

INVESTIGATION REPORT
OF
AVIATION P-CARDS
AVIATION DEPARTMENT
REPORT NO. 11-203



City of Albuquerque
Office of Internal Audit and Investigations

**Aviation Department - Investigation
Aviation P-Card
Report No. 11-203
Executive Summary**

Background: The Office of Internal Audit and Investigations (“OIAI”) conducted an investigation concerning an allegation of possible misuse of Purchase-cards (“P-Card”) at the City of Albuquerque (“City”) Aviation Department (“AD” or “Department”). This investigation was predicated upon an anonymous e-mail to OIAI. The e-mail reported that the AD’s Manager may have used City P-Cards for personal expenses to purchase services and products from an organization called Cambridge Who’s Who (“Cambridge”). The e-mail provided sufficient information to initiate an investigation.

Objective: *Is there evidence to support the allegation as presented?*

OIAI findings:

- City policy does not define what criteria are required to be considered a professional organization.
- There was a lack of segregation of duties by the AD Manager approving her own expenses to Cambridge.
- The Card Coordinator signed off on P-Card transactions that violated commonly accepted internal controls.

Recommendations:

- The CAO should clarify what criteria are required to define a professional organization. Management should determine whether an actual business purpose exists for all transactions.
- AD should require segregation of duties in the initiation and approval process when P-Card purchases are made.
- If P-Card holder explanation is vague and appears suspect, the Card Coordinator should promptly report the matter.

AD management responses are included in the report.



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

October 6, 2010

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

Investigation: Aviation P-Card
Aviation Department
11-203

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (“OIAI”) conducted an investigation concerning an allegation of possible misuse of Purchase-cards (“P-Card”) at the City of Albuquerque (“City”) Aviation Department (“AD” or “Department”). This investigation was predicated upon an anonymous e-mail to OIAI. The e-mail reported that the AD’s Manager may have used City P-Cards for personal expenses to purchase services and products from an organization called Cambridge Who’s Who (“Cambridge”). The e-mail provided sufficient information to initiate an investigation.

SOURCES OF INFORMATION

As part of our investigations OIAI analyzed the following:

- City Personnel Rules and Regulations
- City Ordinances and Administrative Instructions
- City Purchase Card Policies and Procedures
- City AD P-Card invoices
- City Check Requisition and Disbursement Requests for Cambridge purchases.
- List of P-Card holders at AD
- Internet research on Cambridge
- Research Cambridge website
- Cambridge biography on the AD Manager
- Better Business Bureau report on Cambridge
- Connecticut’s Office of Attorney General guide: “Protect Your Business Against Fraud: A Guide for Connecticut’s Small Business”.

BACKGROUND AND INVESTIGATION

Information received showed that the AD Manager used \$5,125.85 City funds to pay Cambridge. \$3,209.95 was paid using City P-Cards and \$1,915.90 was paid through the check requisition and disbursement system. Further, all of the expenses were approved by the AD Manager and were for the AD's Manager benefit. Please see the **Exhibit** on page 3.

Cambridge is an organization that seeks out individuals to be included in Cambridge publications. By becoming a member, Cambridge's website states that benefits will include recognition, exposure, credibility and networking. The Cambridge website also states that, "The registry acknowledges and memorializes your accomplishments and is a great conversational piece to display at home or at the Office."

The OIAI searched Cambridge's website and found the AD's Manager biography.

CITY FUNDS USED TO PURCHASE SERVICES AND PRODUCTS FROM CAMBRIDGE.

From June 12, 2007 through April 9, 2010, \$5,125.85 of City funds were paid to Cambridge for services and products for the AD Manager. The City allows for memberships to professional organizations and associations that City employees belong to that are beneficial to the City and provide education, certifications and required continuing professional education hours to meet certain certifications. City policy does not define what criteria are required to be considered a professional organization. Cambridge members get a published biography and offers to buy books, certificates and plaques. The total amount spent on Cambridge totaled \$5,125.85 as shown below.

Description on Invoice	Amount	Requisition and Disbursement Request
Platinum Membership	\$ 789.00	6/12/2007
Shipping and Handling	29.95	6/12/2007
Cambridge Registry	289.00	10/24/2007
8X10 Cambridge Plaque	189.00	10/24/2007
2008-2009 Who's Who Professional Registry	589.00	4/14/2008
Shipping and Handling	29.95	4/14/2008
Description on Invoice	Amount	P-Card Date Posted
Web Distribution Subscription	\$ 595.00	9/24/2008
Cambridge Who's Who Executive Professionals Registry Publication, includes e-release search engines and electronic communications access	995.00	8/21/2009
Web Release Distribution Subscription	695.00	12/7/2009
Cambridge Who's Who Executive Professionals Registry Publication Update, includes contact business networking, e-release search engines and electronic communications access, and calendars	895.00	4/9/2010
Shipping and Handling	29.95	4/9/2010
TOTAL AMOUNT PAID TO CAMBRIDGE	\$ 5,125.85	

THE AD MANAGER APPROVED HER PRODUCTS AND SERVICES TO CAMBRIDGE.

It is against commonly accepted internal controls to approve one's own purchases. The Government Finance Officers Association (GFOA) states that incompatible duties should be segregated so that different individuals can serve as a check on one another. Two of the three types of functions considered to be mutually incompatible are authorization of transactions and custody of the asset resulting from the transaction.

An example of this is in the City's Travel Regulations, Chapter Two, Section II which states:

Travel authorization requests must be submitted and approved in advance of the travel and may not be signed by the traveler as an authorizing or approving official. [emphasis added]

In reviewing the P-Card invoices and check requisition and disbursement forms for Cambridge, the AD Manager approved her own services and products paid to Cambridge. Internal controls that include segregation of duties require that the AD Manager should have gotten approval from the AD Director for the Cambridge purchases.

THE P-CARD COORDINATOR SIGNED OFF ON P-CARD TRANSACTIONS THAT VIOLATED COMMONLY ACCEPTED INTERNAL CONTROLS

City P-Card Policies and Procedures, Section 13, Card Coordinator Responsibilities states:

Review each transaction report and have Cardholder explain any unusual transaction(s); if the explanation is vague and appears suspect, promptly refer the matter to the respective department director's attention.

Documents show that from October 2, 2008 through May 7, 2010 the P-Card Coordinator signed off on four transactions to Cambridge, which violate commonly accepted internal controls.

OBJECTIVES

The objectives of the investigation were to determine:

- Is there evidence to support the allegation of misuse of P-Cards?
- Are there areas in which AD could reduce the risk of P-Card misuse?

SCOPE

The scope of the investigation was limited to:

- Employees of the AD
- P-Card purchases

METHODOLOGY

The methodologies used during our investigation consisted of:

- Analysis of available documents
- Web research

FINDINGS

OIAI makes recommendations regarding areas noted during the investigation that we believe could improve the Department's effectiveness, efficiency and compliance with administrative policies and applicable rules and regulations. These recommendations could prevent future fraud and provide controls that would detect fraud.

1. CITY FUNDS WERE USED TO PURCHASE SERVICES AND PRODUCTS THAT MAY NOT BENEFIT THE CITY.

From June 12, 2007 through April 9, 2010, \$5,125.85 of City funds were paid to Cambridge for services and products for the AD Manager. City policy does not define what criteria are required to be considered a professional organization.

RECOMMENDATION

The CAO should clarify what criteria are required to define a professional organization. Management should determine whether an actual business purpose exists for all transactions.

RESPONSE FROM CAO

“The CAO will research this issue, and will issue an Administrative Instruction defining and clarifying what constitutes a professional association membership for which city funds may be expended.”

RESPONSE FROM AD MANAGEMENT

“The AD’s Manager job description requires and encourages her to 1) “attend and participate in professional group meetings; stay abreast of new trends and innovations in the field of aviation”; 2) establish and maintain effective working relationships with those contacted in the course of work”. The AD Manager was attempting to fulfill these job requirements by joining Cambridge Who’s Who. AD agrees with OIAI recommendation and in the future all professional memberships will be subject to approval by employee’s direct supervisor. In addition AD will abide by any clarification provided by CAO.”

2. LACK OF SEGREGATION OF DUTIES BY THE AD MANAGER APPROVING HER OWN EXPENSES TO CAMBRIDGE.

In reviewing the P-Card invoices and check requisition and disbursement forms for Cambridge, the AD Manager approved her own services and products paid to Cambridge. Internal controls that include segregation of duties require that the AD Manager should have gotten approval from the AD Director for the Cambridge purchases.

Lack of segregation of duties is a great contributor to P-Card fraud.

RECOMMENDATION

AD should require segregation of duties in the initiation and approval process when P-Card purchases are made.

RESPONSE FROM AD MANAGEMENT

“The AD’s Manager has Signature Authority up to \$25,000. Each P-Card purchase is no more than \$1,000 which would allow the AD Manager to approve all P-Card transactions. The Aviation Department recognizes the importance of segregation of duties and has implemented a department memo stating all ‘Signature Authority Employees’ must have prior approval from supervisor when the procurement provides a direct benefit to employee.”

3. CARD COORDINATOR SIGNED OFF ON UNAPPROVED P-CARD TRANSACTIONS.

Documents show that from October 2, 2008, through May 7, 2010, the P-Card Coordinator signed off on four transactions to Cambridge.

RECOMMENDATION

If P-Card holder explanation is vague and appears suspect, the Card Coordinator should promptly report the matter.

RESPONSE FROM AD MANAGEMENT

“Although the P-Card Coordinator did not question the membership purchase for over three years, the Aviation Department believes this is due to the fact that City Rules and Regulations do not address this matter. The P-Card Coordinator eventually raised the issue and guidance was sought from the Purchasing Division. The P-Card Coordinator is expected and will be encouraged to continue to follow Purchasing Card Policies and Procedures which states “Review each transaction report and have Cardholder explain any unusual transaction(s); if the explanation is vague and appears suspect, promptly refer the matter to the respective department director’s attention”. In addition, all Aviation employees responsible for P-Card transactions will be required to attend refresher training.”

CONCLUSION

From the test work noted above OIAI has determined the following conclusions:

- City policy does not define what criteria are required to be considered a professional organization.
- There was a lack of segregation of duties by the AD Manager approving her own expenses to Cambridge.
- The Card Coordinator signed off on P-Card transactions that violated commonly accepted internal controls.

Based on the findings, AD should review and communicate the Policies and Procedures to all P-Card cardholders and coordinators. P-Card training is crucial for the proper functioning of this program.

Principal Auditor/Investigator

Inspector General

REVIEWED AND APPROVED

APPROVED FOR PUBLICATION:

Carmen Kavelman, CPA, CISA, CGAP
Director
Office of Internal Audit and Investigations

Chairperson, Accountability in Government
Oversight Committee