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# **OFFICE OF THE CITY AUDITOR**

## **AUDIT OF THE PROCUREMENT CARD PROGRAM**

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**August 8, 2003  
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## Memorandum



CITY OF DALLAS

August 8, 2003

Honorable Mayor and Members of the City Council  
City of Dallas

We have conducted an audit of the Procurement Card (P-Card) program.

In our opinion, the internal controls (if enforced and based on point of sale restrictions) are adequate to protect against the misuse of P-Cards, which can be attributed in part to department personnel's focus on compliance. However, internal controls should be improved. Opportunities for improvement and related recommendations are presented in this report.

We appreciate the cooperation of City staff during our examination.

*Thomas M. Taylor*

Thomas M. Taylor, CPA  
City Auditor

c: Teodoro J. Benavides, City Manager

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## AUDIT OF THE PROCUREMENT CARD PROGRAM

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### CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY	1
INTRODUCTION	2
Authorization	2
Scope and Methodology	2
Overall Conclusion	4
Background	4
OPPORTUNITIES FOR IMPROVEMENT	7

## EXECUTIVE SUMMARY

We have conducted an audit of the Procurement Card (P-Card) program. Our review covered five City departments that were selected to participate in the pilot program. These departments were:

- Street Services
- Park and Recreation
- Sanitation Services
- Water Utilities
- Equipment and Building Services

We obtained a temporary P-Card to test and evaluate controls. Our tests were designed to determine whether the spending controls, specified by the City's policy on limitations and restrictions, were in effect.

The purchases we made with the P-Card confirmed that limitations and restrictions are in effect at the vendors' point of sale. Transactions were rejected when we attempted:

- To make purchases that exceeded the daily transaction limit.
- To make purchases that exceeded the maximum allowable amount of \$1,000.
- To make purchases at prohibited/restricted Merchant Category Code locations.

However, point of sale restrictions would not prevent splitting purchases to by-pass the \$1,000 maximum allowed transaction, nor would it prevent purchases for personal use from an approved Merchant Category Code. Management's continual review and scrutiny are the only deterrents for these transactions.

In our opinion, the internal controls (if enforced and based on point of sale restrictions) are adequate to protect against the misuse of P-Cards, which can be attributed in part to department personnel's focus on compliance. However, internal controls should be improved, and these concerns are addressed in the Opportunities for Improvement section. They are summarized below:

1. Business Development and Procurement Services (BDPS) developed policy and procedures; however, this guidance was not implemented on a timely basis and contained contradictions.
2. The administrative directive did not address provisions previously committed to the City Council, did not include all guidance from City Council, and did not incorporate review comments from City departments.
3. Controls associated with the P-card program administration should be strengthened.
4. On-site audits are needed.

## INTRODUCTION

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### **Authorization**

We have conducted an audit of the Procurement Card (P-Card) program. This audit was conducted under the authority of Chapter IX, Section 2 of the Dallas City Charter and in accordance with the Annual Audit Plan approved by the City Council.

### **Scope and Methodology**

Our audit was conducted in accordance with generally accepted *Government Auditing Standards*, issued by the Comptroller General of the United States. Accordingly, our audit included inquiries, tests of the records, and other procedures that we considered necessary to meet the scope and objectives.

Our scope was five City departments that were selected to participate in the pilot program. These departments were:

- Street Services
- Park & Recreation
- Sanitation Services
- Water Utilities
- Equipment & Building Services

Our audit covered July 1, 2001, through March 31, 2003. However, we reviewed certain events occurring before and after this period to the extent that those events pertained to the audit objectives.

The audit objectives were to determine whether (1) internal controls are adequate to protect against the misuse of P-Cards and (2) departments are complying with City policy and procedures.

To assist in our understanding of the relevant activities and processes, we:

- Reviewed the final draft of the proposed administrative directive (AD), as well as previous drafts.
- Reviewed the P-Card User's Guide.
- Reviewed briefings and correspondence presented to City Council and the Finance and Audit Committee (F&A).
- Interviewed the P-Card Administrator, department coordinators, and cardholders.

## INTRODUCTION

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- Attended the training class provided to newly designated cardholders.
- Accessed PVS Net Access, Bank One's software program for P-Card.

Our methodology was to test internal controls and compliance based on the following components:

- Operating procedures (i.e., policy and procedures)
- Review and reporting controls
- Security controls (i.e., card design)
- Inventory controls
- Spending controls

We developed a total of twenty-eight tests to address the above areas. We used judgment sampling to perform our tests. The transaction population and sample sizes varied for each of the twenty-eight tests. Our tests were designed to evaluate whether:

- P-Card expenditures were reasonable, for official purposes, and documented.
- Management reviewed P-Card expenditures.
- P-Cards were promptly de-activated and recovered from employees who had transferred or terminated.
- Cardholders received training.
- Cardholders refrained from sharing their P-Cards.
- P-Card expenditures were within the limits and restrictions specified by policy and procedures.

We learned that four additional departments received P-Cards this calendar year. Our scope (the five pilot departments) was expanded to include these new departments. The inclusion of these new departments was limited to those tests related to the issuance of P-Cards to new cardholders.

We obtained a temporary P-Card to test and evaluate controls. Our tests were designed to determine whether the spending controls, specified by the City's policy on limitations and restrictions, were in effect.

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## INTRODUCTION

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The purchases we made with the P-Card confirmed that limitations and restrictions are in effect at the vendors' point of sale. Transactions were rejected when we attempted:

- To make purchases that exceeded the maximum number of daily transaction limit.
- To make purchases that exceeded the maximum allowable amount of \$1,000.
- To make purchases at prohibited/restricted Merchant Category Code (MCC) locations.

### Overall Conclusion

In our opinion, the internal controls (if enforced and based on point of sale restrictions) are adequate to protect against the misuse of P-Cards, which can be attributed in part to department personnel's focus on compliance. However, internal controls should be improved, and these concerns are addressed in the Opportunities for Improvement section.

Although initial policy and procedures were drafted in 2001, prior to implementation of the pilot program, implementation of official City policy has been tardy. The AD, *Purchasing Card Policy and Procedures*, was approved by the City Attorney in May 2003 and was published and distributed in June 2003. The City P-Card Administrator's duties and responsibilities continue to be on a part-time basis despite the P-Card expanding beyond the pilot program phase.

Our tests also indicated that point of sale restrictions would not prevent splitting purchases to by-pass the \$1,000 maximum allowed transaction, nor would it prevent purchases for personal use from an approved MCC. Management's continual review and scrutiny are the only deterrents for these transactions.

### Background

The P-Card was an E-Team<sup>1</sup> initiative. The E-Team researched cities' and corporations' "best practices" and identified the procurement card (a.k.a. purchase card), which is a credit card. The purpose of the P-card program was to establish a more efficient, cost effective method for purchasing and paying for small dollar transactions. The program is intended to reduce petty cash, requisitions, and purchase order transactions. The

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<sup>1</sup> A team designated by the City Manager's Office to pursue new initiatives or special projects.

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## INTRODUCTION

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program is not intended to avoid or by-pass appropriate purchasing procedures, and is not intended to purchase goods or services available through price agreements<sup>2</sup>. The E-team developed a draft AD and a P-Card User's Guide prior to the pilot program.

The P-Card has special controls that consumer credit cards do not have. It controls usage in the following ways:

- The number of times a cardholder can use the P-Card per day.
- The number of times a cardholder can use the P-Card per month.
- A maximum dollar limit per single transaction (currently this limit is \$1,000).
- A maximum spending limit per month (this amount will vary per individual; currently this limit is \$10,000).
- Where the P-Card can be used as defined by MCC.

P-Card purchases can be reviewed on-line (by managers, department coordinators, and the P-Card Administrator) via Bank One's software program PVS Net Access.

On May 21, 2001, the City Council authorized the City to implement a P-Card pilot program with Bank One to test the feasibility of using credit cards to pay for certain City goods and services. The pilot program began in July 2001 with the five departments listed in our scope. P-Cards were issued to designated employees as part of the pilot program.

The City P-Card is a corporate credit card, and the individual's personal credit history is not referenced as a requirement to participate in the program. Each card has the City logo and states "Commercial Card" and "For Official Use Only." Also appearing on the face of the P-Card is:

- The City federal tax identification number.
- The individual cardholder's name and department.

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<sup>2</sup> Price agreements are contracts whereby vendors agree to provide specified goods or services at an agreed price for the term of the contract.

# INTRODUCTION

Although Bank One issues the P-Card in the name of the employee, all purchases are billed to the City.

The pilot departments' P-Card activity for July 1, 2001, through December 31, 2002 (as provided by the P-Card Administrator), is summarized below.

Department	Number of Cardholders	Number of Transactions	Dollar Value of Transactions	Department Monthly Dollar Average
Sanitation	14	405	\$64,831	\$3,602
Park and Recreation	37	973	\$224,619	\$12,479
DWU	38	558	\$129,617	\$7,201
Streets	32	1066	\$228,829	\$12,713
Equipment and Building Services	56	5044	\$794,387	\$44,133
<b>TOTALS</b>	<b>177</b>	<b>8046</b>	<b>\$1,442,283</b>	

The additional departments that received P-Cards in 2003 are:

Department	Number of Cardholders
Library	82
Fire	3
WRR Radio	1
Housing	1
<b>TOTALS</b>	<b>87</b>

P-Card purchases for calendar year 2002 (per Bank One) totaled \$1,393,508.12, and the City received a cash rebate in March 2003 for \$2,090.26 (0.15% of purchases).

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## OPPORTUNITIES FOR IMPROVEMENT

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We identified certain policies, practices, and procedures that should be improved. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the opportunities for improvement presented in this report may not be all inclusive of areas where improvement may be needed. While the opportunities for improvements discussed below may not, individually or in the aggregate, impair the operations of the P-Card program, they do address potential risks that can be more effectively controlled.

### **1. Business Development and Procurement Services (BDPS) developed policy and procedures; however, this guidance was not implemented on a timely basis and contained contradictions.**

A. The AD for purchasing card policy and procedures was in draft for over two years. The AD was drafted by the E-Team in March 2001; however, the AD (i.e., AD 4-15) was not published until June 2003. This delay was deemed attributable to the following causes:

- P-Card Administrator responsibilities are an additional duty and are performed on a part-time basis.
- The pilot program was extended; thus, emphasis on P-Card policy and procedures did not appear to be a priority.
- No one was assigned responsibility to monitor the status of the draft AD until Oct 2002. (A delay of nineteen months.)
- The draft AD was not routed to the City Attorney's Office when it was distributed to City departments for review and comments.

Enforceable standardized written procedures were not implemented on a timely basis. Without an official directive specifying policy and procedures, uniform administration and effective coordination were not established.

AD 2-1, *Administrative Directives*, states that ADs establish written policies to ensure proper administration of City affairs and ADs are issued: (1) to improve service to the public through efficient management and (2) to establish policy and procedures for the uniform administration and effective coordination of the functions of the City.

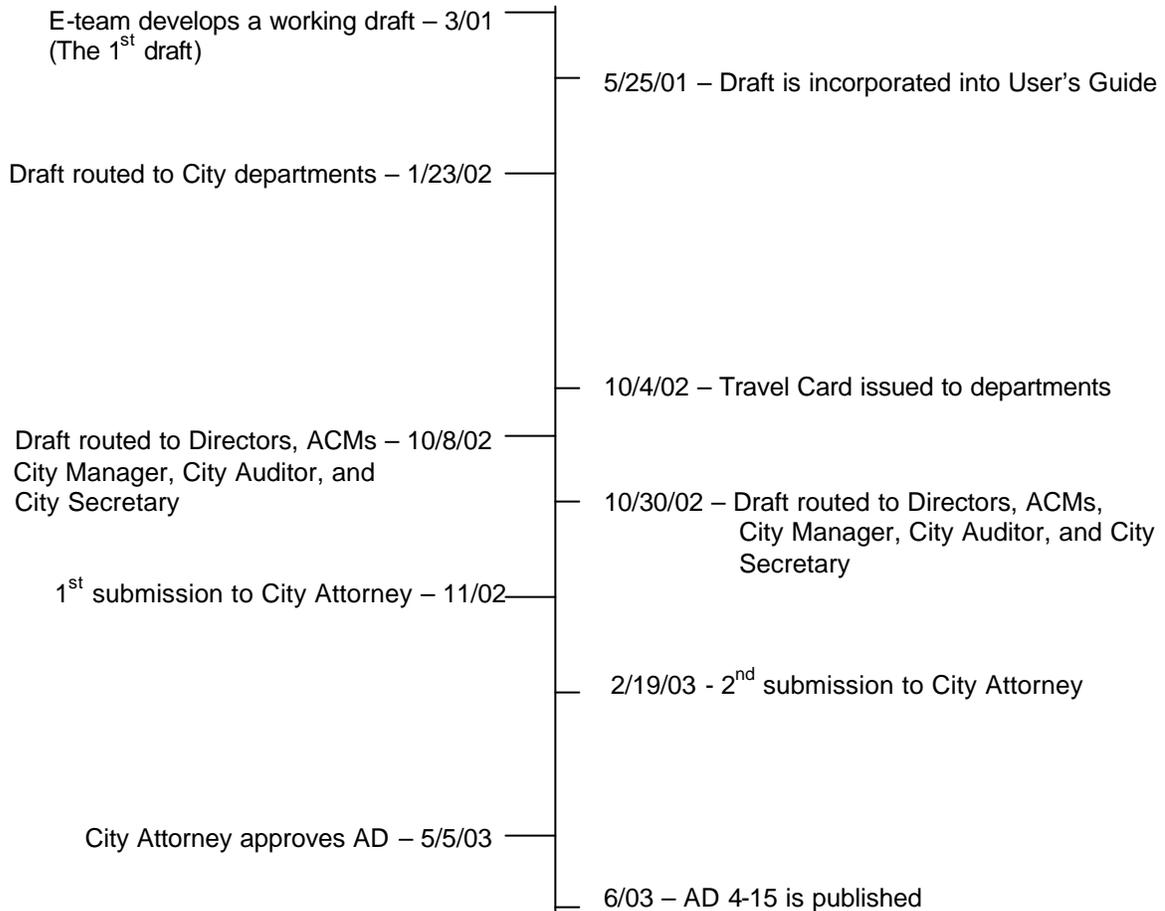
AD 2-1, paragraph 6.1.1 states that a department director will prepare a draft AD for Citywide distribution and will distribute a paper copy of the first draft to all City Manager's Office executives, all department directors, and all City Council appointed officers.

AD 2-1, paragraph 6.1.3 states, "When there is pressing and urgent need to change administrative policy, the City Manager or his designee may issue an Interim AD as

## OPPORTUNITIES FOR IMPROVEMENT

follows:...Interim ADs will be designated clearly as ‘interim,’ will be in force for a period not to exceed 120 days from the date of distribution; will include an expiration date; will be cleared of interim status as quickly as practical; and will be posted for reading and printing on the citywide LAN in a separate subdirectory for interim policy.”

### Timeline for Tracking P-Card AD



- B. The AD permits charging travel/entertainment expenditures when specifically allowed by the P-Card Program Administrator. Travel/entertainment was contemplated during the planning stage as a future use for P-Card. However, this usage is contrary to prior guidance from and prior briefings to City Council. The AD did not comply with prior commitments made to/guidance from City Council.

Authorization by the P-Card Program Administrator is not an effective control since this individual is a City employee answerable to management and could be coerced into approving travel/entertainment. Additionally, this usage duplicates the Travel Card that was distributed to departments in October 2002.

## **OPPORTUNITIES FOR IMPROVEMENT**

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The Purchasing Card User's Guide, Appendix D, issued at the implementation of the pilot program and serving as the basis for initial training, states that travel and entertainment is prohibited.

Briefings to F&A on May 14, 2001, and January 14, 2002, stated that travel and entertainment were prohibited purchases.

### **We recommend that:**

- A. In the future, the BDPS Director closely monitor the status of draft ADs and pursue timely publication. Delays should be noted to the Assistant City Manager.
- B. The P-Card not be used for travel and entertainment and that this prohibition is clearly stated in the AD.

### **Management's Response:**

One of the reasons for the delay in finalizing the Draft AD was due to the time taken to finalize procedural matters effecting departments who initially participated in the implementation program. We invited comments regarding the draft AD from all of the pilot departments and there were delays in getting responses from some of them; however, there were also delays in the exchange of views and opinions between departments on this program. In addition, matters relating to internal controls were discussed with the Bank and there were delays in getting responses from the Bank.

Management desires to keep travel/entertainment as an option for the P-Cards in case of disasters that require emergency actions. The following conditions must be met: (a) emergency must exist, and (b) approval must be provided by the City Manager. Management will revise AD 4-15 to reflect these changes and will delete the P-Card Administrator as approval authority for travel/entertainment.

### **Auditor's Comment:**

We understand that there was significant interaction with other departments that extended the approval process; actions should be taken (and processes developed) to timely issue future ADs that require significant coordination with other departments.

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## OPPORTUNITIES FOR IMPROVEMENT

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### 2. The AD did not address provisions previously committed to the City Council and did not incorporate review comments from City departments.

City Council authorized the P-Card program based on assertions that specific controls, policy, and procedures would be implemented. However, the AD did not include the following promised provisions:

- The P-Card renewal process. The method of positive confirmation<sup>3</sup> by the Citywide Administrator was briefed to F&A on May 14, 2001. The card issuer, Bank One, was not aware that this renewal method would be applicable to the City. Renewal procedures are critical since the cards issued in 2001 will be expiring this year.
- Prohibition of card sharing. The prohibition of card sharing was briefed to F&A on April 23, 2001.
- Periodic and recurring training. City Council was briefed on May 14, 2001, that 3-4 hour training would be provided prior to issuing the cards. Additionally, quarterly training/retraining would be provided. Although initial training is provided (based on the E-Team developed User's Guide) prior to issuance of P-Cards, there is no recurring training program.
- The requirement for departments to develop their own policy and procedures for managing and controlling their P-Card program was deleted from the final draft of the AD. On May 14, 2001, F&A was briefed that a dedicated program manager (i.e., P-Card Administrator) would review the departments' P-Card procedures prior to program implementation.

Additionally, departmental review comments made during the coordination process were not addressed in the final draft. The departments identified issues that would contribute toward proper administration for an on-going P-Card program. The draft AD did not include the following:

- Rebate accountability/management.
- How and who determines what MCCs are allowable for City use.
- How departments may revise their assigned MCC(s).
- If P-Card privileges are suspended, what is the length of suspension and can the P-Card be re-instated.
- Can the P-Card be used when the Price Agreement has expired and/or there are no funds encumbered for the underlying Price Agreement.
- A reference to the *Purchasing Card User Guide*. The User Guide is a source of additional guidance and should be a component of City policy.

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<sup>3</sup> Instead of automatically renewing cards for all cardholders, the P-Card Administrator would confirm renewal requirements and notify bank to renew only those cardholders.

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## OPPORTUNITIES FOR IMPROVEMENT

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- More definitions/examples of allowable and prohibited purchases.
- Examples of negligence and fraudulent acts.

BDPS did not ensure that assertions/commitments made to City Council were included in the AD and did not address departments' review comments.

The management and administration of the P-Card program was based on a draft AD (subsequently published as AD 4-15) that was not updated to incorporate guidance from and commitments to City Council.

Written policy and procedures are a component of administrative internal controls and are essential when implementing a new program. City policy, such as an AD, specifies what needs to be done and is usually general since it cannot address all requirements and contingencies. The P-Card Administrator and departments need written policy and procedures (e.g., checklist, outline) to communicate how they will accomplish the requirements and responsibilities specified in City policy. Written procedures serve as a reference and are integral to proper administration, especially in an environment of staff turnover due to personnel reductions and hiring freezes.

**We recommend** that the BDPS Director ensure that:

- The guidance received from and commitments made to City Council that are not currently included in the AD are added.
- The P-Card Administrator develops written policy and procedures.
- The department directors develop written policy and procedures that cover their unique requirements.
- The P-Card Administrator immediately establishes procedures for implementing a method of positive confirmation and communicates these procedures to the City departments and to Bank One.

### **Management's Response:**

Technical matters relating to the implementation of the new pilot program were communicated to the City Council before they were discussed thoroughly with the Bank. These matters required certain revisions after review by the Bank and the inception of the P-Card Program. Business Development and Procurement Services P-Card Administrator reviewed all comments received by her from various City departments as directed in her memo. After review, the comments from departments that were considered relevant, substantial and significant for the operation of the new program were incorporated. The P-Card Administrator and the Department Coordinator stress the availability of additional training to all cardholders during the initial training session. The Purchasing Card User's Guide is used as a training tool and stresses the prohibition of card sharing.

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## OPPORTUNITIES FOR IMPROVEMENT

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Management will implement a positive confirmation process and will address this in the P-Card Administrator's policy and procedures.

Management agrees that written policy and procedures are required. These policy and procedures may be incorporated into an existing policy. BDPS has initiated action to develop written policy and procedures for the P-Card Administrator and will request that Department Directors submit their P-Card policies and procedures for BDPS review. BDPS will revise AD 4-15 to reflect these requirements.

### **3. The controls associated with the administration of the P-Card program should be strengthened.**

Our audit identified the need for improved compliance with program guidelines by the cardholders, department P-Card coordinators, and managers. The areas addressed are: segregation of duties, recording of purchases, maintenance of the P-Card log, use of P-Cards for personal and professional services, and monthly reconciliations.

A. The process for obtaining new P-Cards does not have proper segregation of duties.

AD 4-15 designates BDPS as the central point for requesting, approving, and issuing cards, but does not address the segregation of duties. The P-Card Administrator controls all phases of the process.

- Although department directors must authorize and approve issuance of P-Cards, the approval forms are maintained by the P-Card Administrator and are not needed to request P-Cards from the bank.
- The Administrator has the authority to request new P-Cards from the bank and designate the MCCs applicable to the P-Cards.
- The new cards are delivered directly to the P-Card Administrator for subsequent distribution to new cardholders after they complete the required training. (Note: training attendance is not documented.)

The BDPS Director has concentrated all duties and responsibilities with the P-Card Administrator. There is no system of checks and balances to ensure that only P-Cards for personnel authorized by the department directors are obtained from the bank and are properly distributed to the appropriate cardholder.

AD 4-9, *Internal Control*, Section 5.3.4 dealing with Segregation of Duties states, "Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions must be separated among individuals to prevent any one person from being in a position both to perpetrate and conceal errors or irregularities in the normal course of duty."

## OPPORTUNITIES FOR IMPROVEMENT

B. Justification and purpose for P-Card transactions were not always documented.

During our testing and review of thirty transactions selected from the pilot program departments, we noted thirteen instances where the justification was not recorded on the receipt and the purpose could not be determined from the nature of the purchase. These are summarized as follows:

Department	Transactions Not Documented
Streets	5
Parks	5
DWU	3
Total	13

Reasonable justifications for the purchases were provided in response to our inquiries. We also noted that documentation to justify purchases of items available on price agreements was not always maintained by the departments.

Managers/Supervisors are not requiring cardholders to annotate the purpose of the purchase on the receipts. Timely management and supervision of P-Card transactions are significant controls in the P-Card program. Even if managers familiar with operations do reviews on a timely basis, subsequent reviewers may not be aware of the justification for the transaction.

AD 4-15, paragraph 6.7.4 states, “The Cardholder will annotate on the receipt, the purpose of the purchase.”

C. The P-Card log is not completed on a timely basis and is not always reviewed by the managers.

The purchase log is preprinted on an envelope for the convenience of maintaining all documentation related to P-Card transactions. Cardholders are responsible for recording each transaction on this log and retaining all documentation in this envelope. The manager or supervisor is responsible for reviewing the log within three days of receipt from the cardholder. A new envelope is used for each billing cycle.

Some cardholders do not utilize the log and envelope. They use a separate log sheet created via a spreadsheet. The card users complete the log sheets only at the end of the month. We were unable to determine whether the approving managers did their reviews of receipts and monthly statement reconciliations within three days of receipt of log sheet from the cardholders. There are instances where the managers did not sign the log sheets.

## OPPORTUNITIES FOR IMPROVEMENT

The template for the log sheet does not evidence the date on which the cardholder submits the log sheets to the manager. There is no provision on the template for the date of completion by the cardholder and no standardized procedure to perform complete reconciliations.

AD 4-15, paragraph 6.10.2 states, “The approving Manager will be responsible for reviewing receipts and Monthly Statement reconciliation within three (3) days of receipt from Cardholder, signing it attesting to review, and forwarding to the Departmental P-Card Coordinator.”

P-Card User’s Guide, paragraph 6.0 states, “All transactions are to be immediately posted to the P-Card Transaction Log.”

The cardholders are expected to make their purchases pursuant to existing procurement guidelines, and the propriety of purchases is subsequently reviewed and approved by designated personnel. The failure of supervisors and managers to perform timely reviews could lead to inappropriate card usage.

### D. P-Cards can be used for personal and professional services.

Departments are allowed to identify the MCCs they want for their P-Cards. Thus, departments have approved MCCs to purchase personal and professional services, and these services may be common to more than one department. These MCCs are summarized below:

MCC	Description	DWU	Streets	EBS	Sanitation	Park
0742	Veterinary					x
0780	Landscape / Horticulture	x				x
7311	Advertising	x			x	x
7342	Exterminating	x			x	
7549	Towing		x	x		
7692	Welding		x	x		x
7699	Recreation services	x				
8099	Medical					x
8911	Architectural, engineering, and surveying				x	
8999	Professional services not elsewhere classified				x	

## OPPORTUNITIES FOR IMPROVEMENT

Maximum P-Card authorization is \$1,000 per transaction, and up to \$10,000 in a monthly billing cycle. Frequent recurring P-Card purchases could by-pass existing procurement policy and procedures. Thus, purchases for personal and professional services could reach an aggregate amount that requires a bid/proposal and City Council approval.

AD 4-5, *Contracting for Goods and Services*, dated May 10, 1999, paragraph 7.1.2 states, "All professional/Personal/Planning Service Contracts in excess of \$15,000 must receive City Council approval. Approval by Administrative Action is required for all contracts of \$15,000 or less."

City Code, Chapter 2, Sec 2-32 (a) states, "No city expenditure exceeding \$15,000 may be made without advertising for competitive bid..."

City Code, Chapter 2, Sec 2-33 states, "Personal, professional, or planning services must be procured, regardless of who approves the contract, in accordance with applicable state law and through procedures established by the city manager or a designee that are not in conflict with this article or applicable state law."

- E. Variances between departmental records of monthly purchases and records of the P-Card administrator are not reconciled.

At the close of the monthly cycle, the cardholders reconcile the log to the PVS statements and to copies of the receipts, verifying all are correct and are charged to the appropriate account. Any discrepancies are noted and followed up. Cardholders sign the log and forward it to the manager for review and signature. The manager will review and sign it, then forward the packet to the coordinator. When all cardholder statements have been reconciled, the totals of all statements are matched to the summary statement for the department. If the total does not match, it is investigated. The coordinator signs the summary statement attesting to timely and accurate reconciliation of the account and forwards it to the Administrator.

With the exception of EBS and Sanitation, the other departmental monthly transactions for the audit period did not agree with the monthly summary report generated by the P-Card Administrator. The following differences were noted:

Dept	Period	As per Dept	As per BDPS	Difference
Parks	12/19/02-01/18/03	\$15,074.24	\$17,316.60	\$2,242.36
Streets	7/19/02 - 8/18/02	\$17,218.34	\$20,320.12	\$3,101.78
DWU	7/19/02-8/18/02	\$14,137.45	\$16,874.27	\$2,736.82

## OPPORTUNITIES FOR IMPROVEMENT

We have not seen any evidence of the P-Card coordinators attesting to the accuracy of the monthly reconciliation forwarded to the P-Card Administrator. The P-Card Administrator was not able to resolve the above differences.

We selected two additional months for testing, January and March 2003, for each of the three departments listed above. Five of the monthly totals agreed, indicating an improvement in the reconciliation process. The only difference noted was:

Dept	Period	As per Dept	As per BDPS	Difference
Streets	12/19/02- 01/18/03	\$16,443.70	\$16,798.22	\$354.52

The P-Card Administrator quickly identified the difference as the result of different cut-off days used by the department. Even though subsequent tests showed that the differences have been narrowed, there is still a need to closely monitor the monthly reconciliation and resolve differences within a short time.

The differences are due to:

- Items in transit recorded by the cardholder on the log sheet at the close of the monthly P-Card transaction cycle are not recorded by the bank. (Usually due to delays by the vendor.)
- Failure by the cardholder, departmental coordinator, and manager to identify items that are on the log sheet but not on the bank statement.
- Items recorded by the bank, but not on the log sheet.
- Using different days for the month-end cut-off.
- Departments do not have written policies and procedures.
- Reconciliations are not included in introductory P-Card training.
- P-Card coordinators are not given specific training in performing reconciliations.
- P-Card coordinators are often administrative staff that have no experience with reconciliations.

AD 4-15, Section 6.9 states, "The P- Card Administrator will reconcile all departmental Summary reports against the monthly payment made by ACH." Section 6.10.3 states, "...The P-Card Program Coordinator attests that all departmental reconciliations have been completed in a timely and accurate manner."

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## OPPORTUNITIES FOR IMPROVEMENT

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Failure to reconcile the balances between the P-Card Administrator and the department may result in:

- Overpayments to the bank.
- Unidentified amounts accumulating over a period of time that will make reconciliation at a later date a difficult exercise.
- Cardholder noncompliance with P-Card guidelines to reconcile monthly transactions within the timeframe specified by the AD.
- Unfunded, unauthorized procurements going undetected.
- Delays in periodic monitoring of purchases.

**We recommend that:**

- A. The BDPS Director improve internal controls by segregating duties related to the process of approving, requesting, and issuing of P-Cards. The following is not intended to be construed as (the only) corrective action, but is suggested to assist management and demonstrate that segregation of duties can be accomplished with existing personnel.
- The P-Card Administrator forwards departments' authorization forms to a second employee after requesting new cards from the bank.
  - The second employee would:
    - Compare authorization forms to payroll listing to confirm that the potential cardholder is a bona fide employee.
    - Receive all new P-Cards from the bank.
    - Reconcile the new cards to the authorization forms to ensure that only these cards were issued and thus there are no extra cards.
    - Keep the cards until training is provided and documented for the new cardholders (cards should be stored in a safe or locked drawer).
    - Distribute cards to new cardholders.
    - Return authorization forms to P-Card Administrator.
- B. Department directors and BDPS enforce City policy and ensure P-Card transactions are properly documented.
- C. Department directors and BDPS enforce City policy and ensure P-Card logs are properly documented and reviewed on a timely basis. The P-Card log should be revised to reflect the date the cardholder completed the reconciliation and forwarded to the manager.

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## OPPORTUNITIES FOR IMPROVEMENT

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D. The BDPS Director prohibit/restrict the use of P-Cards for personal, professional, or planning services to prevent potentially violating procurement policy and procedures and develop procedures to periodically validate departments' MCC requirements.

E. The BDPS Director ensure that:

- Cardholders and Department P-Card Coordinators are properly trained to perform reconciliations.
- The P-Card Administrator promptly resolves any variances.

### Management's Response:

Business Development and Procurement Services will implement procedures to improve internal controls by segregating duties related to the process of approving, requesting and the issuing of P-Cards.

### Auditor's Comment:

Management stated (see Opportunity for Improvement #4) that it would initiate on-site audits. Management should use these on-site audits to:

- Validate the department's P-Card requirements (e.g., MCCs, credit and transaction limits).
- Verify that department's purchase totals agree with P-Card Administrator's records.

### 4. On-site audits are needed.

The P-Card Administrator periodically reviews, on-line, P-Card purchases; however, the P-Card Administrator has not conducted on-site department audits. There are currently 9 City departments comprising 264 P-Card accounts. Lack of on-site audits was deemed attributable to the following causes:

- P-Card Administrator duties and responsibilities are performed on a part-time basis and are not clearly defined.
- The P-Card Administrator relied solely on the draft AD (official AD was published in June 2003) and has not developed a written policy or procedures to execute the responsibilities specified in the AD.
- Management has not required on-site audits.

Electronic review of transactions does not ascertain whether:

- P-Card purchases were properly documented, reviewed, approved, and reconciled.

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## OPPORTUNITIES FOR IMPROVEMENT

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- Department managers and department P-Card coordinators are complying with City policy.

An integral facet of internal controls is outside review. Outside review serves as a deterrent and encourages compliance. Failure to conduct on-site audits precludes assurance that departments and cardholders are complying with City policy and procedures.

The AD specifies what the responsibilities are; however, it does not provide instruction or procedures on how to perform those responsibilities. Failure to develop written policy and procedures for the P-Card Administrator precludes assurance that the AD will be properly enforced.

AD 4-15, *Purchase Card Policy and Procedure*:

- Paragraph 5.1.2, P-Card Administrator responsibilities, states, “Conduct random audits of P-Card transactions to act as a check on departments carrying out their responsibility for audit and compliance with City policy.”
- Paragraph 5.2.1 states, “Periodically designate an employee to conduct unannounced audits of transactions made with P-Cards. Perform audits of all P-Card accounts and reconciliation of statements from the bank.”

These requirements were also specified in the draft AD.

**We recommend that:**

- The BDPS Director:
  - Ensure that the P-Card Administrator conducts on-site audits of P-Card accounts.
  - Ensure that the P-Card Administrator develops written policy and procedures that augment City policy.
  - Clearly define the P-Card Administrator’s duties and responsibilities and update the individual’s position description and performance standards to document those duties and responsibilities.
  - Establish the P-Card Administrator as a full-time position.
- The department directors enforce AD 4-15 and ensure that P-Card accounts and transactions are periodically audited.

## **OPPORTUNITIES FOR IMPROVEMENT**

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### **Management's Response:**

The P-Card Administrator currently audits the card activity of cardholders on-line. In addition, the P-Card Administrator will begin conducting on-site audits of participating departments card activity, which will include reviewing the cardholders record keeping of P-Card purchases and the Department's Coordinator's archived documents.