



Date: October 21, 2016

To: Bob Wingenroth, City Manager

From: Carol Holley, Internal Auditor *CH*

Subject: Citywide Procurement Card Internal Audit Report No. 2016-3

As part of the FY2016 Annual Audit Plan, the Internal Auditor has completed the Citywide Procurement Card (P-Card) audit. The audit report contains 26 opportunities to strengthen and enhance internal controls over the City's P-Card Program.

Internal Audit extends its appreciation to the Finance Department and the various departmental P-Card reconcilers for their assistance throughout the audit.

Attachment

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SURPRISE

ARIZONA

Citywide Procurement Card Audit

Internal Audit Report No. 2016-3

June 30, 2016

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I. EXECUTIVE SUMMARY

As part of the approved FY2016 Annual Audit Plan, the Internal Auditor completed the Citywide Procurement Card audit. On June 7, 2016, the City of Surprise (City) had 229 active procurement purchasing cards (P-Cards) issued to City employees. In FY2016, City employees used P-Cards to purchase over \$2.5 million in goods and services. This represents a 38% increase in P-Card activity since FY2012. The increased use of P-Cards and the inherent risk associated with P-Card transactions identified this as an area warranting review. The objective of the audit was to assess the internal controls, processes, and procedures of the P-Card Program to ensure that cardholders understand and are complying with the Procurement Card Program Card Procedure and Use Manual (Manual) and other applicable City policies and procedures.

P-Cards offer significant benefits, such as increased purchasing flexibility, rebate incentives offered by the P-Card provider, the opportunity to streamline processes, empowerment of staff to perform duties in a more efficient and timely manner, and an increase in the ability to automate the tracking and monitoring controls over employee purchasing habits. The National Association of Purchase Card Professionals (NAPCP) estimate an average process cost savings of \$70 per transactions when a P-Card is used to procure goods or services instead of the traditional procure to purchase method.

While the P-Card Program offers many benefits, there are also inherent risks associated with the use of P-Cards. When controls are not functioning as intended, the risks related to the program increase, thereby increasing the risk exposure of the City. The audit identified inconsistencies in the documentation of transactions by cardholders, transactions processed without obtaining a required purchase order, potential split transactions, opportunities to strengthen controls over the P-Card agreement, noncompliance with the City's record retention policy, a need for additional training and enhancement of the P-Card Manual.

The audit provided opportunities to enhance controls, decrease the City's risk exposure, and increase rebate earnings. Key opportunities discussed with the Finance Department included:

- ✚ Payment of monthly P-Card statement upon receipt to increase rebate earnings (This would have resulted in a 17.5% (\$5,840) increase in rebate revenue for FY2015.)
- ✚ Obtaining a Certificate of Insurance to limit the City's liability
- ✚ Developing controls to manage cardholders' ability to bypass the P-Card Administrator to obtain temporary credit limit increases directly from the P-Card service provider
- ✚ Encouraging City departments to increase their use of P-Cards to earn additional rebate revenue and to optimize cost savings
- ✚ Establishing credit limits based upon cardholder spending history

- ✚ Updating the P-Card Manual with best practices and providing mandatory periodic P-Card training

The Finance Department and program participants were open and receptive to the opportunity to enhance the effectiveness and efficiency of the P-Card Program. Results from audit testing are detailed in the audit report and statistical data related to detailed P-Card transactions are included in the appendices. As the City continues to enhance the P-Card Program, the Internal Auditor will continue to monitor P-Card transactions through the Continuous Auditing Program.

II. BACKGROUND

On December 14, 2000, the City Council approved the implementation of a citywide P-Card Program. The program is designed as a fast, flexible alternative for purchasing small dollar (under \$5,000) goods or services. The Finance Procurement Division is primarily in charge of the overall administration of the P-Card Program. The key responsibilities of the Finance P-Card Administrator include:

- ✚ Functioning as the liaison between the City and the P-Card service provider
- ✚ Updating cardholder credit limits in the service provider's WORKS system
- ✚ Distributing new P-Cards
- ✚ Maintaining P-Card applications and other critical administrative P-Card forms
- ✚ Deactivating P-Cards, as needed

Other key roles and responsibilities of P-Card participants include:

Title	Assignment/Responsibilities
Cardholder	<ul style="list-style-type: none"> • Authorized by department head • Makes authorized city-business purchases (personal purchases are strictly prohibited) • May reconcile monthly statement
Reconciler	<ul style="list-style-type: none"> • Designated by the department • Reviews monthly P-Card statement for accuracy and reconcile to original receipts • Within WORKS, allocate purchases to the correct City account code if the pre-established default account code is incorrect • Forwards completed reconciled monthly P-Card statement package to Approver for review and signature • May forward completed package to Finance after Approver's review and signature • Functions as department's liaison
Approver	<ul style="list-style-type: none"> • Designated by the department • Reviews, approves, and signs cardholders' monthly invoices and statements • May forward completed reconciled package to Finance after review and signature

On June 7, 2016, 229 P-Cards were active in the P-Card Program. Finance has developed and published online, the P-Card Manual to guide program participants on how to manage and process P-Card transactions.

In FY2016, \$2,581,217 in payments were made to the P-Card service provider (Bank of America) for P-Card purchases. Key P-Card statistics are referenced in Appendix B.

III. OBJECTIVE, SCOPE, and METHODOLOGY

Objective

The objective of the audit was to assess the internal controls, processes, and procedures of the P-Card Program to ensure that cardholders comply with the P-Card Manual and other applicable regulations. The audit did not assess the reconciliation procedures that are currently in place. The Finance Department (Finance) is in the process of migrating to a new banking system that may affect the current reconciliation process.

Scope and Methodology

The scope of the audit was for the period July 1, 2015 to June 30, 2016. To address the audit objective, the Internal Auditor:

- ✚ Benchmarked the P-Card Manual against the best practice of four municipalities
- ✚ Interviewed Finance staff to gain an understanding of the P-Card Program
- ✚ Interviewed various P-Card departmental reviewers and approvers to gain an understanding of how individual departments are interpreting and applying the P-Card Manual policies and procedures
- ✚ Judgmentally selected and reviewed 785 P-Card transactions citywide for the period July 1, 2015 to April 15, 2016
- ✚ Obtained and reviewed detailed P-Card transactions and cardholder data provided by Finance
- ✚ Reviewed the City's P-Card service agreement (Agreement)

IV. CONCLUSION

With the implementation of the P-Card Program, City employees are empowered with the ability to make small dollar purchases in a quick and convenient manner. Empowering cardholders with purchasing authority can lead to increased fraud and abuse if proper controls are not implemented and enforced. It was noted during the audit that the P-Card Administrator on several occasions, prior to the start of the audit, took the initiative to create documents to formalize procedures that created an audit trail that was helpful in the audit testing process. Results from the audit testing identified opportunities to strengthen and enhance current policies and procedures, increase revenue rebate incentives earned by the City,

and to reduce the overall risk associated with processing transactions and managing P-Card credit limits.

Internal Audit appreciates the collaborative efforts of the departmental P-Card reconcilers and Finance staff for their cooperation, willingness to meet, and providing requested reports throughout the course of the audit.

V. DETAILED OBSERVATIONS

Section A – Agreement Terms and Conditions

- 1. Prompt payment of P-Card statements will earn the City additional rebate revenue.*

CRITERIA

Section 6.6.3., Rebate, Fees & Payment, of the P-Card Agreement states "...the program shall provide an aggressive incentive program which rewards prompt payment..."

CONDITION

A review of the P-Card Agreement, discussion with staff, and confirmation with Bank of America (B of A) determined that additional prompt payment incentive revenue is available if the monthly statement is paid upon receipt. The billing cycle for the P-Card program ends on the 27th of each month. Finance utilizes the B of A software (WORKS) to generate a monthly citywide billing statement. The statement total is used to prepare a Preauthorized ACH/Wire Debit Form for submittal to Accounts Payable (A/P) for processing and payment via wire transfer.

During FY2015, Finance paid the P-Card statement within 6 to 21 days after the cycle ending month. Any discrepancies in P-Card charges can be disputed within 60 days for the issuance of a credit. Based upon the dollar level of activity and the number of days in which the statement payments were processed, the City has received \$84,297 in rebate revenue for the past three fiscal years:

*Year	Rebate Amount
FY2015	\$33,263
FY2014	\$28,675
FY2013	\$22,359
Total	\$84,297

*At the time of the audit, the FY2016 rebate amount was not available.

For FY2015, prompt payment of the monthly statement upon receipt would have increased the City's rebate by an additional \$5,840.

CAUSE

Staff was unaware of the terms and conditions of the agreement.

RISK

- ✚ Loss of rebate revenue

RECOMMENDATION

Finance:

- A. Promptly pay P-Card statements upon receipt to ensure the City receives all available rebate incentives.
- B. Increase staff knowledge and understanding of agreement terms and conditions.

MANAGEMENT RESPONSE

- A. Concur. The Accounts Payable Division will promptly pay all Bank of America P-Card statements at the conclusion of the billing cycle. This process was initiated with the September 2016 cycle and will continue with all remaining Bank of America statements. In October 2016, the Procurement Cards will transition over to our new Procurement Card provider, BBVA, whose rebate is based on usage rather than when payment is made by the City.
- B. Concur. Finance Department staff has been made aware of the terms and conditions of the Bank of America and BBVA contracts.

2. A Certificate of Insurance is required for the agreement.

CRITERIA

Guideline 2501, Cooperative Agreement, Section A.2.f., of the Procurement Guideline Manual sets forth the standards and expectations governing City Cooperative Agreements. The guideline requires the Agreement Officer to “Obtain Certificate of Insurance identifying City of Surprise as additional insured for service agreements...”

Section 2.10, Insurance Representations and Requirements, in the P-Card Agreement, identifies the insurance requirement for the agreement.

CONDITION

A certificate of insurance (COI), identifying the City as an additional insured, has not been obtained for the P-Card Agreement as required by the terms of the agreement and City policy. A COI provides verification and proof of insurance types, limits of coverage, policy effective periods, the name of the insured, and other informative information about insurance obtained by third party agreement with the City.

CAUSE

An administrator has not been assigned to effectively manage the P-Card Agreement.

RISK

-  Noncompliant with City Municipal Code and the P-Card Agreement terms and conditions
-  Inadequate insurance coverage exposes the City to liability, risk, and loss

RECOMMENDATION

Finance:

- A. Obtain a COI for the P-Card Agreement.
- B. Assign an administrator to manage and monitor the P-Card Agreement to ensure compliance with all terms and conditions.

MANAGEMENT RESPONSE

Finance

- A. Concur. A certificate of insurance was requested on October 14, 2016 from the new P-Card Vendor. Receipt of the certificate is expected by October 31, 2016.
- B. Concur. P-Card Administrators have been assigned to manage and monitor the P-Card Agreement which includes the Assistant Finance Director, Accounting Manager, Revenue Manager, and Accounting Technician Lead.

3. Cardholders have the ability to bypass the P-Card Administrator and contact the P-Card service provider for temporary credit limit increases.

CRITERIA

Section 3.2.A., Charge Limit, of the P-Card Agreement, permits B of A "...In its sole discretion, and for purposes of limiting potential losses or for administering time-sensitive requests...may increase or decrease the Aggregate Charge Limit or any Credit Limit..."

CONDITION

During the audit, one cardholder contacted B of A directly for a temporary \$25 credit limit increase. The credit increase was related to travel expenses. The cardholder notified the P-Card Administrator after the fact. All necessary documentation and management authorization signature was provided later.

CAUSE

The P-Card Manual does not address after business hours emergency increases to credit limits.

Staff did not adequately estimate travel needs.

RISK

- ✚ Cardholders may exceed spending limits authorized by the department head
- ✚ P-Card Administrator may be unaware of credit limit increases

RECOMMENDATION

Finance:

- A. Develop a process and procedure for addressing emergency credit limit increases.

MANAGEMENT RESPONSE

- A. Concur. The P-Card policy was updated on October 14, 2016 to include the process and procedure for emergency credit limit increases. The new P-Card vendor will only allow a P-Card Administrator to increase credit limits.

Section B – P-Card Best Practices Can Reduce Risk

4. Increase P-Card usage for small dollar purchases will offer the City additional benefits and cost savings.

CRITERIA

City departments should utilize the most cost effective and efficient method for purchasing goods and services.

CONDITION

Over \$1 million in small dollar purchases were paid through the City's A/P process to 368 vendors during FY2016 that may have been eligible for payment via a P-Card and subsequently eligible for inclusion into the annual rebate incentive calculation. In a November 2000 memo to the City Manager, the former Procurement Manager estimated the average cost to process a City purchase order from \$80 to \$120. In 2000, staff estimated that the P-Card Program would result in a cost savings of 30-75% per transaction. As of July 2016, a current analysis of the estimated cost of a traditional City's A/P procure-to-pay purchase and the cost of the P-Card-procure-to-purchase transaction has not been performed. The current potential cost savings is unknown.

In August 2015, the NAPCP published their P-Card Value Proposition report that discussed the typical cost and benefits of a P-Card Program. The report suggests that at least 80% of an organization's payments are less than \$2,500 each and equate to only 5% of the total spent. The payments are typically made to a large number of suppliers, of which 80% are used only once or twice per year. NAPCP estimate the cost of a traditional A/P procure-to-pay purchase from \$45 to \$225 per purchase. This cost remains the same regardless of the dollar amount of the purchase. The process cost tends to be less than \$25 per transaction when the process is switched from the A/P traditional procure-to-pay process to the streamlined P-Card procure-to-pay model. This occurs by re-engineering inefficient traditional A/P processes to the P-Card procure-to-pay model, eliminating steps that do not add value and putting cards into the hands of employees who need to acquire goods and services.

The NAPCP report identified the following potential P-Card benefits:

Benefits	Explanation
Reduction in procurement cycle time	Industry studies have shown a reduction of more than 50%, on average, as departments obtain supplies directly from suppliers when needed
Petty cash reduction or elimination	Elimination of time spent managing petty cash, as purchases previously paid or reimbursed through petty cash are paid via P-Card
Spend data availability	Technology and reporting options associated with P-Cards provide more detail about spending activity than typical A/P systems
Employee satisfaction	Employees are empowered to complete their jobs more quickly and efficiently with no need for purchasing involvement
Opportunity for improved cash flow	Card issuers typically invoice end-user organizations once per month, requiring payment several days or weeks after the invoice date
Revenue-sharing potential	Card issuers commonly offer rebate incentives based on criteria, such as spend thresholds
Increased visibility into employees' activities	P-Card technology and reporting tools offer the potential to detect previously undetected employee policy infractions
No federal 1099 reporting	As of 2010, IRS federal 1099 reporting requirement for P-Card transactions responsibility shifted to the merchants' banks. (Note: The City is still required to report for other payment types.)

CAUSE

The P-Card Program is provided as an option for employees to make small dollar purchases. It is not a mandatory payment method for small dollar purchases.

RISK

- ✚ Potential inefficiency in procurement operations as the cost of the traditional A/P method for processing small dollar purchases may exceed the potential cost savings related to the use of a P-Card
- ✚ Loss of potential rebate revenue

RECOMMENDATION

Finance:

- A. Analyze the current A/P processes and payment statistics for small dollar purchases. The analysis should include, but not be limited to:
 - ✦ Percentage of payments that are less than \$5,000
 - ✦ Identifying the traditional procure-to-pay processes and their associated costs
 - ✦ Identifying the number of infrequently used suppliers in the A/P master vendor file
 - ✦ Estimating the percentage of potential vendor payments to move to P-Cards, the estimated savings, and its associated workload
- B. Because of rebate incentives and the lower cost of processing, encourage departments to maximize the use of P-Cards as a method of payment for all small dollar purchases. If necessary, update the P-Card Manual.

MANAGEMENT RESPONSE

- A. Concur. We will work on analyzing the current Accounts Payable process to gather the pertinent statistics; however, this process may take 14 months to generate a full year's worth of transactions in the new MUNIS financial software program to most accurately and effectively analyze this information. The new financial software was implemented July 1, 2016.
- B. Concur. The P-Card Manual has been updated as of October 14, 2016 to encourage the use of P-Cards for small dollar purchases.

5. Additional training is required to encourage compliance with the P-Card Program policies and procedures.

CRITERIA

The P-Card Manual identifies City policies and procedures for P-Card activities. P-Card Program participants are responsible for understanding and complying with the policies and procedures.

CONDITION

In FY2016, 24 City departments processed over 9,300 P-Card transactions. Based upon transaction type, amount, and vendor name, the Internal Auditor used professional judgment to select and review 8% (785 out of 9,300) of P-Card transactions. Appendix "A" reference moderate to high-risk opportunities identified and discussed with staff to strengthen and enhance the documentation of transactions and the encouragement of compliance with the P-Card Manual. Low to moderate opportunities to strengthen controls and documentation of transactions were discussed with departmental reconcilers and included:

- ✚ Clearly stating the business purpose for purchases
- ✚ Ensuring documents are adequately secured to protect P-Card account numbers
- ✚ Including a detail itemization of goods or services purchased
- ✚ Providing the names of attendees when purchasing meals or food

During the audit, questionable transactions were identified that may not have complied with the P-Card Manual policies and procedures:

- ✚ A cardholder did not obtain a purchase order for two P-Card transactions that totaled over \$5,757. The orders were placed with the vendor on the same date and both invoices were dated for the same date. The P-Card transactions were processed with B of A on March 9, 2016 and March 24, 2016. This appeared to be split transactions that required a purchase order.
- ✚ Purchase orders were not always obtained when summer camp events exceeded \$5,000 and the payments were processed in two separate P-Card transactions. The department has implemented procedures to request a purchase order when the potential exist that the cost may exceed \$5,000.

CAUSE

A comprehensive P-Card Manual supported by mandatory periodic training is not in place to provide adequate guidance for program participants.

RISK

- ✚ Noncompliance with City policies and procedures
- ✚ Inconsistency in the processing of similar transactions
- ✚ Expenditures may not meet management expectations
- ✚ Potential fines from external agencies

RECOMMENDATION

Finance:

- A. Develop a system to monitor high volume P-Card vendors that may warrant the award of a contract or purchase order.
- B. Develop a periodic mandatory training program to enhance participants' understanding of program requirements.

MANAGEMENT RESPONSE

- A. Concur. The Accounts Payable Division will work with the Procurement Division to help identify high volume P-Card vendors that may warrant the award of a contract or purchase order. Date for projected compliance is September 2017 once we have completed a full-year of using the MUNIs Procurement Card module.
- B. Concur. The new P-Card Manual that is effective October 14, 2016 requires all cardholders to review the manual on receipt of any new or replacement cards as well as an annual basis to ensure cardholders understand the program requirements. Date for training program will be completed by November 30, 2016.

6. Adding additional guidelines to the P-Card Manual will strengthen and enhance controls over the program.

CRITERIA

The Government Finance Officers Association (GFOA) Best Practice, Documenting Accounting Policies and Procedures, recommends that every government should document its accounting policies and procedures to include:

- ✦ Delineating the authority and responsibility of all employees
- ✦ Delineating the authority to authorize transactions
- ✦ Identifying the responsibility for the safekeeping of assets and records
- ✦ Indicating which employees are to perform which procedures
- ✦ Explaining the design and purpose of control related procedures to increase employee understanding of and support for controls

The policies and procedures should be evaluated annually and updated periodically no less than once every three years. Changes in policies and procedures that occur between these periodic reviews should be updated in the documentation promptly as they occur.

CONDITION

An opportunity exists to strengthen and enhance the P-Card Manual by providing additional guidance for program participants, such as:

- ✦ Password security – Cardholder userIDs and passwords for the WORKS system are sometimes stored in a binder by reconciler.
- ✦ Establishing month end process
- ✦ Addressing automatic cardholder renewal process
- ✦ Establishing fraudulent activity procedures
- ✦ Establishing procedures for relinquishing a P-Card when a cardholder severs employment with the City or transfers to a different department
- ✦ Clarifying allowable travel expenses – One transaction for \$258 was identified for an employee's local hotel accommodations related to local training held within 50 miles from the employee's work site.
- ✦ Defining roles and responsibilities
- ✦ Clarifying the record keeping and retention policy
- ✦ Modifying Section 13 to include guidance for documenting purchases for events when food is served
- ✦ Updating Section 18 to include due dates
- ✦ Reminding participants that all purchases must comply with applicable City policies, such as updating Safety Sheets
- ✦ Including an index to facilitate the ease of locating information in the P-Card Manual

- ✚ Reviewing and updating forms as necessary. The “Request for Purchasing Card” form is used to establish the spending level for each cardholder. It does not include a line for single transaction limits.

Comprehensive policy and procedures set the tone for management and establish performance expectations for employees.

CAUSE

The Procurement Manager position has been vacant three times in the past five years and multiple citywide Finance projects have required staff to prioritize their workload to ensure that high-risk task is completed in a timely manner. This has left staff with minimum time to perform a comprehensive review of the P-Card Manual and benchmark it against best practices.

RISK

- ✚ Potential inconsistency in the application of the P-Card Manual policies and procedures

RECOMMENDATION

Finance:

- A. Perform a comprehensive review of the P-Card Manual and update the policy to help encourage best practices and to reduce the City’s potential exposure to misuse of the P-Card Program.

MANAGEMENT RESPONSE

- A. Concur. The Accounting Manager has performed a comprehensive review of the P-Card Manual and is in the process of updating the policy. The updated manual will be made available to City Staff by October 17, 2016.

7. Deactivating P-Cards in a timely manner will reduce the potential risk of unauthorized transactions.

CRITERIA

Section 17 of the P-Card Manual requires an employee separating from the City to return their P-Card to a supervisor. The supervisor must forward the P-Card to the P-Card Administrator for disposal and deactivation.

CONDITION

When cardholders sever employment with the City, departments do not always comply with the deactivation procedures identified in the P-Card Manual. A deactivated P-Card report obtained from the B of A online WORKS program identified 23 deactivated P-Cards for FY2016. Eleven of the P-Cards (47.8%) were associated with terminated employees. Eight of the 11 (82.7%) terminated employees' P-Cards were deactivated 3 to 163 calendar days after their effective termination dates.

P-Cards are not always returned to the P-Card Administrator for disposal as required by the P-Card Manual. During the interview and observation phase of the audit:

- ✚ A reconciler confirmed shredding P-Cards and notifying the P-Card Administrator of the cardholder's last day of employment.
- ✚ On May 31, 2016, a reconciler maintained an active P-Card for one terminated employee in a desk folder. The Internal Auditor later confirmed the P-Card was deactivated on June 29, 2016 and the employee terminated on May 30, 2016.

CAUSE

The P-Card Manual is silent on the timeframe for collecting and deactivating P-Cards and does not address an employee transferring to a different department.

RISK

- ✚ Delay in deactivating P-Cards increases the potential of unauthorized purchases and identify theft.

RECOMMENDATION

Finance:

- A. Enhance Section 17 in the P-Card Manual to provide additional guidance to staff and to reduce the potential for unauthorized purchases and identity theft by:
 - ✚ Identifying the earliest date and method that the supervisor must notify the P-Card Administrator to close P-Card accounts
 - ✚ Incorporating procedures for employees transferring to different departments and positions
- B. Request periodic employee termination and transfer reports from Human Resources and reconcile current cardholders to the report to ensure all P-Cards are timely deactivated.

MANAGEMENT RESPONSE

- A. Concur. The P-Card Manual has been updated effective October 14, 2016, providing additional guidance to reduce the potential for unauthorized purchases and including timelines for supervisor notification to the Accounts Payable Division to close P-Card accounts and address when an employee transfers departments.
- B. Concur. The Accounts Payable Division will work with the Human Resources Department to receive periodic information on employee termination and transfers to reconcile current cardholders ensuring P-Cards are timely deactivated. This process will be put in place at the end of December 2016.

8. Deactivating low or no activity P-Cards will reduce the potential for misuse of the program.

CRITERIA

P-Cards are issued based upon business needs and are timely deactivated when the business need no longer exist.

CONDITION

As of June 7, 2016, 15 out of 229 (6.5%) cardholders have not used their P-Cards for at least six months. This includes:

- ✚ Five out of the 15 (33.3%) P-Cards with no activity for over a year
- ✚ One P-Card with no purchasing activity since July 1, 2013
- ✚ One cardholder transferred to a different department two years ago, shred the P-Card and the P-Card remained active in the system. The P-Card Administrator deactivated the P-Card number during the audit.
- ✚ One P-Card with no activity since August 22, 2015

As of June 7, 2016, 47 out of 229 (20.5%) cardholders processed ten or less P-Card transactions during FY2016.

CAUSE

The P-Card Manual does not address or establish a minimum purchasing activity level for P-Cards.

RISK

- ✚ Inability to accurately gauge the number of active P-Cards
- ✚ Potential unauthorized use of inactive P-Cards may not be detected in a timely manner, if at all
- ✚ Issued P-Cards are not used increase the City's exposure to misuse and create an opportunity for fraudulent activity

RECOMMENDATION

Finance:

- A. Develop and document procedures for periodically evaluating low or no P-Card activity at least annually to ensure there is a continued business need for a P-Card. Cardholders should annually confirm in writing with the P-Card Administrator that their assigned P-Card is safeguarded when not in use.

- B. Contact inactive P-Card holders and deactivate applicable P-Cards.

MANAGEMENT RESPONSE

- A. Concur. The new P-Card manual effective October 14, 2016 has new procedures to periodically evaluate low or no P-Card activity on an annual basis and recommend to the Accounting Manager any cards that should be deactivated which will be communicated to the authorizing department head for consideration and approval. The department directors will be provided with the details that support the recommendations such as when and if the card was last used and the number of transactions processed for the year and the average dollar amount of transactions processed per month. On an annual basis, all cardholders will be required to review the P-Card manual and certify in writing that they understand the requirements and are in compliance with the manual.
- B. Concur. For any inactive cards that are being deactivated at the direction of the Department Director will be communicated to the cardholder by Accounts Payable as well as their Department Director or his/her Designee.

9. Signed Procurement Card User Agreements are not on file for all cardholders.

CRITERIA

The Procurement Card User Agreement included in the P-Card Manual identifies the cardholder's responsibility to understand and abide by all the rules and regulations of the P-Card Program and actions that may be taken for violation of those provisions.

CONDITION

On July 18, 2016, a current Procurement Card User Agreement form was not on file with the P-Card Administrator for all active P-Cards. During the audit, the following was noted:

- ✚ Ten out of 226 (4%) cardholders did not have a Procurement Card User Agreement filed with the P-Card Administrator
- ✚ Seventy-one out of 226 (31%) of agreements were dated June 6, 2012 to December 31, 2014. According to staff, P-Cards expire every two years and a new Procurement Card User Agreement is completed when the new card is issued. The P-Card Manual does not reference this process.
- ✚ Sixty-six out of 226 (29%) forms spending limits did not agree with limits that were reflected in WORKS. Staff attributed this to a letter issued by a previous Procurement Manager and P-Card Administrator requesting departments review cardholders' credit limits. This appears to have been an informal process without properly documenting changes in credit limits.
- ✚ Two out of 226 (.8%) cardholders single spending limit in the "credit profile" field(s) of WORKS was higher than the cardholder's authorized credit limit. Although this is an informational field and does not affect transaction-spending activity, it may create confusion if reports are generated based upon data from the fields.

CAUSE

A procedure is not in place to require periodical reconciliation of Procurement Card User Agreements to the current list of active cardholders.

RISK

- ✚ A decrease in the ability to hold cardholders accountable for compliance with the P-Card Manual policies and procedures

RECOMMENDATION

Finance:

- A. Obtain signed Procurement Card User Agreements for all cardholders.
- B. Periodically reconcile signed copies of Procurement Card User Agreements against a list of active cardholders from the WORKS system.

MANAGEMENT RESPONSE

- A. Concur. In order to receive the new BBVA procurement cards, cardholders will be required to submit signed Procurement Card User Agreements at card issuance and on an annual basis. Staff responsible for distributing cards have been educated on the process.
- B. Concur. Effective October 2016, Procurement Cards will transition from Bank of America (Works System) to BBVA. In conjunction with the transition, Accounts Payable is working with all department directors to obtain an accurate list of cardholders prior to issuing the new cards. When the new cards are distributed and the signed Procurement Card User Agreements are received from cardholders, this information will be scanned and loaded into the cardholder's profile in the MUNIS Procurement Card Module, which will be reconciled to the BBVA system.

10. Business needs and cardholder spending history should determine P-Card limits.

CRITERIA

Section 3 of the P-Card Manual allows the Procurement Manger to determine control limits when an employee applies for a P-Card.

P-Card spending limits should be based on business needs and cardholder P-Card transaction history.

CONDITION

The May 2016 current cardholder list contained 29 cardholders with monthly credit limits (CL) of \$5,000 or greater, of which 18 out of 29 (62%) cardholders utilized less than 50% of their authorized monthly CL during FY2016. The below table summarizes the number of high monthly CL cardholders:

Monthly CL	No. of Cardholders
\$7,000	1
\$8,000	1
\$10,000	19
\$15,000	4
\$20,000	3
\$25,000	1
Total	29

WORKS allows the P-Card Administrator to establish monthly CL and single transaction limits for each P-Card. City departments establish cardholder CL by submitting a completed "Request for Purchasing Card" form to the P-Card Administrator. The form requires the signature of a department head.

Documentation confirming the last review of citywide P-Card CLs was not available.

CAUSE

The P-Card Manual does not address the periodic review of CLs and adjusting them based upon cardholder purchasing activity.

RISK

✚ Unused high CL balances expose the City to potential misuse and increased opportunity for fraudulent activities

RECOMMENDATION

Finance:

- A. Review cardholder CL and when utilized 50% or less annually, consider reducing the CL.
- B. Develop a policy to review CLs periodically, at least once annually.

MANAGEMENT RESPONSE

- A. Concur. Effective October 2016, all department directors were requested to review their cardholder's credit limits and establish the limits as the City transitions to the new BBVA procurement cards. Further, the new P-Card Manual has procedures to annually evaluate card usage and communicate to Department Directors recommendations for reductions in credit limits. The department directors will be provided with information regarding the average monthly usage per card compared with the credit limit for the card to assist in evaluating and determining the most appropriate credit limit for each card. The first follow-up review will occur in September 2017.
- B. Concur. The new P-Card Manual effective October 14, 2016 has new procedures to annually evaluate credit limits. As noted above, the Department Directors will be provided with information about cardholder usage of cards each month and the amount of transactions processed so as to make the most informed decisions possible on an annual basis about credit limits.

Section C – Regulatory Compliance

11. City Council did not approve the Purchasing Card Service Agreement.

CRITERIA

The City Municipal Code Section 2-352, Agreement Award, requires an awarding authority to take formal action to award an agreement.

CONDITION

A search by staff of City records did not locate City Council consideration and action of approval to link to the City of Chandler Purchasing Card Service agreement. On December 14, 2000, the City Council approved the implementation of a P-Card Program and the use of B of A as the purchasing card provider. The City Council Meeting minutes associated with the City Council's action referenced the State of Arizona agreement for Purchasing Card Systems.

CAUSE

The City Municipal Code and City procurement policy and procedures do not address the process for awarding non-monetary agreements or agreements that may not require a purchase order.

RISK

✚ Without clear and concise procurement guidelines, agreements may be awarded in an inconsistent manner

RECOMMENDATION

Finance:

- A. Work with the City Attorney's Office to clarify the City policy on awarding non-monetary agreements and agreements that may not require a purchase order. Update policies and procedures, as applicable.

MANAGEMENT RESPONSE

- A. Concur. The Procurement Manager will work with the City Attorney's Office to obtain clarity on this policy by November 30, 2016. Applicable updates to the policy will be incorporated into the procurement guidelines by July 1, 2017.

12. *Complying with the State retention schedule will reduce data storage cost, optimize the use of facilities, and reduce City liability.*

CRITERIA

Arizona State Library, Archives, and Public Records General Records Retention Schedule Number 000-12-15, approved on March 6, 2012, requires municipalities to maintain purchase card records for three years after the fiscal year created or received.

CONDITION

Interviews with P-Card reconcilers determined that P-Card documentation is sometimes maintained and stored as long as five years beyond the required State retention period. Staff was not always aware of the retention requirement. P-Card records are stored in multiple formats and locations.

CAUSE

The P-Card Manual does not address the retention period for P-Card documentation.

RISK

- ✚ Limited staff resources are used to manage stored documents that may no longer provide a useful business or regulatory purpose
- ✚ Increase storage cost
- ✚ Increase in cost of discovery
- ✚ Noncompliance with State retention policy and City Clerk's Records Management Program

RECOMMENDATION

Finance:

- A. Work in conjunction with the City Clerk's Office to develop a record management policy for P-Card documentation that includes, but not limited to:
 - ✚ Identifying who retains P-Card documents (individual departments or the Finance Department)
 - ✚ Establishing an approved retention period
- B. Work in conjunction with the City Clerk's Office to notify all City departments regarding the need to comply with the State retention policy related to P-Card documentation.

MANAGEMENT RESPONSE

- A. Concur. The new P-Card Manual effective October 14, 2016 has a procedure to establish the official P-Card records, which will be maintained and scanned into the MUNIS financial software in accordance with the required records retention period.
- B. Concur. The new P-Card Manual effective October 14, 2016 communicates the requirements to comply with State retention policy and how the records will be maintained.

13. The format of the Service Agreement “short” form contradicts the P-Card Manual.

CRITERIA

Guideline 1701, Agreements: Service Agreement Requirements sets the standards and expectations governing City agreements and service agreements requirements. The Procurement Division is not required to review service agreements that total to less than \$5,000.

CONDITION

The Service Agreement “short” form for purchases under \$5,000 incorrectly includes a signature approval line for the Finance Procurement Division. A City department used the form to purchase services.

CAUSE

Update to the form may have occurred to initiate Finance’s review of the form.

RISK

- ✚ Agreement format contradicts the P-Card Manual
- ✚ Increase confusion regarding the correct procurement procedure for purchases under \$5,000

RECOMMENDATION

Finance:

- A. Work with the City Attorney’s Office to update the Service Agreement short form.

MANAGEMENT RESPONSE

- A. Concur. The Procurement Manager contacted the City Attorney's Office to update the short form Service Agreement. The form was updated on August 9, 2016 and posted to the City Attorney's Office web page.

14. *Generating the required reports will enable management to determine whether controls are functioning correctly.*

CRITERIA

In the Procurement Guideline Manual, Guideline 501, Informal Competitive Bids or Proposals, Section B, Audits of Purchases \$5,000 and Less, requires the Purchasing Manager to perform regular and random audits/spot checks on purchases, including transactions conducted with P-Cards, of \$5,000 or less. Violations or deviations from the Procurement Code and/or Procurement Guideline Manual are identified in Monthly Purchasing Violation reports and forwarded to the City Manager's Office for review.

CONDITION

Monthly Purchasing Violation reports for small dollar purchases, including transactions conducted with P-Cards, are not generated by the Purchasing Manager and forwarded to the City Manager's Office for review as required by the Procurement Guidelines Manual. The reports serve as a monitoring tool to identify and correct purchasing violations or deviations in a timely manner.

CAUSE

A change in staffing and high-ranking priority tasks has left staff with minimum time to complete lower level routine tasks.

RISK

- ✚ Unmonitored controls may deteriorate over time
- ✚ Management and individuals with the authority to correct control deficiencies are not provided with adequate information to assess the effectiveness of purchasing controls

RECOMMENDATION

Finance:

- A. Review Guideline 501 of the Procurement Guideline Manual. Assess the usefulness and effectiveness of the Monthly Purchasing Violation report. If the report continues to provide useful information, assign staff to complete and distribute the report.

MANAGEMENT RESPONSE

- A. Concur. The Procurement Guidelines will be revised by July 1, 2017, replacing Section B “Audits of Purchases \$5,000 and Less” with a guideline for “Audits of Purchases”. This guideline will not restrict review based on dollar value and will produce a quarterly audit report to be reviewed by the City Manager’s Office.



Citywide Procurement Card Audit
 June 30, 2016
Appendix “A”
Departmental Observations

<i>Department Name</i>	<i>Post Date</i>	<i>Amount</i>	<i>Vendor</i>	<i>Observation</i>	<i>Opportunity</i>	<i>Management Response</i>
City Clerk’s Office	10/6/15	\$2,027.90	Pakor, Inc.	Passport System ID purchased without prior authorization from Information Technology (IT) Manager	In accordance with Procedure #6 in P-Card Manual, obtain preauthorization from the IT Manager for all computer software or hardware purchases.	Concur – Written preauthorization will be obtained from the IT Manager for all computer software and hardware purchases.
Community Recreation Services	7/15/15	\$240.46	Costco	Cleaning supplies purchased with P-Cards are not always updated on Material Safety Data Sheets.	Update Material Data Safety Sheets per Occupational Safety & Health Administration regulations and Risk Management policies and procedures.	Concur – CRS has printed MSDS sheets for all chemicals at recreation centers and aquatic facilities. The Recreation Division Manager will be responsible for making sure they are kept up to date.
	3/21/16	\$835.33	State Chemic			
	8/17/15	\$22.55	Hilton El Conquist	Staff did not dispute a charge with B of A after the vendor failed to process the appropriate credit.	Dispute inaccurate charges with B of A in a timely manner to prevent payment for goods or services not received.	Concur - Staff should dispute inaccurate charges with the bank in a timely manner. Business Manager will add to CRS p card procedures by October 31, 2016.



Citywide Procurement Card Audit
 June 30, 2016
Appendix “B”
P-Card Statistics

Table #1 – Summary of FY2016 P-Card Purchases by Department

Department Name	Dept. #	Total Purchases	No. of Transactions
City Clerk	141	\$ 10,685	99
City Council	111	\$ 17,563	115
City Court	331	\$ 10,497	62
City Manager	121	\$ 119,572	616
Community Development	242	\$ 46,934	194
Community Initiatives	441	\$ 60,415	384
Community Recreation & Services	444	\$ 712,250	2,511
Economic Development	241	\$ 114,687	653
Emergency Services (Fire)	342	\$ 92,430	440
Engineering	541	\$ 23,425	144
Facilities Management	543	\$ 33,875	331
Finance	142	\$ 25,551	126
General Operations	191	\$ 52,677	113
Human Resources	143	\$ 58,897	220
Information Technology	144	\$ 86,276	265
Legal	131	\$ 24,992	112
Police	341	\$ 140,712	882
Public Information	145	\$ 395	1
Sanitation	644	\$ 28,929	174
Sewer	643	\$ 81,166	537
Storm Water	645	\$ 2,743	9
Streets	544	\$ 74,643	486
Traffic Engineering	545	\$ 10,521	90
Vehicle Maintenance	542	\$ 42,107	260
Water	641	\$ 102,951	479
*(Blank)	--	\$ 1,534	23
Grand Total		\$ 1,976,426	9,326

(* The above information was obtained from the P-Card Provider's WORKS application and did not contain updated department information for these transactions.)

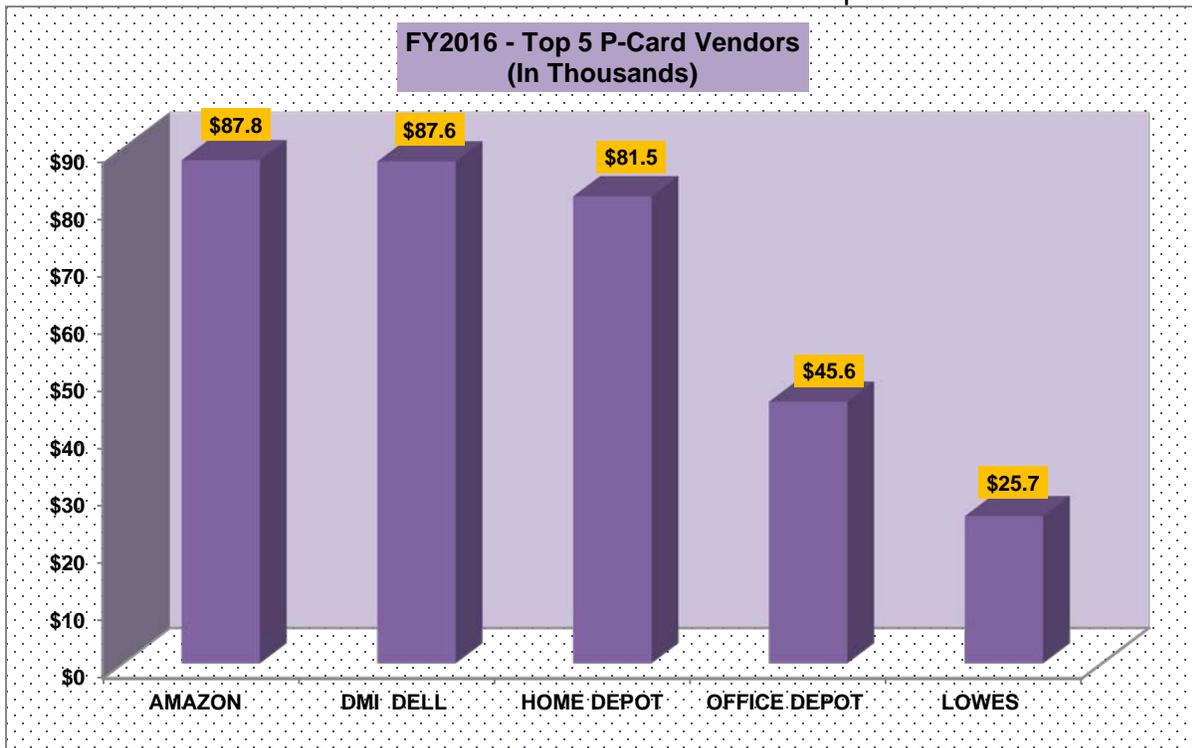
Citywide Procurement Card Audit
 June 30, 2016
Appendix “B”
P-Card Statistics

In FY2016, approximately 1,560 vendors were paid for goods and services using a P-Card. Top purchases included office supplies, furniture, travel expenditures, training, trophies and awards for sporting events, food/meals, computers, software, and irrigation parts and supplies. Table #2 summarizes the top 10 vendors by purchasing totals.

Table #2 – Top 10 vendors by total purchases for FY2016:

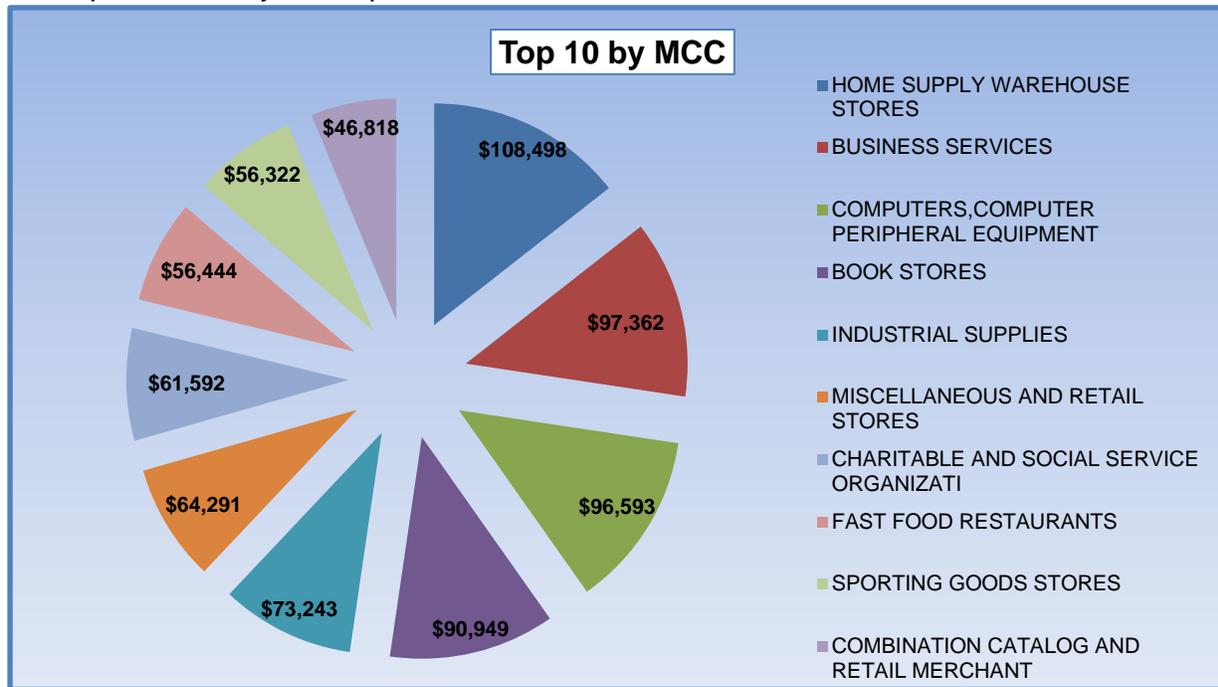
Vendor Name	Amount
Amazon	\$ 87,824
DMI Dell K-12/Govt.	\$ 87,622
The Home Depot	\$ 81,545
Office Depot	\$ 45,660
Lowe's	\$ 25,773
Excel Screen Printing	\$ 24,268
Sam's Club	\$ 21,948
Touchdown Sportswear	\$ 18,963
City Cafe	\$ 18,880
Ewing Irrigation Prd.	\$ 16,814
Total	\$ 429,296

Five vendors accounted for 17% of the total annual P-Card purchases for FY2016:

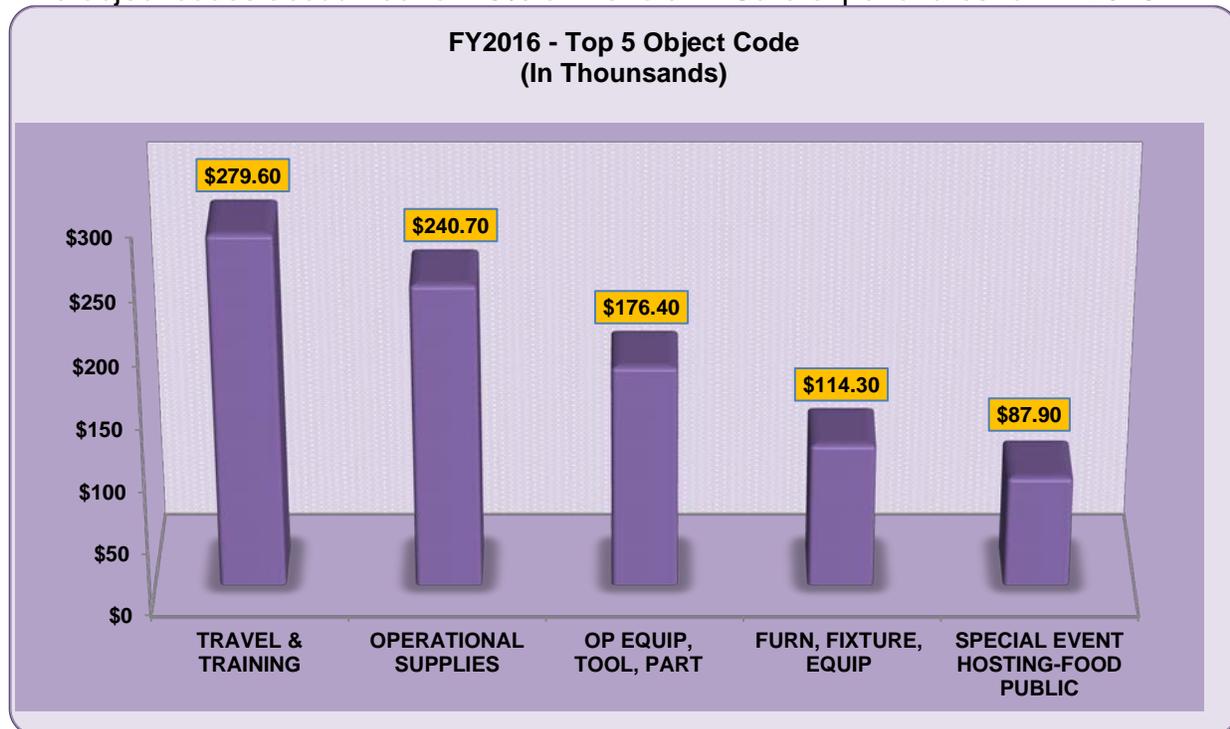


Citywide Procurement Card Audit
 June 30, 2016
Appendix "B"
P-Card Statistics

Merchant category codes (MCC) are assigned to vendors by the P-Card provider to identify the goods or services that are sold by the vendor. The below chart summarizes the top 10 MCC by description:



Five object codes accounted for 75% of the total P-Card expenditures for FY2016:





Citywide Procurement Card Audit
June 30, 2016
Appendix "B"
P-Card Statistics

P-Card usage has continued to increase over the past five fiscal years:

