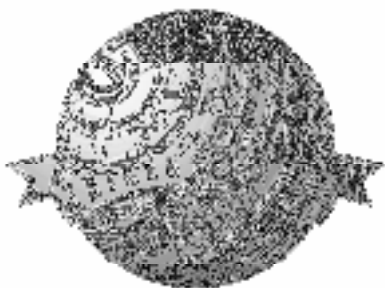


SPECIAL AUDIT REPORT
OF
PURCHASING CARD PROGRAM
REPORT NO. 07-107



City of Albuquerque
Office of Internal Audit and Investigations

Purchasing Card Program
Report No. 07-107
Executive Summary

Background The Purchasing Card (PCard) program has been in full use by the City of Albuquerque (City) since the year 2000. In FY 2006 the City made 15,270 PCard purchases, representing approximately \$3.4 million. There were 444 PCard cardholders and 103 PCard coordinators. Currently the City operates the program under the State of New Mexico agreement with Bank of America (BOA).

Objective: Are PCard cardholders authorized employees?

- 14 of 33 (42%) cancelled or replacement PCards sampled did not have the required EAGLS Maintenance Form (Form). Thirteen of 15 (87%) individuals tested did not have a letter of justification on file for re-issuance of a lost or stolen PCard.
- The Form is not set-up to provide information required by Policies and Procedures.
- Once a PCard is issued, there is never a review of frequency of use to determine the necessity for a PCard.

Recommendations:

- DFAS should monitor PCard cancellation and replacement and verify the Form and justification (if applicable) are on file. The CAO should ensure departments submit the Form for cancellation or replacement of a PCard.
- DFAS should perform an annual card use analysis.

Objective: Were PCard purchases adequately supported?

- 19 (57%) of 33 PCard coordinators do not comply with the EAGLS reconciliation process stated in the Policies and Procedures. EAGLS is a BOA automated application utilized to manage PCard transactions.
- 30 (91%) of 33 PCard coordinators do not reconcile transactions to the general ledger.
- PCard coordinator training is not offered on a regular and consistent basis and a record of who attended and completed training is not maintained.

Recommendations:

- DFAS should revise Policies and Procedures to include specific instructions on the reconciliation of PCard purchases from point of purchase, documentation retention requirements and reconciliation of purchases to a specific BOA statement and the general ledger.
- DFAS should regularly schedule PCard coordinator training and implement a system to document attendance.

Objective: Were purchases allowable under Policies and Procedures?

- PCard purchases were made for payment of services, non-allowable Merchant Category Codes, travel expenses and transaction amounts that exceeded the maximum allowable single transaction limit of \$1,000.
- The mayor's PCard, those PCards issued to employees of the Mayor's Office and the Telecommunications Section of the Information Systems Division are set up outside the parameters of the Policies and Procedures.
- The City is exempt from gross receipts tax on goods. From October-December 2006 the City paid \$3,155 in gross receipts tax.

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- Overrides were granted for purchases that were not in compliance with Policies and Procedures.

Recommendations:

- DFAS should monitor purchases and review reconciliations for transactions that do not comply with Policies and Procedures.
- The CAO should ensure that all PCards are in compliance with Policies and Procedures.
- The CAO should ensure City departments promptly notify the PCard administrator when gross receipts tax has been paid, in accordance with the Policies and Procedures.
- DFAS should update Policies and Procedures to include specific instruction and guidelines for reviewing, granting, and documenting PCard purchase overrides.

Objective: Were PCard transactions properly reviewed/audited?

- DFAS does not verify that the automatic monthly payment made by electronic funds transfer to Bank of America (BOA) for PCard purchases is accurate.
- Responsibility for receipt, review and recording of annual PCard rebate is not specifically assigned. The rebate is not recorded in a consistent account and activity.
- Two instances of recurring purchases were identified that could potentially benefit from cost savings by being set up as contracts.

Recommendations:

- DFAS should reconcile monthly automatic PCard payments and clarify discrepancies with the BOA.
- DFAS should review the annual rebates for accuracy and record them consistently.
- The CAO should ensure departments review PCard transactions for recurring purchases that could potentially be set up as a contract.

Objective: Does DFAS review and update PCard performance measures?

- DFAS has not reviewed the relevance of the performance measure since the PCard program began.

Recommendations:

- DFAS should review and update the performance measure relating to the PCard program.

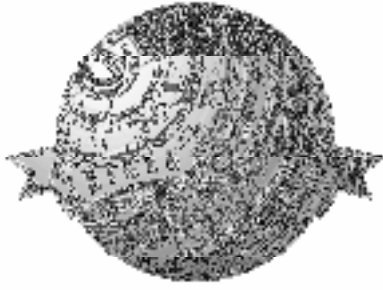
Objective: Does DFAS periodically review, update and communicate Policies and Procedures to PCard users?

- Policies and Procedures have not been updated since April 2005. City departments are utilizing various versions of Policies and Procedures.

Recommendations:

- DFAS should develop and implement a schedule to regularly review and update Policies and Procedures. They should then be made available to all users.

Management responses are included in the audit report.



City of Albuquerque
Office of Internal Audit and Investigations
P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

September 20, 2007

Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: Special Audit
Purchasing Card Program
07-107

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) conducted a special audit of the Purchasing Card (PCard) program. The City of Albuquerque (City) piloted the PCard program in 1999 and expanded its use Citywide in the year 2000. Currently the City operates the program under the State of New Mexico agreement with Bank of America (BOA). The PCard program is administered by the Department of Finance and Administrative Services (DFAS). The intent of the PCard is to facilitate purchases not exceeding \$1,000 in a more efficient and effective manner. It was implemented to replace the small purchase order process.

In Fiscal Year (FY) 2006 the City made 15,270 PCard purchases, representing approximately \$3.4 million. There were 444 PCard cardholders and 103 PCard coordinators. PCard coordinators are responsible for monitoring and reconciling purchases at the department level.

AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Are PCard cardholders authorized employees?
- Were PCard purchases adequately supported?
- Were purchases allowable under PCard Policies and Procedures (Policies and Procedures)?
- Were PCard transactions properly reviewed/audited?
- Does DFAS review and update the PCard Performance Measures?

- Does DFAS periodically review, update and communicate Policies and Procedures to PCard users?

SCOPE

Our audit did not include an examination of all functions and activities related to the PCard Program. Our scope included review of PCard transactions and operations from October through December 2006.

This report and its conclusions are based on information taken from a sample of transactions and do not intend to represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork, March 30, 2007, and does not reflect events or accounting entries after that date.

The audit was conducted in accordance with Government Auditing Standards.

METHODOLOGY

During the audit OIAI:

- Conducted interviews with the PCard administrator, accounting administrator, and other personnel as deemed appropriate.
- Compiled survey results sent to a sample of PCard cardholders to determine compliance with existing Policies and Procedures, and obtain a better understanding of PCard use.
- Used statistical sampling with 90 percent reliability to determine sample sizes for testing the requirements to set up PCard cardholders and PCard coordinators and compliance with Policies and Procedures.

FINDINGS

The purpose of an internal audit is to identify changes in the auditee's activities, which would improve its effectiveness, efficiency, and compliance with administrative policies and applicable rules and regulations. Therefore, the auditee's activities that appear to be functioning well are not usually commented on in audit reports.

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

1. DFAS SHOULD MONITOR PCARD PURCHASES FOR TRANSACTIONS THAT DO NOT COMPLY WITH POLICIES AND PROCEDURES.

Policies and Procedures state that PCards are not to be used for payment of services or travel and should only be used for single purchases up to \$1,000. The DFAS – Accounting Division has established non-allowable Merchant Category Codes (MCCs). MCC is a universal index for categorizing the type of business.

OIAI reviewed the 3,854 PCard transactions between October and December 2006 and found the following exceptions:

- 46 had non-allowable MCCs.
- 42 were for payment of services.
- 32 were for payment of travel expenses.
- 8 single purchases exceeded \$1,000.

PCard purchases are not being monitored by anyone outside the department making the purchase. Policies and Procedures do not address this issue and DFAS has not assigned anyone this responsibility. Without monitoring or review, transactions that do not comply with Policies and Procedures may not be identified.

RECOMMENDATION

DFAS should monitor purchases for transactions that do not comply with Policies and Procedures.

RESPONSE FROM DFAS

“DFAS agrees that PCard purchases should be monitored and that reconciliations for transactions that do not comply with Policies and Procedures be reviewed. The Purchasing Division, upon careful consideration of specific circumstances, allowed transactions to occur based on the approval practices implemented since the latest update to the Policies and Procedures governing PCard purchases.

“The Purchasing Division has recently created and filled a new job position that will oversee this purchasing program. The implementation of the new purchasing review function is pending transition to the new

reporting and monitoring web based tool for the P-Card program, WORKS. This transition is scheduled for late Fall 2007.

“MCC allowable groups will be studied and addressed to coincide with the City policies as they may relate to small purchases and methods of payment. Enough historical data is now available from the PCard program to make changes as to how retailers and other merchant providers are established within the MCC groups.”

2. DFAS SHOULD REVISE THE POLICIES AND PROCEDURES THAT GOVERN THE RECONCILIATION PROCESS.

Reconciliation to EAGLS

EAGLS is a BOA automated application utilized to manage PCard transactions. Policies and Procedures require department PCard coordinators to reconcile reports generated by the EAGLS system by verifying the:

- Transactions against supporting documents.
- Amount of each transaction.
- Goods received.

OIAI determined that 19 (57%) of 33 PCard coordinators sampled do not comply with the reconciliation process stated in the Policies and Procedures.

Currently, PCard coordinator duties are not regularly or uniformly communicated to City departments. The DFAS Accounting User Support group was discontinued in 2005. Since that time, PCard coordinator training has not been available.

If the PCard coordinators do not comply with the reconciliation process:

- Transactions might not be supported.
- Incorrect transaction amounts might be recorded.
- Goods paid for may not be received.

Reconciliation to General Ledger (G/L)

OIAI determined through observation and inquiry that 30 (91%) of the 33 PCard coordinators do not reconcile the PCard transaction to the G/L. DFAS personnel also informed OIAI that they do not reconcile PCard purchases to the G/L. Policies and Procedures currently *do not* require that purchases are reconciled to the G/L.

Administrative Instruction 2-3 requires internal controls to safeguard City assets. The lack of a reconciliation process could result in expenses being posted to incorrect accounts and not being detected.

RECOMMENDATION

DFAS should revise Policies and Procedures to include specific instructions on the reconciliation of PCard purchases from point of purchase, documentation retention requirements and reconciliation of purchases to a specific BOA statement and the G/L.

RESPONSE FROM DFAS

“DFAS agrees that Policies and Procedures should be revised to include specific instructions on the reconciliation of PCard purchases from point of purchase, documentation retention requirements and reconciliation of purchases to the specific BOA statement and G/L. A revision to the Policies and Procedures manual is scheduled to coincide with the movement to the new web based application, WORKS. This new application will have new features which require a change in process and result in enhanced monitoring and documentation capabilities.

“The Accounting Division is currently developing the BOA statement and G/L reconciliation process. This function will be assigned to the Program Coordinator (a Principal Accountant within the Division) and will be implemented when the transition to the WORKS program occurs.”

3. THE CAO SHOULD ENSURE ALL PCARD PARAMETERS ARE IN COMPLIANCE WITH POLICIES AND PROCEDURES.

OIAI determined that the mayor’s PCard, those PCards issued to employees of the Mayor’s Office and the Telecommunications Section (Telecommunications) in the Information

Systems Division of DFAS are set up outside of the parameters of the Policies and Procedures.

Policies and Procedures state:

- Single PCard transactions can not exceed \$1,000.
- PCards are not to be used for payment of travel expenses or services.
- PCards are to be issued in an individual's name and should only be used by that individual.

The mayor's PCard was set up with a single transaction limit of \$5,000 and it allows for payment for travel. The following purchases made by the mayor's PCard were not in compliance with Policies and Procedures:

- 15 travel transactions between October and December 2006.
- 3 transactions exceeded \$1,000.

The Telecommunications PCard was set up with a single transaction limit of \$10,000 and was set up for payment of services. Also, it was not issued to a particular City employee. The following purchases made using the Telecommunications PCard were not in compliance with Policies and Procedures:

- 31 payments for services between October and December 2006.
- 3 transactions exceeded \$1,000.

PCard's associated with the Mayor's Office allow for purchases from a vendor set up with a MCC that does not comply with Policies and Procedures. The following purchases were made that do not comply with Policies and Procedures:

- One was made at a restaurant/winery.
- One for cell phone rental services.
- One for travel.

DFAS authorized these card parameters which are in conflict with Policies and Procedures.

Purchases might exceed the dollar limits of the program and unallowable items might be purchased if PCards are not set up in compliance with Policies and Procedures.

RECOMMENDATION

The CAO should ensure that all PCards issued are in compliance with Policies and Procedures. Policies and Procedures should be revised to accommodate such exceptions.

DFAS should ensure that the list of allowable MCCs coincides with allowable purchases per Policies and Procedures.

RESPONSE FROM CAO

“The CAO agrees that the Policies and Procedures for the issuance, use and review of PCards should be updated. When the City replaced the Small Purchase Order (SPO) process, a manual paper-based process, with PCards, there was no experience with this technology and how it would be accepted or used by vendors and employees. The City is now in a position to revise PCard Policies and Procedures to reflect current practices.

“The CAO respectfully notes that exceptions to existing Policies and Procedures have been granted and believes those determined by OIAI to be non-compliant nonetheless appear to be compliant under the terms of the exception(s) granted. With the elimination of the SPO process, there have been instances where exceptions were needed to meet immediate City business needs. For example, when the City hosted Katrina refugees, drugs were needed that were not maintained in City inventories. Exceptions related to travel have also been granted to elected officials and employees who are specifically exempt from the provisions of the travel rules and regulations.”

4. DFAS SHOULD REQUIRE EAGLS MAINTENANCE FORMS AND JUSTIFICATION DOCUMENTATION FOR PCARD CANCELLATION AND REPLACEMENT.

Cancelled or Replaced PCards

Policies and Procedures require that all requests for PCard cancellation or replacement be submitted using the EAGLS Maintenance Form (Form), which must be authorized by the department director and approved by the PCard administrator.

DFAS did not have Forms for 14 of 33 PCards sampled that had been cancelled or replaced. City departments do not consistently submit the completed form to DFAS. PCards may be re-issued without proper approval if the Form is not submitted.

Lost, Stolen or Damaged PCards

Policies and Procedures require a written justification accompany the Form when requesting a replacement PCard which has been lost, stolen or damaged. The justification must be from the department director explaining what happened that resulted in the request for replacement.

OIAI reviewed a listing of PCard cardholders with more than one account. DFAS reported that in some cases an account is closed and another is opened without notifying the PCard administrator. This listing contained 15 individuals with more than one account. Each individual had one account listed as “security blocked”, which is the status assigned when a card is reported as lost or stolen. Only four (27%) of the 15 individuals had the Form on file. Of the four, only two had a letter of justification for re-issue.

Without the Form and justification, DFAS does not have documentation of the reason for the replacement of the PCard. DFAS reported that lost and stolen PCards are often reported directly to BOA and the Form is never completed for DFAS.

Form

Policies and Procedures require the Form be signed by the department director. The Form does not contain a signature line specifically for the department director. It has an “authorized by” line, which may or may not be the director.

The Form also does not:

- Have an area to indicate whether a PCard was lost or stolen.
- Indicate that justification for a replacement PCard due to loss or theft is required to be submitted with the Form.

The Form is not clear. Therefore, information required to be in compliance with the Policies and Procedures is not always provided to DFAS.

RECOMMENDATION

DFAS should monitor PCard cancellation and replacement and verify the Form and justification (if applicable) are on file.

DFAS should revise the Form to specifically indicate it is to be approved by the department director, in accordance with Policies and Procedures. The Form should also include a section to indicate if the PCard was lost, stolen or damaged and require additional justification in writing when requesting a replacement card.

The CAO should ensure departments submit the Form for cancellation or replacement of a PCard. Justification should be submitted for replacement of a PCard due to loss or theft.

RESPONSE FROM DFAS

“DFAS agrees that PCard cancellation and replacement should be monitored, and that all required forms and other documentation justifying the cancellation be filed. Further, DFAS agrees that the current cancellation form in use should be revised to include information regarding this justification.”

“The Accounting and Purchasing Divisions will work together to complete a revision to the current Policies and Procedures as we move toward implementation of the WORKS program. This revision will address modifications to all PCard forms currently in use.”

RESPONSE FROM CAO

“The CAO agrees that Departments should submit the proper form for cancellation or replacement of a PCard and will periodically remind Directors of that requirement.”

5. THE CAO SHOULD ENSURE DEPARTMENTS PROMPTLY NOTIFY THE PCARD ADMINISTRATOR WHEN GROSS RECEIPTS TAX HAS BEEN PAID.

The City is exempt from paying Gross Receipts tax on goods. Policies and Procedures only allow purchases of goods, not services. PCard purchases should not include payment of gross receipts tax.

Policies and Procedures state:

The City is exempt from paying local, county and state gross receipts taxes for goods. However, if a vendor is reluctant to accept that statement at face value, the tax may be applied to the transaction document but the vendor must list the tax on a separate line item on the transaction document. The administrator must be promptly notified of such occurrence so that a non-taxable certificate can be issued. Contact the Purchasing Office should a certificate need to be issued.

OIAI determined that PCard coordinators are not consistently notifying the administrator when gross receipts tax has been paid. Thirteen of 33 PCard coordinators sampled had paid gross receipts tax on transactions during the three month period tested. In only three of the 13 (23%) instances noted, the PCard coordinator had notified the administrator of the payment of gross receipts tax. In these three cases, the administrator then issued a non-taxable certificate.

From October through December 2006, the City paid \$3,155 in gross receipts tax. On an annual basis this amount could approximate \$12,600.

RECOMMENDATION

The CAO should ensure departments promptly notify the PCard administrator when gross receipts tax has been paid so a non-taxable certificate can be issued.

RESPONSE FROM CAO

“The CAO agrees that Departments should take steps promptly to ensure that gross receipts tax is not paid if it is not due on a PCard transaction. The CAO, however, respectfully notes that the definition of “goods” not subject to gross receipts tax is a difficult one for many vendors and employees to understand. For example, while paint would generally be considered a “good” not subject to gross receipts tax, if the paint is to become an ingredient or component part of a construction project, it becomes subject to gross receipts tax as a “construction material”. This is a distinction that is almost impossible for a vendor to make without making detailed inquiry of the purchaser.

“The CAO will periodically remind Directors to encourage their staff to review PCard purchases to identify those instances when gross receipts tax was incorrectly charged and to ensure that steps are taken to execute a non-taxable transaction certificate.”

6. DFAS SHOULD UPDATE THE POLICIES AND PROCEDURES TO INCLUDE A PROCESS TO REVIEW AND APPROVE OVERRIDES.

There is no written procedure for requesting, granting, or documenting exceptions to existing Policies and Procedures. When a purchase is declined, an override is approved by the Purchasing Manager. The request is sent to the Purchasing Manager via email or telephone and if he gives approval, the purchase is approved.

OIAI determined that:

- 5 overrides for separate transactions did not comply with Policies and Procedures or MCC restrictions.
- 1 override was approved by a DFAS employee.

If Policies and Procedures do not address overrides, exceptions might be granted without documentation for purchases that do not comply with MCC or Policy and Procedure restrictions.

Government Finance Officers Association (GFOA) practices regarding PCard programs state that governments need to maintain appropriate controls. GFOA recommends that policy and procedures specifically address recordkeeping requirements, to include the approval processes.

RECOMMENDATION

DFAS should update Policies and Procedures to include specific instruction and guidelines for reviewing, granting, and documenting PCard purchase overrides.

RESPONSE FROM DFAS

“DFAS agrees that the Policies and Procedures should be updated to include specific instruction and guidelines for reviewing, granting and documenting PCard purchase overrides. The current practices for

approving MCC exceptions will be reviewed and incorporated into the revised Policies and Procedures.”

7. DFAS SHOULD PERIODICALLY REVIEW POLICIES AND PROCEDURES FOR REVISION AND COMMUNICATE THE MOST CURRENT VERSION TO CITY EMPLOYEES.

Policies and Procedures have not been updated in the past two years. The current Policies and Procedures revision is dated April 2005. Revisions are not communicated or distributed on a Citywide basis.

GFOA recommends that practices, policies and procedures should be evaluated annually. All policies should be readily available to all employees.

City departments are utilizing various versions of the Policies and Procedures. A survey of 22 departments indicated the various versions that are currently in use:

- 9 - did not reference any version of Policies and Procedures
- 5 - stated standard Policies and Procedures
- 4 - stated the PCard policy dated 1/1/2003
- 2 - stated the version provided by Purchasing at time of training
- 1 - stated the PCard policy dated 2/9/1999
- 1 – stated the PCard policy dated 4/21/2005

If updated/revised Policies and Procedures are not communicated Citywide there will not be consistency among PCard cardholders and coordinators.

RECOMMENDATION

DFAS should develop and implement a schedule to regularly review and update Policies and Procedures. The latest version should be distributed to City employees and made available to all users.

RESPONSE FROM DFAS

“DFAS agrees that the Policies and Procedures should be periodically reviewed and updated as necessary, and made available to all users. The City’s intranet e-web and Sharepoint site are being constantly developed to

incorporate added communication regarding policies, contracts and training opportunities. The Purchasing Program Specialist will be establishing a user group with an aim of enhancing department knowledge of all Purchasing Policies and Procedures.”

8. DFAS SHOULD PROVIDE REGULARLY SCHEDULED PCARD COORDINATOR TRAINING.

OIAI determined that PCard coordinators may have obtained access to the BOA EAGLS program without having received PCard coordinator training. Policies and Procedures require PCard coordinators to obtain training prior to obtaining an EAGLS log in ID and password. There are 103 PCard coordinators. There was no documentation indicating that any of the 20 (100%) PCard coordinators selected in a test sample had completed training. Record of who attended and completed training is not maintained; therefore, OIAI could not verify that any coordinators attended the required training before obtaining access to EAGLS.

DFAS staff told OIAI that there is not a formal PCard coordinator training process in place. PCard coordinator training is not offered on a regular and consistent basis.

If PCard coordinator training is not regularly offered and attendance is not maintained, access to EAGLS might be granted to an unauthorized user. EAGLS training is essential in that it is the tool used to reallocate expenses and perform reconciliation duties assigned to the PCard coordinator. Without training, expenses may be reclassified to the wrong account and account reconciliations may be omitted.

RECOMMENDATION

DFAS should regularly schedule PCard coordinator training and implement a system to document attendance.

The PCard coordinator should not be allowed access to EAGLS prior to obtaining training.

RESPONSE FROM DFAS

“DFAS agrees that regularly scheduled PCard Coordinator training should be scheduled and that attendance should be documented. Further, DFAS agrees that PCard Coordinators be allowed access to the PCard system only after proper training is received.

“The Purchasing Division has, and continues to offer, PCard training for both PCard holders and PCard Coordinators on the third Tuesday of each month. This training focuses on the Policies and Procedures governing the PCard program, including allowable purchases and the PCard Coordinator reconciliation process.

“EAGLS training has not been offered on a consistent basis since the Accounting User Group was split from the Accounting Division in the Spring of 2006, due to lack of available resources. Because of the upcoming transition to the WORKS system, no further effort has been made to develop and maintain the EAGLS training sessions. DFAS will work with City LEAD staff to develop and administer WORKS training to all PCard Coordinators before the new system is implemented. After implementation, this training will be regularly scheduled and required for all new PCard Coordinators.”

9. DFAS SHOULD REVIEW THE MONTHLY PAYMENT MADE BY AUTOMATIC DEDUCTION FOR ACCURACY.

Each month a payment is made by the City to BOA for the monthly activity of the PCard program. This monthly payment is set up by automatic transfer, initiated by BOA. The amount paid does not always match the amount reported as due per the PCard statement. For example, the October 2006 statement showed a previous balance of \$311,013 and an amount paid of \$310,216, a difference of \$797. DFAS does not verify that the payments made by electronic funds transfer to BOA for PCard purchases are accurate by comparing the Microsoft Excel spreadsheet file or the paper billing statement to the amount paid.

Administrative Instruction 2-3 states that strong financial practices include internal controls safeguarding city assets against loss from unauthorized use or disposition. An example of safeguarding city assets would include verification of amounts paid to BOA.

Without verification, under or overpayments to BOA for PCard purchases could go undetected for lengthy periods of time. Underpayments could result in penalties and/or loss of the annual rebate awarded for timely payment. Overpayments could result in payment for goods not received.

RECOMMENDATION

DFAS should reconcile monthly automatic PCard payments to the PCard statement, and clarify discrepancies with the BOA.

RESPONSE FROM DFAS

“DFAS agrees that monthly reconciliations of the automatic PCard payments to the PCard statement received from BOA should occur. The Accounting Division is currently developing the BOA statement and G/L payable reconciliation process. This function will be assigned to the Program Coordinator and will be implemented when the transition to the WORKS program occurs.”

10. DFAS SHOULD PERFORM AN ANNUAL ANALYSIS OF CARD USE.

The City currently has 444 active PCard accounts. PCards are similar to cash. The elimination of unnecessary cards could reduce the risk of misuse and/or fraud. Once the PCard is issued, there is never a review of frequency of use to determine the necessity for a PCard. Having cards in circulation that are not utilized gives rise to the potential risk that they would be lost or stolen without detection and fraudulent charges could go undetected for lengthy periods of time.

Common practice by other municipal procurement programs like the City of San Jose and the City of Tampa is to incorporate an annual PCard utilization analysis. Monitoring card utilization safeguards against unauthorized or fraudulent use of the PCard.

RECOMMENDATION

DFAS should perform an annual card use analysis. DFAS should consider requiring low use cardholders to justify the need to retain their PCard.

RESPONSE FROM DFAS

“DFAS agrees that annual card use analyses should be performed and that low use PCard holders should be required to justify the need to retain their PCards. An overall analysis of PCard use will be completed prior to the implementation of the WORKS program and the related revisions to the Policies and Procedures. This analysis will include discussion of the

possible need to establish limits on the amount of PCards issued within each City department.”

11. DFAS SHOULD REVIEW AND UPDATE THE PERFORMANCE MEASURE RELATED TO THE PCARD PROGRAM.

The only performance measure for the PCard program was derived at the inception of the program. DFAS has not reviewed the relevance of the performance measure since the PCard program began.

The current performance measure is intended to measure the PCard program value in terms of cost savings. It is designed to convey the savings to the City by reducing the cost of doing business by showing that the cost of completing a single PCard transaction is much less than processing a small purchase order. The number of PCard transactions has remained stable over the past three years, and there has been no substantial cost savings realized.

The GFOA indicates that a performance measure can only be effective if it provides a clear link between the performance measure and the organizations strategic goals.

If performance measures are not regularly updated it will be difficult to determine if value is being added.

RECOMMENDATION

DFAS should review and update the performance measure relating to the PCard program. The measure should address how the program is performing and what value is added to the City by its use.

RESPONSE FROM DFAS

“DFAS agrees that the performance measure relating to the PCard program should be reviewed and updated. The performance measure that will best reflect the program’s impact on DFAS utilization and benefit will be researched and a revised measure will be recommended. The findings of this research will help DFAS tailor the most optimal performance outcome.”

12. DFAS SHOULD REVIEW THE ANNUAL REBATE FOR ACCURACY AND CONSISTENCY.

BOA issues a rebate that is earned on a calendar year basis and is based on the City annual expenditures of the PCard program. The City earned \$64,898 in rebates from the PCard program between 2004 and 2006.

DFAS Accounting, Purchasing and Treasury Divisions personnel told OIAI that rebates are not verified for accuracy. Also, rebates received over the past three years have been recorded in the same fund but varying accounts and activities.

Policies and Procedures do not address the rebate program in any manner. Responsibility for receipt, review and recording of annual PCard rebates is not specifically assigned. The revenue stream from the PCard rebate program are funds that can be utilized for the benefit of City operations. It should be safeguarded as stated in Administrative Instruction No. 2-3 which requires adequate internal controls to safeguard city assets. If the rebate is not verified, the City will not know if the correct amount has been received.

RECOMMENDATION

DFAS should determine who is responsible for receiving, reviewing and recording the annual PCard rebate from the BOA. DFAS should review the annual rebates for accuracy and record it consistently.

RESPONSE FROM DFAS

“DFAS agrees that the annual PCard rebate from the BOA should be reviewed to determine that it is properly received and recorded in an accurate and consistent manner. This function will be assigned to the Program Coordinator and will be implemented when the transition to the WORKS program occurs.”

13. THE CAO SHOULD ENSURE DEPARTMENTS REVIEW PCARD TRANSACTIONS FOR RECURRING PURCHASES THAT COULD POTENTIALLY BE SET UP AS A CONTRACT.

The City Purchases Ordinance Section 5-5-7 states that it is the responsibility of Purchasing to set up contracts for common-use or repetitive purchases. City departments should be responsible for notifying Purchasing of potential contracts.

OIAI identified two recurring purchases while reviewing the transactions of 33 PCard cardholders:

- The Council Services Department (Council Services) purchases business meals for regularly scheduled meetings. Various restaurants are used multiple times throughout the year and in some cases delivery service charges are included in the PCard payment.
- The Department of Municipal Development made routine purchases from the same sign vendor.

Departments are not consistently reviewing purchases for potential contracts. If PCard purchases were monitored by the departments, the City might realize cost savings by setting up contracts for recurring purchases.

RECOMMENDATION

The CAO should ensure departments review PCard transactions to identify patterns of recurring purchases that could potentially be set up as a contract.

Council Services should review PCard transactions to identify patterns of recurring purchases that could potentially be set up as a contract.

RESPONSE FROM CAO

“The CAO agrees that PCard purchases should be reviewed by the Departments to identify patterns of recurring purchases that could potentially be set up on a contract and will periodically remind Directors to encourage their staff to do so.”

RESPONSE FROM COUNCIL SERVICES

“The Council will review PCard transactions to identify patterns of recurring purchases, however, it is not practical to enter into contracts with vendors of Council business meals unless there are only one or two such vendors. Councilors rotate selecting vendors to furnish meals, making it very difficult to contract with specific ones.”

“At the present time, different vendors (approximately 15) have provided meals for Council and Council Committee meetings. Though Council Staff has some discretion regarding the ordering of meals, direction is taken from the Councilors. Though some restaurants have provided several meals throughout a fiscal year, there is no regular pattern, nor is there an expectation that those restaurants will continue to provide meals. The Council staff makes every effort to affect cost savings when ordering meals from different vendors.”

CONCLUSION

DFAS should review, update and communicate the Policies and Procedures to all PCard cardholders and coordinators. PCard training is crucial for the proper functioning of this program. OIAI believes the above recommendations will overall strengthen the controls of the City PCard program.

We appreciate the assistance and cooperation of DFAS as well as all other City personnel contacted during the audit.

Principal Auditor

REVIEWED:

Audit Manager

Internal Auditor

APPROVED:

APPROVED FOR PUBLICATION:

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