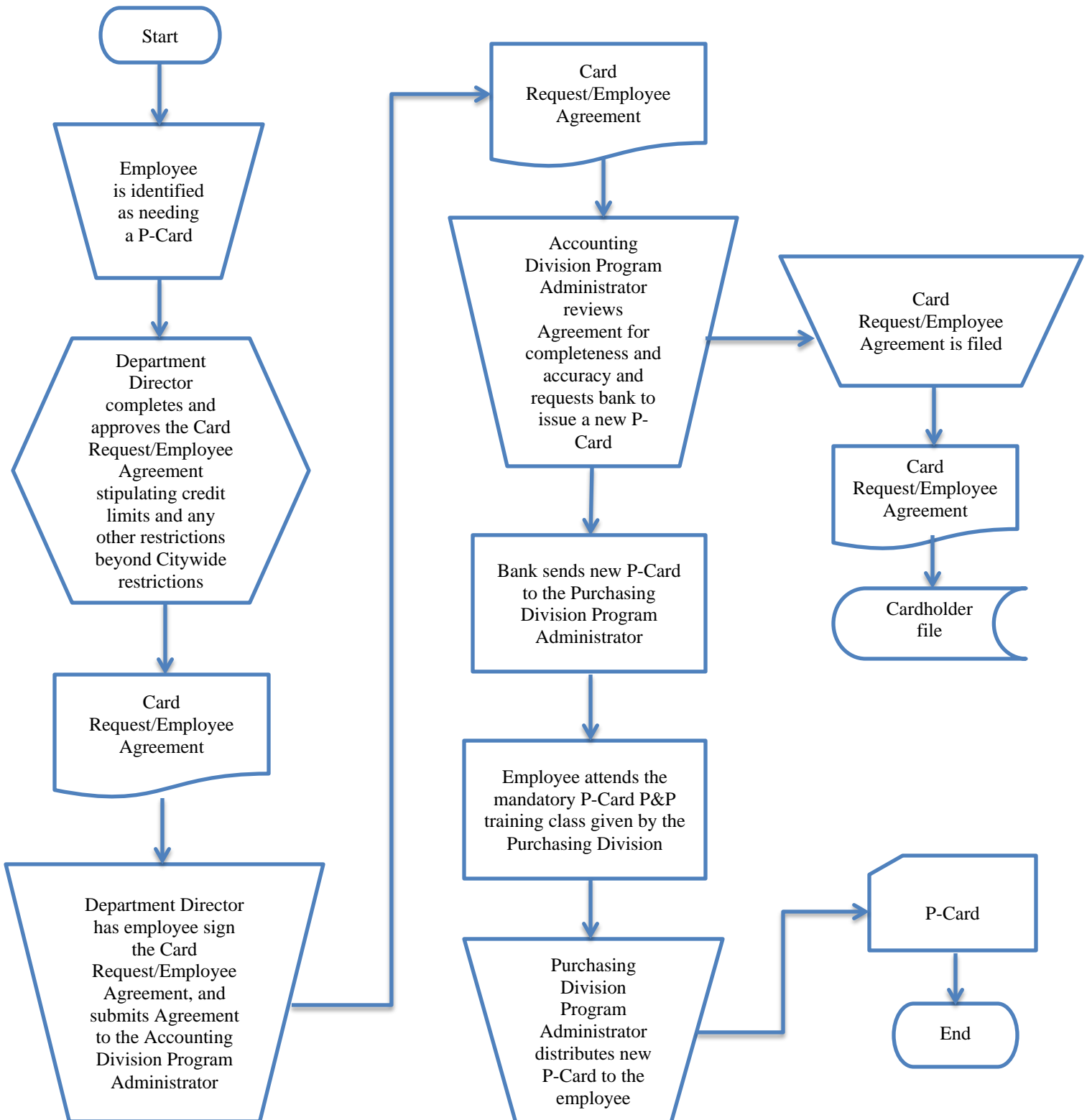
APPENDIX B

Purchases Made by Department for the Period of April 1, 2013 through March 31, 2014

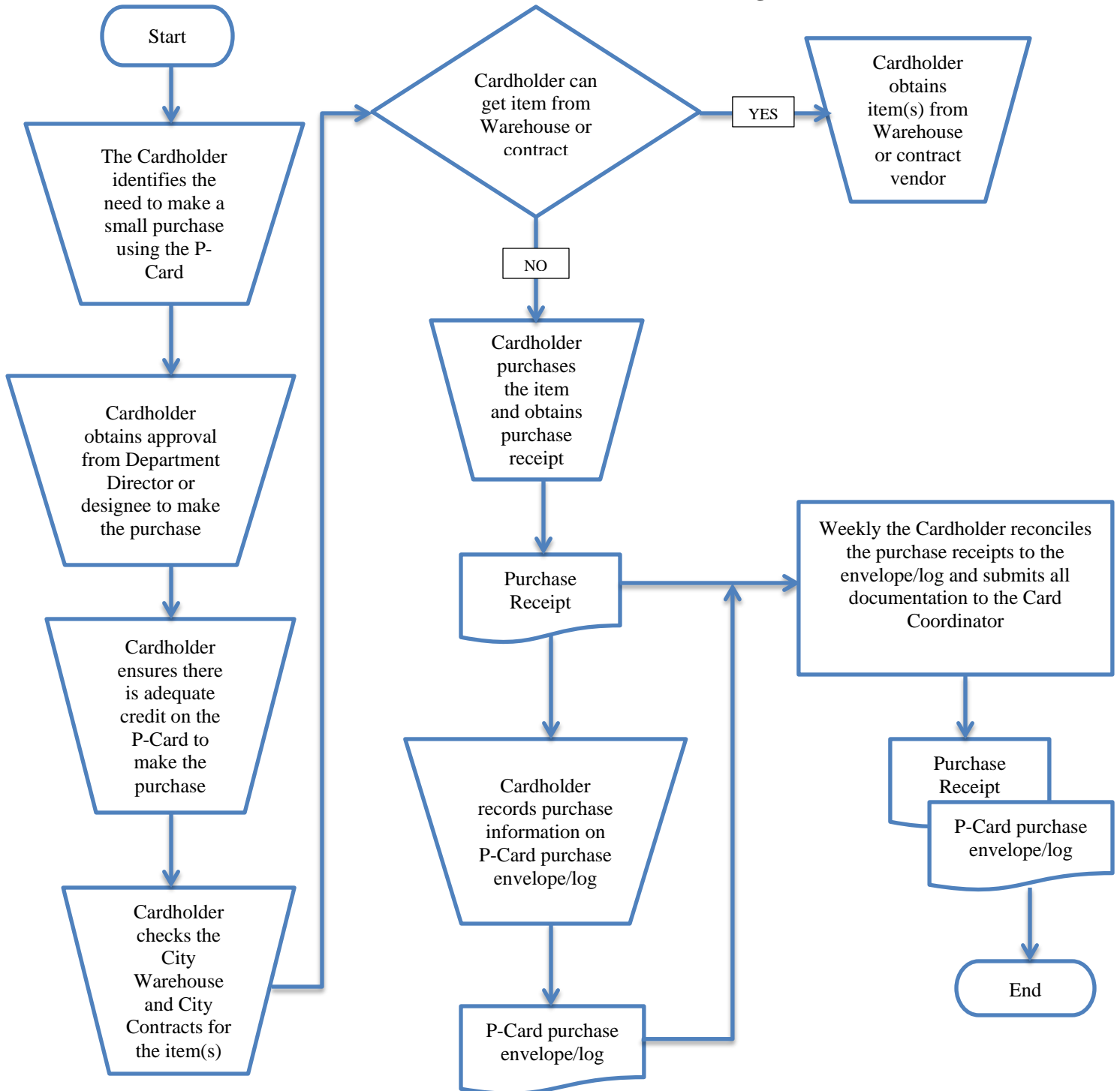
| Department | Number of Purchases | Dollar Amount of Purchases | Percentage of Total Dollar Amount of Purchases |
|-------------------------------------|----------------------------|-----------------------------------|---|
| Police | 1,898 | \$739,894 | 23% |
| Cultural Services | 3,026 | \$670,708 | 21% |
| Parks and Recreation | 1,190 | \$396,949 | 12% |
| Municipal Development | 1,384 | \$242,227 | 8% |
| Fire | 678 | \$211,351 | 7% |
| Environmental Health | 389 | \$127,606 | 4% |
| Senior Affairs | 860 | \$117,690 | 4% |
| Family and Community Services | 715 | \$115,915 | 4% |
| Aviation | 424 | \$100,267 | 3% |
| Finance and Administrative Services | 432 | \$91,413 | 3% |
| Transit | 214 | \$87,908 | 3% |
| Animal Welfare | 344 | \$79,869 | 2% |
| Solid Waste | 206 | \$74,967 | 2% |
| Planning | 227 | \$61,331 | 2% |
| City Council | 185 | \$31,417 | 1% |
| Human Resources | 53 | \$22,509 | 1% |
| Mayor's Office | 90 | \$20,039 | 1% |
| Economic Development | 131 | \$16,179 | 1% |
| Internal Audit/Inspector General | 32 | \$8,526 | 0% |
| Legal | 53 | \$7,090 | 0% |
| City Clerk | 14 | \$3,148 | 0% |
| Grand Total | 12,545 | \$3,227,006 | 100% |

APPENDIX C

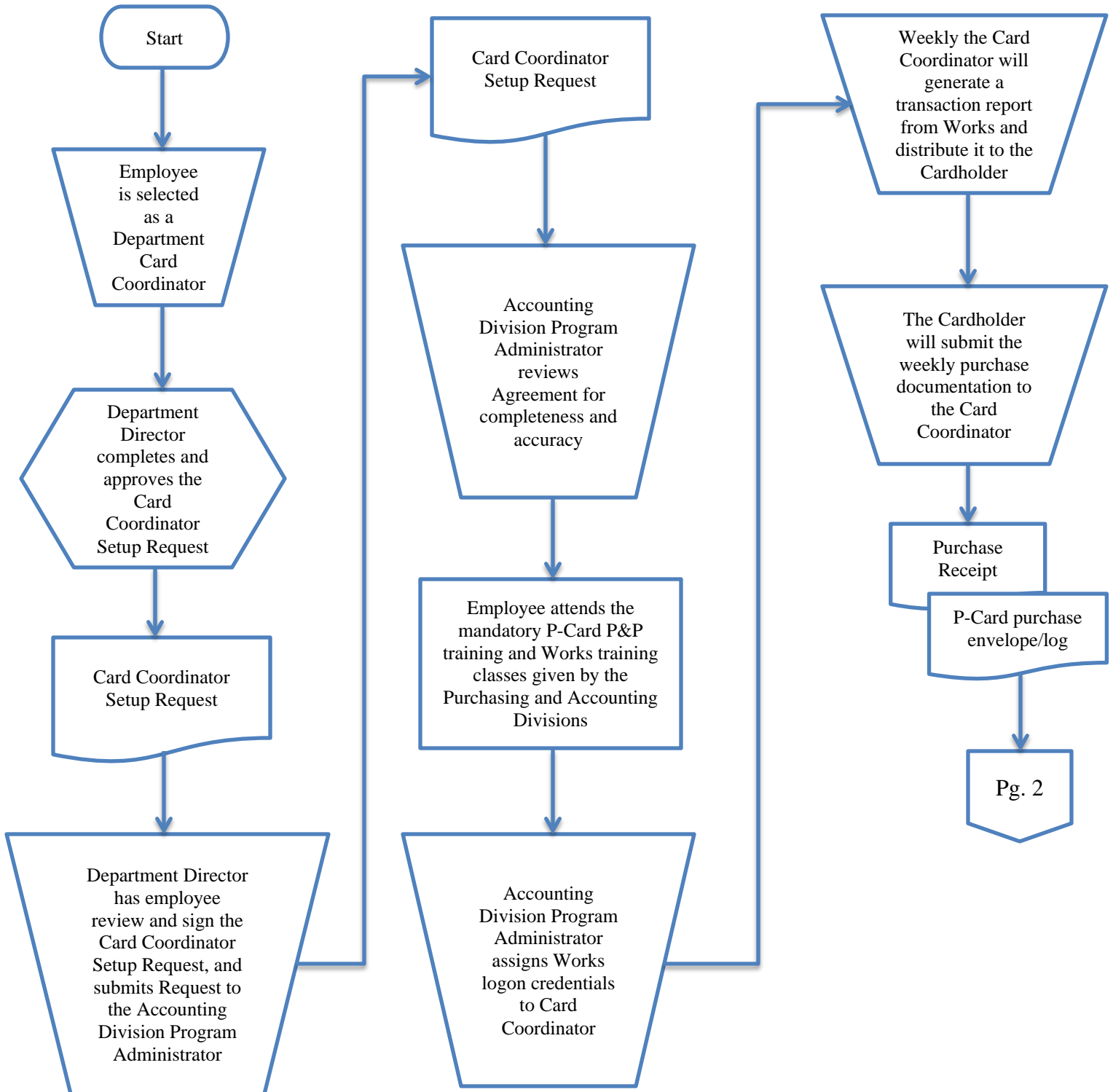
Flowchart of the P-Card Initial Acquisition Process (Page 1 of 1)



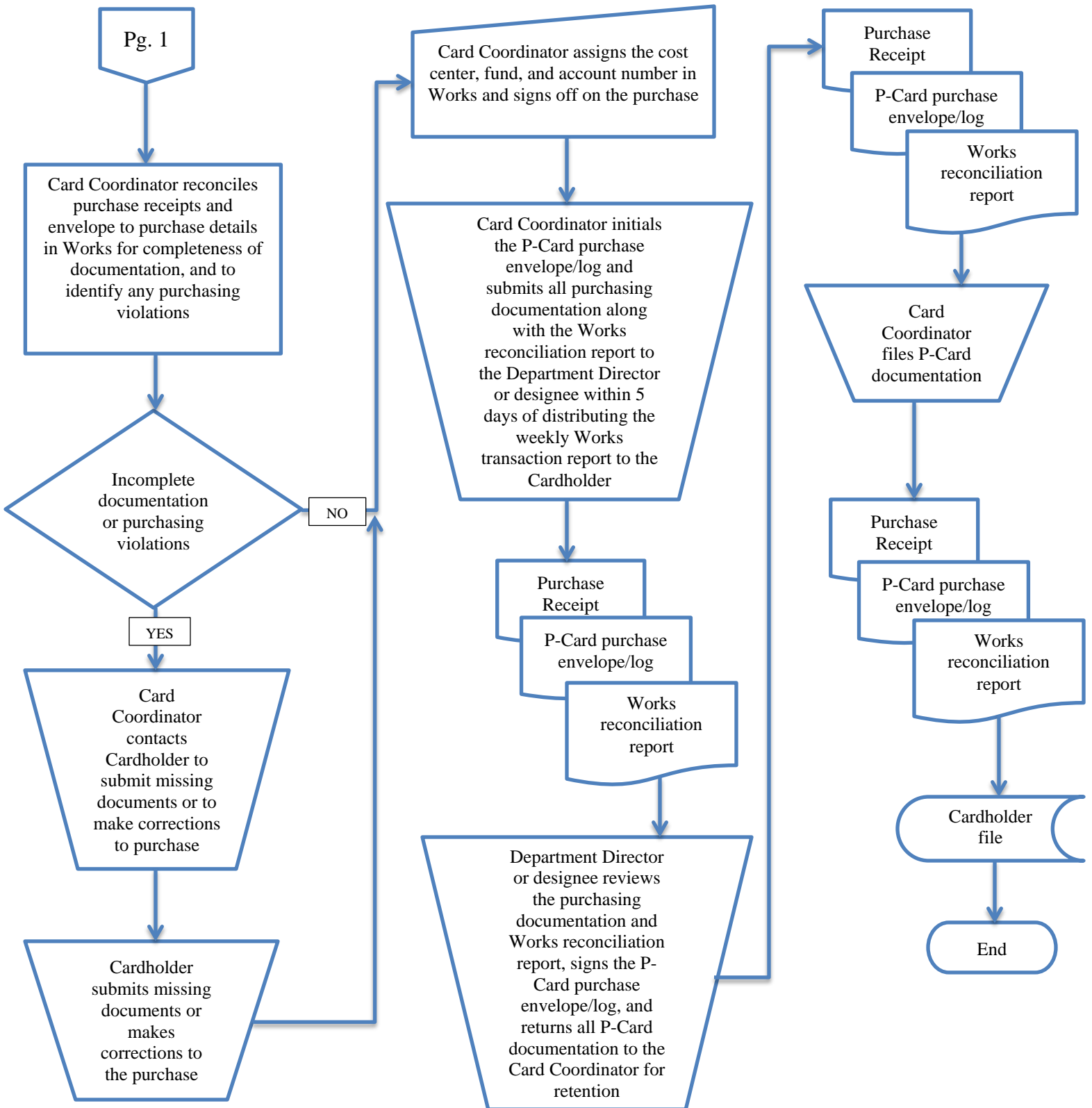
Flowchart of the P-Card Purchase Process (Page 1 of 1)



Flowchart of Card Coordinator Reconciliation and Works Sign Off Processes (Page 1 of 2)



Flowchart of Card Coordinator Reconciliation and Works Sign Off Process (Page 2 of 2)



Flowchart of the Deactivation of P-Cards (Page 1 of 1)

