



Date: February 5, 2019

To: Mark Schott, Assistant City Manager

From: Carol Holley, Senior Internal Auditor 

Subject: Procurement Purchasing Card – Continuous Monitoring

As part of the Annual Audit Plan, the Internal Audit Department periodically conducts a review of high-risk City of Surprise (City) transactions. The purpose of the review is to identify potential errors or misappropriation of City resources.

The attached report contains results related to the review of City procurement card transactions for FY2018. Analytical procedures and judgmental sample testing indicated that departments are materially in compliance with the City's procurement card policies and procedures. Eleven findings related to six departments were identified. One opportunity to enhance the overall effectiveness of the city-wide monitoring and review of the program was addressed with the Finance Department. Departments concurred with the review findings and recommendation.

Attachment

CC: Lisa Angelini, Human Resource Director
Diane Arthur, Deputy City Manager & Marketing & Communications Director
Andrea Davis, Finance Director
Tammie Hollowell, Chief Information Officer
Jeanine Jerkovic, Economic Development Director
Donna Miller, Community Recreation Services Director
Robert Wingo, City Attorney
Terry Young, Police Chief



SURPRISE

ARIZONA

City of Surprise

Procurement Purchasing Card – Continuous Monitoring

November 20, 2018

Senior Internal Auditor:

Carol Holley, CISA

Internal Auditor:

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Table of Contents

EXECUTIVE SUMMARY	1
Scope, Data Reliability, and Non-Audit Services	1
Summary FY2018 Activity and Trends	1
Methodology – Analytical Procedures	5
Summary of Observations / Recommendations	9
Management Response	10
Conclusion	10
APPENDIX A - DEPARTMENTAL FINDINGS DETAIL.....	i

EXECUTIVE SUMMARY

Scope, Data Reliability, and Non-Audit Services

Scope

As part of the approved annual FY2019 Annual Audit Plan, Internal Audit developed continuous monitoring procedures around high-risk areas including the city-wide use of procurement cards (P-Cards). Internal Audit obtained P-Card transaction data for FY2018 (July 01, 2017 – June 30, 2018) to monitor for unusual activity, alignment of activity to policy, and fraud indicators from two sources – BBVA, the P-Card vendor, and Munis, the city's financial system.

Data Reliability

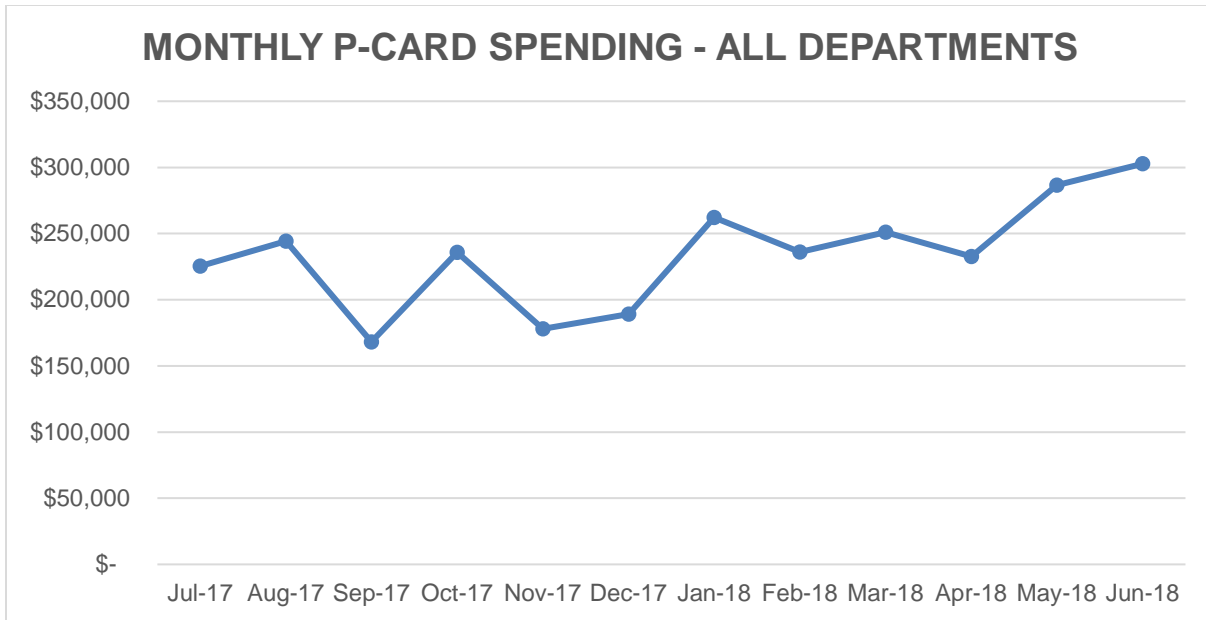
The data utilized for the work performed was either obtained directly from Munis, the City of Surprise's financial system of record, or from the P-Card vendor (BBVA) and agreed to Munis. Small variances in a given month may exist due to cut-off timing of various reports and the nature of P-Card payments (e.g. variation in authorization date and transaction posting date). This limitation is minor and immaterial in the context of the work performed. Munis data reliability is verified annually via the audit of the Munis financial reports and the Comprehensive Annual Financial Report (CAFR) performed by the City's external auditor. Internal Audit determined the data utilized is sufficiently reliable given its intended use.

Non-Audit Services

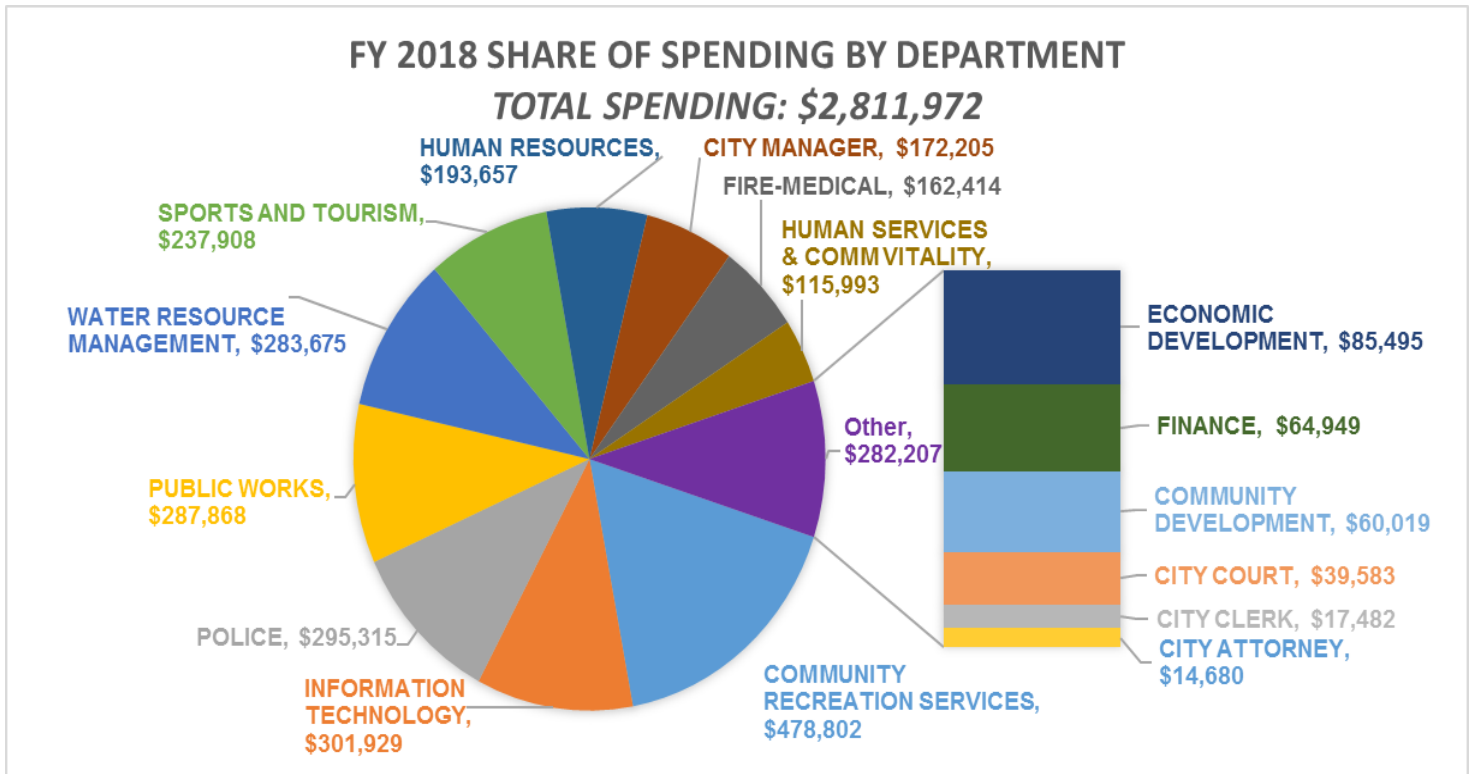
The work detailed in the following report is part of the Internal Audit Department's continuous monitoring program and does not constitute an audit as defined by and conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). Performing this continuous monitoring work, by itself or in aggregate with other non-audit services provided, does not create any threats to the independence of the Internal Audit Department.

Summary FY2018 Activity and Trends

Total city-wide spending on P-Cards in FY2018 was approximately \$2.8 million, a slight decrease from \$2.95 million in FY2017. Average monthly spend was approximately \$234,000. See below for consolidated FY2018 monthly spending trends.



On a month-by-month basis, Community and Recreation Services, Information Technology (IT), and Police tend to be the departments with the highest spending while the City Court, City Clerk, and City Attorney tend to be the lowest. The top three departments equate to approximately 38% of all city spending, and the lowest three equal approximately 3%. The figure below shows each department's FY2018 spending.



P-Card User Trends

As of November 2018, there are approximately 130 active P-Cards issued by the City of Surprise. As the scope of this project was FY2018, many transactions were made on cards that are no longer active, as a significant number of P-Cards utilized during FY2018 expired in October 2018.

Internal Audit identified the largest card users and least used cards in terms of dollar value spent and number of transactions made (see chart below for details). Regarding the least used cards, a number of users had just one or two transactions, totaling less than \$100. Finance performed an annual usage analysis for FY2018 in November / December 2017 per prior audit recommendations. This analysis includes making recommendations regarding removing low usage cards or modifying credit limits to department heads who have final decision-making authority and may choose to retain low usage cards.

Top Usage P-Cards by Total Annual Spend and Total Transaction Volume					
CARDHOLDER TITLE	DEPARTMENT	TOTAL SPEND	CARDHOLDER TITLE	DEPARTMENT	TOTAL TRANSACTIONS
SR IT TECH	INFORMATION TECHNOLOGY	\$ 125,963	ASST DIRECTOR	SPORTS AND TOURISM	441
ADMIN SPECIALIST	POLICE	\$ 73,441	VIDEO COORDINATOR	CITY MANAGER	310
VIDEO COORDINATOR	CITY MANAGER	\$ 60,742	SUPERVISOR	POLICE	286
SR IT TECH	INFORMATION TECHNOLOGY	\$ 60,357	SR IT TECH	INFORMATION TECHNOLOGY	261
CLAIMS ADJUSTER	HUMAN RESOURCES	\$ 59,027	COORDINATOR	HSCV	257
RISK MANAGER	HUMAN RESOURCES	\$ 57,526	SR IT TECH	INFORMATION TECHNOLOGY	244
ASSISTANT DIRECTOR	CRS	\$ 54,666	REC COORDINATOR	CRS	231
REC COORDINATOR	CRS	\$ 51,647	ADMIN SPECIALIST	POLICE	230
REC SUPERVISOR	SPORTS AND TOURISM	\$ 48,594	SR MGMT ANALYST	CITY MANAGER	217
DIVISION MANAGER	SPORTS AND TOURISM	\$ 48,116	DEV SERV ASST	ECONOMIC DEVELOPMENT	214
Median Spend - All Users			Median Transaction Volume - All Users		
		\$ 4,442			24

Least Used P-Cards by Total Annual Spend and Total Transaction Volume					
CARDHOLDER TITLE	DEPARTMENT	TOTAL SPEND	CARDHOLDER TITLE	DEPARTMENT	TOTAL TRANSACTIONS
CUSTOMER REP	ACCOUNTS PAYABLE	\$ 70.74	CUST SERV SPEC	SPORTS AND TOURISM	1
POLICE OFFICER	POLICE	\$ 67.56	SR FIN ANALYST	FINANCE	1
SR FIN ANALYST	FINANCE	\$ 59.84	POLICE SERGEANT	POLICE	1
ASST CITY MANAGER	CITY MANAGER	\$ 55.60	DEV SERV ASST	ECONOMIC DEVELOPMENT	1
POLICE SERGEANT	INFORMATION TECHNOLOGY	\$ 47.20	PROCURE MGR	FINANCE	1
POLICE OFFICER	POLICE	\$ 45.20	POLICE OFFICER	INFORMATION TECHNOLOGY	1
BATTALION CHIEF	FIRE-MEDICAL	\$ 27.11	FIELD CS REP	FINANCE	1
DEV SERV ASST	ECONOMIC DEVELOPMENT	\$ 14.95	UTILITY MECHANIC	WATER RESOURCE MGMT	1
FIELD CS REP	FINANCE	\$ 10.00	BATTALION CHIEF	FIRE-MEDICAL	1
POLICE SERGEANT	POLICE	\$ 7.65	CIO	INFORMATION TECHNOLOGY	1
UTILITY MECHANIC	WATER RESOURCE MGMT	\$ 6.55			
Median Spend - All Users			Median Transaction Volume - All Users		
		\$ 4,442			24

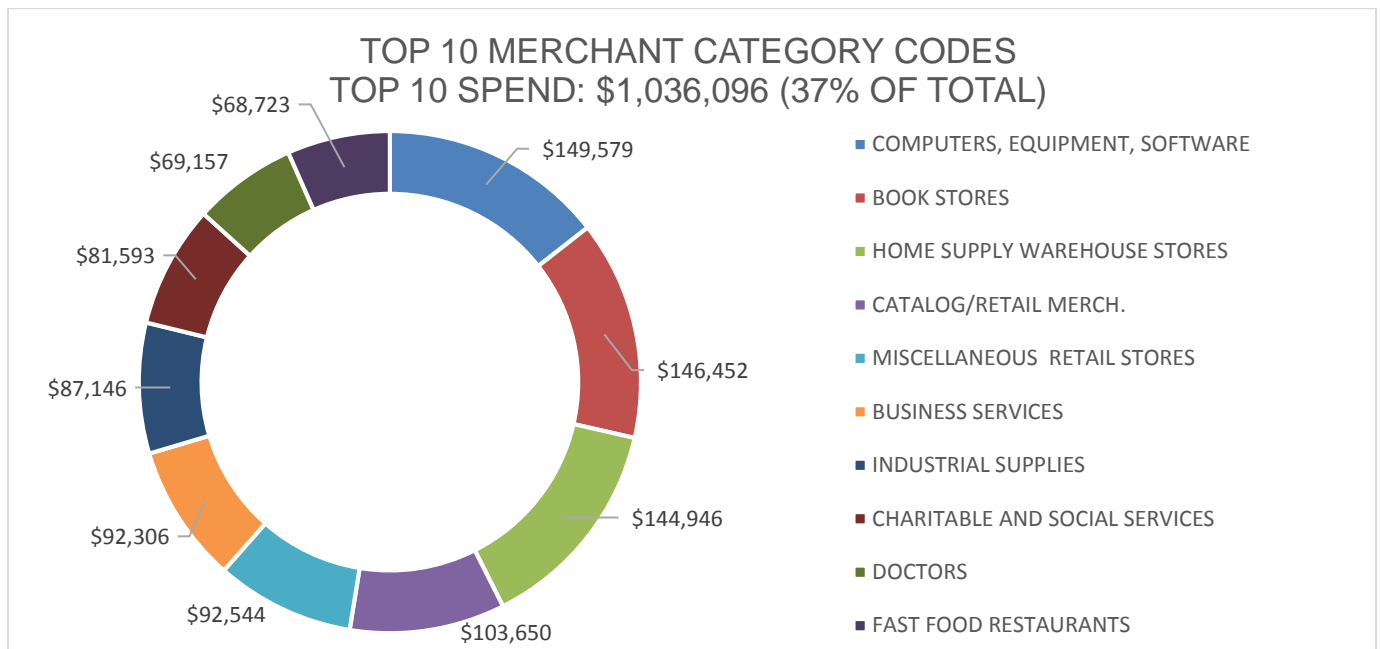
Vendor Trends

P-Card payments were made to 2,432 vendors in FY2018. Over half of those vendors (1,400 vendors) were only used once, and another 400 were only used twice. This indicates that P-Cards are generally being used for their intended purpose per City of

Surprise policy which is reducing the administrative burden for one-time purchases. Below are the vendors who were utilized the most in FY2018 in both dollar value and number of transactions. In comparing vendors to the last internal audit of this area done in FY2016, five of the top ten vendors by dollar value (Amazon, Dell, Home Depot, Office Depot, and Lowes) also topped the FY2016 highest vendor list.

Top Vendors by Total Annual Spend and Total Transaction Volume			
VENDOR	TOTAL SPEND	VENDOR	TOTAL TRANSACTIONS
DMI DELL K-12/GOVT	\$ 105,763	THE HOME DEPOT #0483	897
OFFICE DEPOT #5101	\$ 94,530	OFFICE DEPOT #5101	764
THE HOME DEPOT #0483	\$ 93,365	AMAZON MKTPLACE PMTS	610
AMAZON MKTPLACE PMTS	\$ 76,540	TICKETS CITYOFSURPRISE	460
STABILIZER SOLUTIONS,	\$ 69,870	LOWES #01607	324
SOUTHWEST AIRLINES	\$ 39,595	AMAZON.COM	219
DREAMSEATS LLC	\$ 30,462	AMAZON MKTPLACE PMTS W	187
LOWES #01607	\$ 30,280	AMAZON.COM AMZN.COM/BI	158
B&H PHOTO 800-606-696	\$ 27,815	DMI DELL K-12/GOVT	134
AMAZON.COM	\$ 25,319	WAL-MART #2777	134
Median Spend - All Vendors	\$ 264	Median Volume - All Vendors	1

Merchant category codes (MCC) are assigned to vendors by the P-Card provider to identify goods or services that are sold by the vendor. The 10 highest utilized MCC's account for approximately 37% of total P-Card spend for the city. Eight of the top ten MCC's carry forward from FY2016. One of the new top 10 MCC's in FY2018 is Doctors, as FY2017 was the first year the city was self-insured. Below are the MCC's with the highest total spend in FY2018.



Methodology – Analytical Procedures

As summarized above, Internal Audit reviewed usage trends for city-wide, department, and frequent or high dollar value users and judgmentally reviewed unusual transactions identified for indicators of misuse or fraud. In addition to reviewing usage trends and performing inquiry with Finance Department personnel responsible for P-Card administration, Internal Audit performed a number of analytical procedures. Internal Audit performed high-level analytical procedures on 100% of FY2018 transactions and utilized professional judgement to select samples to perform thorough testing and review of transaction supporting documentation.

Internal Audit reviewed P-Card usage for compliance with city policy, including appropriate receipt retention, authorized individual transaction and monthly spending limits, and appropriate authorization for large purchases. Additionally, Internal Audit judgmentally reviewed the data for common indicators of errors or misuse including around terminated employees, duplicate check and P-Card charges, lodging, and weekend and holiday purchases. Below is a list of the risks Internal Audit reviewed and the procedures performed for each. For procedures which identified notable observations, see the Summary of Observations section for additional details.

1. *Risk of usage greater than authorized single transaction and / or monthly limits.*

Per City of Surprise P-Card policy, each P-Card user has authorized limits for individual transactions and total transactions in a given month (e.g. statement). Internal Audit compared all user statements and individual transactions to stated authorization levels in MUNIS and reviewed any exceptions noted with Finance Department personnel.

Additionally, for a sample of 20 P-Card users, Internal Audit compared Munis transaction and statement limits to signed authorization forms or emails evidencing approval from department directors.

2. *Risk of insufficient authorization for large purchases or bypassing typical procurement process.*

Procurement Card Program Card Procedure and Use Manual: “The single purchase amount must not exceed \$5,000. [...] Transactions greater than \$5,000 require issuance of a purchase order or check request. Purchases cannot be split in order to fall below this limit.”

Internal Audit reviewed all transactions greater than \$5,000 and followed up with the cardholder / department liaison for any transactions noted over \$5,000. Additionally, Internal Audit reviewed transactions within \$200 of the \$5,000 threshold to identify possible split transactions utilized by users to stay below authorized limits.

3. *Risk of non-compliance with City P-Card Policy.*

The City of Surprise maintains the *City of Surprise Procurement Card Program: Card Procedure and Use Manual* outlining the policies and procedures for card use. Below are the policies outlined for specific types of purchases and the procedures Internal Audit performed to test them.

Food Purchasing Policy: “Itemized receipts are required for all food/restaurant purchases. Further, when a P-Card is used for the purchase of food, the cardholder must also attach a list of the attendees for whom the food was purchased and the business purpose of the purchase. When food is purchased for events open to the general public, a flyer or notice of the event will meet this requirement.”

Internal Audit reviewed the transactions made from food-related merchant categories (Eating Places, Restaurants: Fast Food Restaurants: and Bakeries) and judgmentally reviewed a selection of 40 transactions to verify an itemized receipt was included along with a flyer for the event or listing of attendees.

Fleet Vehicle Gas and Maintenance Policy: “Please check with the Procurement Division before buying the following items with a P-Card: 1. Gasoline or oil for City vehicles, unless previously authorized by the Fleet Manager; 2. Repairs for City vehicles, unless previously authorized by the Fleet Manager.”

Internal Audit reviewed transactions made from gasoline and auto repair or maintenance-related merchant types (Fuel Dispenser, Automated; Automotive Parts, Accessory Stores; Automotive Service Shops; Auto & Truck Dealers; Automobile and Truck Dealers; Automotive Body Repair Shops, Automotive Tire Stores). In order to narrow the scope for review from approximately 700 auto-related transactions, Internal Audit focused the review on departments that would not typically be authorized to purchase gas or repairs for City of Surprise vehicles. Excluding Public Works, Police, Fire / Medical, and Water Resource Management resulted in approximately 30 remaining transactions. Internal Audit also removed transactions outside of the Phoenix metropolitan area to remove fuel charges when traveling, leaving 18 transactions remaining for review. Internal Audit verified transactions did not require additional Fleet Manager approval as they were either for rental vehicles / out-of-city travel or other miscellaneous non-vehicle parts / supplies purchased from vendors categorized automobile suppliers.

Computer Software or Hardware Policy: “Please check with the Procurement Division before buying the following items with a P-card: [...] 1. Computer software or hardware unless previously authorized by the IT Manager.”

Internal Audit reviewed the transactions made from computer-related merchant types (Computer Programming, Data Processing; Computers, Computer Peripheral; Computer Software Stores; Computer Network / Information Systems; Digital Goods Multi-Category). There were approximately 130 transactions made to vendors in this category by users outside of the IT Department. Internal Audit selected a sample of 10% (13 samples) to review for purpose of transaction and if necessary, appropriate authorization from IT.

4. *Risk for potential duplicate P-Card payments to vendors also paid by check.*

Due to volume of transactions and inconsistency of recording dates and vendor names, Internal Audit's review of potential duplicates was limited in scope. Internal Audit obtained an Invoice Report from MUNIS showing the Vendor, Amount, Date, and Payment Method (Check or P-Card) for all invoices in FY2018. Internal Audit identified all duplicates of vendor name, date, and amount and reviewed those pairs which had payments via both check and P-Card. For the three pairs identified, Internal Audit reviewed the invoices for each payment to verify the check and P-Card payment were not duplicates of each other. Per discussion with the Finance Department, it is challenging to identify duplicate payments paid first by P-Card then followed by check, but new functionality implemented in FY2019 allowing P-Card transactions to have invoice numbers is anticipated to assist with monitoring these types of transactions.

5. *Risk of misuse by terminated employees.*

Internal Audit identified 13 employees terminated at the time of the analysis that had P-Card activity in FY2018. For each terminated employee, Internal Audit performed the following procedures:

- a. Verified no payments were made using the P-card after the employee's date of termination.
- b. Reviewed each employee's transaction history for 30 days prior to termination date to identify unusual changes in activity.

6. *Risk for inappropriate transactions on non-business days (holiday and weekend).*

Internal Audit identified 95 P-Card transactions occurring on the 11 City of Surprise holidays in FY2018 and approximately 1,200 occurring on weekends. Due to high volume, Internal Audit performed a high-level review of the transactions as well as a detailed review of supporting documentation for a small sample selection of 20 weekend and holiday transactions. Based on the review performed, weekend and holiday transactions generally tend to be due to delays in posting of online payments (posted when shipped by the company) or lodging, or utilized by departments with weekend and holiday staffing or events (Sports and Tourism, Police, Community Recreation Services, etc.).

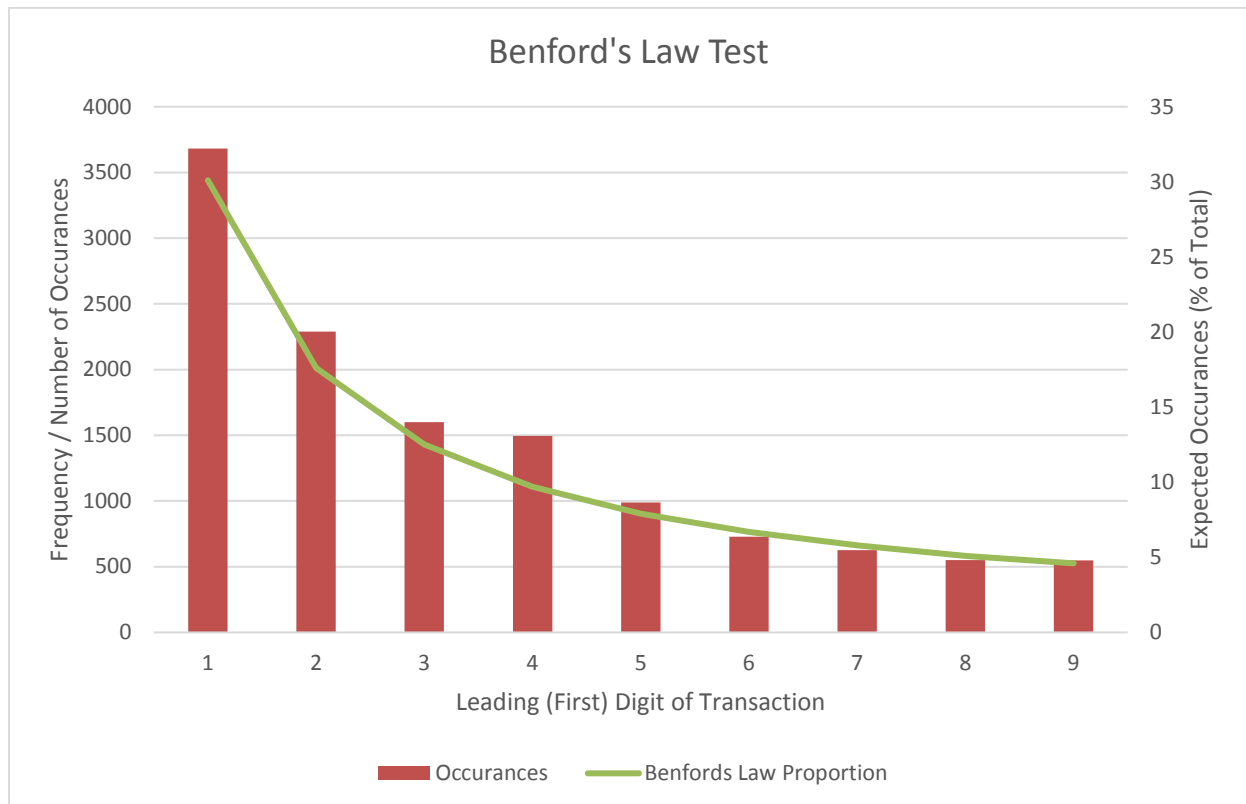
7. *Risk of inappropriate lodging and travel transactions.*

Internal Audit reviewed all transactions with a MCC including the phrases “Hotel or “Lodging” and judgmentally reviewed all applicable items (28 total) to test based on the following criteria:

- Reviewed transactions occurring on similar dates for different individuals to verify no duplicate payment for one hotel room.
- Reviewed transactions occurring locally (within a 1-hour drive of Surprise) to verify reasonable business purpose.

8. *Risk of fictitious transactions with P-Cards.*

Internal Audit performed a test of Benford’s Law on the transaction data to identify if the leading digits of the transactions follow the expected frequency distribution. The law states that in large sets of naturally occurring numbers, the leading digit is more likely to be small, and decreasing in frequency as the numbers get higher. It is used in audits to detect fraud in the disbursements cycle by comparing the actual occurrence of leading digits in disbursements compared to the digits’ probability. Internal Audit noted the P-Card transaction data did materially follow this expected trend. See the frequency distribution chart below.



Summary of Observations / Recommendations

Departmental Findings

Through the analytical procedures detailed above, Internal Audit noted a number of transactions that appeared to be outside of City of Surprise policy and followed up with the cardholder or departmental liaison on each transaction – Refer to Appendix A – Departmental Findings Detail for additional information and management's response. All departmental liaisons and cardholders acknowledged the errors and stated their continued efforts at policy compliance moving forward. In summary, these findings included:

- For some meals or events where food was purchased for groups (catering for events or meetings), Internal Audit noted a flyer or invitee list was not always included.
- For renewals of IT software occurring, the department did not always obtain or retain IT Department approval as required by City of Surprise policy.
- Other single findings included a food purchase lacking an itemized receipt, a split transaction during the initial year of the city's self-insurance, a transaction of \$5,000 purchased without a purchase order, and a transaction with the incorrect receipt attached.

The departmental findings identified were not material and appeared to be one-off issues mitigated by existing Finance Department procedures. Annually, the Finance Department requires cardholders to read the P-Card policy and procedures which includes details on itemizing receipts and receiving approval from IT for IT equipment purchases and evidence their review by signing the P-Card agreement. Additionally, as part of the monthly notification to departmental liaisons about the upload of the new P-Card statements, the Finance Department will remind cardholders of and provide information around errors noted during the review process.

Finance Department Findings and Recommendation

In utilizing reports from the City of Surprise Munis system, Internal Audit also noted the following inconsistencies within Munis. Though these items do not negatively impact the efficiency of the P-Card use and review process, the inconsistencies may limit the effectiveness of city-wide monitoring and review.

- Bank of America P-Cards which are no longer utilized as of November 2016 are still listed as active in Munis.
- For a number of users, the transaction and monthly limits listed in Munis do not agree with the authorized amounts per BBVA and the department head-approved cardholder request forms.

Based on the observations noted above Internal Audit identified the following recommendations to enhance monitoring and reporting ability:

- A. At least annually, the Finance Department should update P-Card records in Munis to allow for accurate record-keeping and monitoring. Updates to Munis should include, but are not limited to:
 - a. Deactivating cards which are expired or no longer used.
 - b. Updating Munis credit limits to align with authorized changes and BBVA recorded limits.

Management Response

Finance Director: "We concur with the recommendation and will begin to update the MUNIS Purchase Card records immediately to match department head approvals and the BBVA records. We will also immediately begin deactivating any cards which are expired or no longer used. We will complete our review of the current P-Cards by February 28, 2019 and work to continuously update records on a going forward basis."

Conclusion

The analytical procedures and judgmental sample testing performed by Internal Audit indicate that the City of Surprise is materially in compliance with city P-Card policies and procedures.

Appendix A – Departmental Findings Detail

Department Management / Cardholder Responses

Department	Transaction Date	Merchant	Transaction Amount	Finding Noted	Finding Description	Cardholder / Department Response
COMMUNITY RECREATION SERVICES	10/28/2017	SQ SQ MUSTACHE PRETZ	\$3,000.00	Food: No itemized receipt	The transaction did not include an itemized receipt as required per P-Card policy.	To comply with P-Card policy, going forward I will attempt to obtain itemized (listing type and quantity of items purchased) receipts for all food purchases
ECONOMIC DEVELOPMENT	04/30/2018	ARAMARK SURPRISE SPRIN	\$127.02	Food: No attendee list or public flyer	The transaction did not include description of the business purpose or attendee list as required by Surprise P-Card policy.	When reviewing P-Cards in the future will focus on compliance with the P-Card manual (requiring documentation of business purpose and attendee lists / flyers)
HUMAN RESOURCES	05/24/2018	GATEWAY SURGERY CTR	\$4,900.00	Possible Split Purchase	These two transactions to Gateway Surgery are both settlement for the same worker's compensation claim paid to the same vendor on the same day.	The two transactions associated with the P-Card were in fact a split purchase and I erroneously directed the cardholder to complete the transaction. The purchase, while outside of P-Card policy, appeared to be the most reasonable approach from a fiscal responsibility perspective at the time. The transaction was related to a surgery center fee for a workers' compensation injury and an immediate cash payment, on the date of surgery, resulted in a fee discount of nearly 55%, as the insurance rate was in excess of \$13,000.00. We have definitely modified our program to avoid these types of issues moving forward. I do not anticipate that we will have these types of purchases in 2019.
HUMAN RESOURCES	05/24/2018	GATEWAY SURGERY CTR	\$1,127.00	Possible Split Purchase	These two transactions to Gateway Surgery are both settlement for the same worker's compensation claim paid to the same vendor on the same day.	

Appendix A – Departmental Findings Detail

Department Management / Cardholder Responses

Department	Transaction Date	Merchant	Transaction Amount	Finding Noted	Finding Description	Cardholder / Department Response
HUMAN RESOURCES	09/13/2017	PANERA BREAD #601911	\$286.11	Food: No attendee list or public flyer	Though the business purpose of food purchase was listed, P-Card policy also requires a list of attendees or an event flyer (if the event was open to the public).	Lunch provided for Sports and Tourism Director recruitment interview panel members (includes both internal city employees and external interviewers). I acknowledge that I am aware of the policy that we need an attendee list or event flyer included with P-Card receipts for all food purchases.
INFORMATION TECHNOLOGY	03/16/2018	ARAMARK SURPRISE SPRIN	\$302.51	Food: No attendee list or public flyer	The transaction did not include description of the business purpose or attendee list as required by Surprise P-Card policy.	The Arizona Chief Information Officers (CIOs) take turns hosting an event for information sharing and networking. To comply with P-Card policy, the IT Department will attempt to include an attendee list or public flyer for all food purchases.
POLICE	08/23/2017	CELLEBRITE INC.	\$3,400.00	IT: No IT approval for software purchase	The transaction was a renewal of software. Per P-card procedures, software purchases require IT approval.	Original software purchased in 2010 or prior. No written IT Department approval in file. Policy noted for future renewals.
POLICE	04/27/2018	GUIDANCE SOFTWARE INC	\$771.03	IT: No IT approval for software purchase	The transaction was a renewal of software. Per P-card procedures, software purchases require IT approval.	I was unable to find written IT Department approval for the original software purchase. Policy noted for future renewals.

Appendix A – Departmental Findings Detail

Department Management / Cardholder Responses

Department	Transaction Date	Merchant	Transaction Amount	Finding Noted	Finding Description	Cardholder / Department Response
SPORTS AND TOURISM	03/08/2018	SCRIPPS MEDIA INC	\$5,000.00	Transaction above limit	Per P-Card policy, P-Cards should only be used for transactions under \$5,000. Transactions equal to or greater than \$5,000 should go through the procurement purchase order process.	On the Scripps media entry, I made the transaction (as they only do transactions via credit card for advertising) and at the time I was not 100% clear on the \$5,000 vs. \$4,999.99 limit on the P-Card. Since the transaction, I have been educated and I am fully aware of the policies and procedures that accompany the P-Card and our purchasing process. In the future, if I have a question within area I will work with our Division Manager and our procurement office to make sure I follow the correct procedures when a vendor can only accept credit card and it is over the allowable limit.
SPORTS AND TOURISM	02/02/2018	CHICK-FIL-A #01525	\$4,583.67	Possible Duplicate	These two transactions utilize the same receipt / transaction number.	The orders for Chick fil A were indeed identical however were placed as two separate orders for two separate events. We may have submitted the same receipt. We will ensure correct receipts are submitted going forward.