



**CITY OF DALLAS**

## Dallas City Council

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Audit of the City of Dallas'  
Purchasing and Travel Cards

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November 11, 2019

Mark S. Swann  
City Auditor

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# Executive Summary

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## Objective and Scope

The audit objective was to evaluate controls and compliance with the City's Purchasing and Travel Cards policies and procedures. The scope of this audit included management operations from Fiscal Year 2017 through Fiscal Year 2018.

## What We Recommend

The Office of Procurement Services should strengthen the monitoring and management of the Purchasing and Travel Cards Program by developing program monitoring procedures and improving program management as described in this report.

## Background

Through the State of Texas cooperative agreement with Citibank, the City of Dallas' Purchasing and Travel Cards Program provides employees commercial credit cards used for small dollar purchases of goods and/or services, air travel, and hotel accommodations necessary for official City business. The Office of Procurement Services administers the program.

For the purposes of this report all commercial credit cards are identified as purchasing cards.

## What We Found

Monitoring could be improved for: (1) deactivation of purchasing cards; (2) occurrence of recurring purchases; and, (3) overall purchasing card credit exposure.

In addition, documentation is inadequate to support actions taken for:

- Changes to Merchant Category Code Templates.
- Purchases that exceed a department's single purchase limit.
- Annual department audits of purchasing card purchases including how to perform the audits.
- Use of the purchasing card instead of a vendor master agreement.
- Establishing accurate system user roles.

During the audit period October 1, 2016, through September 30, 2018, approximately \$9 million in purchases were made from approximately 36,800 transactions. As of January 3, 2019, the City had 402 credit cards outstanding with a total credit exposure of approximately \$3.8 million.

## Audit Observations

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As required by *City Council Resolution 88-3428*, departments will establish internal controls in accordance with the standards established by the Comptroller General of the United States pursuant to the *Federal Managers' Financial Integrity Act of 1982*. Administrative Directive 4-09, *Internal Control* prescribes the policy for the City to establish and maintain an internal control system. The audit observations listed are offered to assist management in fulfilling their internal control responsibilities.

### Audit Results:

#### Section 1 – Monitoring Activities

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##### Observation A: Deactivation of Purchasing Cards

The Office of Procurement Services does not consistently deactivate purchasing cards immediately upon an employee's termination. As a result, there is an increased risk of unauthorized purchases.

Specifically,

- 61 percent (38 of 62) of the purchasing cards were still active the day after termination.
- 48 percent (30 of 62) of the purchasing cards were still active more than five days after termination.
- 12 purchases totaling \$1,834.97 were made from three cardholders' purchasing cards after the cardholders' respective termination dates. Documentation for the 12 purchases indicates that the purchases were made for official City business by a current City employee.

Criteria:

- ❖ Administrative Directive 4-15, Purchasing Card Policy and Procedures, Section 5, *Responsibilities*, 5.2.1.
- ❖ Standards for Internal Control in the Federal Government, (Green Book), Principle 10.02 – *Response to Objectives and Risks*.

We recommend the **Director of Office of Procurement Services**:

- A.1:** Develop procedures to ensure purchasing cards are deactivated timely.

## Observation B: Merchant Category Code Template

The Office of Procurement Services could not provide documentation showing proper approval of merchant additions to the standard Merchant Category Code template. As a result, there is an increased risk that cardholders will make purchases at unapproved merchants for non-official City business.

Documentation of approval of merchant additions to the standard Merchant Category Code template was provided for 2.5 percent (2 of 81) of the merchant additions reviewed.

### Criteria

- ❖ The Office of Procurement Services' BDPS-PRO-702: *MCC Change Request*.
- ❖ Standards for Internal Control in the Federal Government,(Green Book), Principle 10.02 – *Response to Objectives and Risks*.

We recommend the **Director of Office of Procurement Services**

- B.1:** Develop procedures to ensure that merchant additions to the standard Merchant Category Code template are properly approved.

## Observation C: Purchase System Limits

The Office of Procurement Services does not monitor the propriety of purchases that exceed the cardholder's single purchase system limit. As a result there is an increased risk that unauthorized official and non-official City business purchases will be made.

When a purchase exceeds the department's single purchase system limit, Administrative Directive 4-15, *Purchasing Card Policy and Procedures*: (1) requires the Office of Procurement Services to use their purchasing card to make the purchase; and, (2) details the approval process departments must follow in order for the Office of Procurement Services' to make a purchase using their purchasing card. Of the 92 purchases that exceeded the single purchase system limit, the Office of Procurement Services' purchasing card was used to make 49 of the purchases. However, only approximately 10 percent (5 of 49) of these purchases followed the approval process outlined in Administrative Directive 4-15, *Purchasing Card Policy and Procedures*.

The remaining 43 purchases were not made using the Office of Procurement Services' purchasing card as required by Administrative Directive 4-15, *Purchasing Card Policy and Procedures*. Due to the lack of documentation it could not be determined if the 43 purchases were the result of: (1) the Office of Procurement Services temporarily increasing the cardholder's single purchase system limit; or, (2) the merchant forcing the purchase through the system.

## Criteria

- ❖ Administrative Directive 4-15, Purchasing Card Policy and Procedures, Section 6.1, *Purchasing Limits*.
- ❖ Standards for Internal Control in the Federal Government (Green Book), Principle 11.08 – *Design of Appropriate Types of Control Activities*.

We recommend the **Director of the Office of Procurement Services**

**C.1:** Develop procedures to monitor purchases that exceed the single purchase system limit to ensure the procedures in Administrative Directive 4-15, *Purchasing Card Policy and Procedures* are followed.

## Observation D: System User Roles

The Office of Procurement Services does not accurately maintain the authorized users and their role in the Citibank's Global Card Management System. As a result there is an increased risk that unauthorized activity is processed.

User roles as recorded in the Citibank's Global Card Management System compared to user roles as listed by the Office of Procurement Services revealed:

- 30 percent (11 of 37) of the department coordinators listed by the Office of Procurement Services were not set-up in the Citibank's Global Card Management System as department coordinators.
- 49 percent (25 of 51) with a department coordinator user role in the Citibank's Global Card Management System were not listed by the Office of Procurement Services as department coordinators.
- Six users were set-up more than once. Three users were set up as a cardholder twice, one user was set up as a department coordinator twice, and two users were set up as both a cardholder and department coordinator.
- Two of the five users with an administrator user role did not need an administrator user role to perform their job duties.

## Criteria

- ❖ Standards for Internal Control in the Federal Government (Green Book), Principle 11.12 – *Design of Security Management*.

We recommend the **Director of the Office of Procurement Services:**

**D.1:** Develop procedures to properly maintain authorized users and their role in the Citibank's Global Card Management System.

## **Observation E:** Purchasing Card Administrator Guidance

The Office of Procurement Services' procedures to perform annual department audits of purchasing card purchases lack sufficient guidance to ensure that Administrative Directive 4-15, *Purchasing Card Policy and Procedures*, Section 5.1.2 requirements are met for the Purchasing Card Administrator to conduct random reviews of purchasing card purchases. As a result, there is an increased risk that the Purchasing Cards Program will not meet the Program objectives and expected oversight of the Program will not be performed.

Specifically, there is no guidance for:

- Selecting cardholders for review from departments with multiple cardholders, such as using a risk-based approach that takes into account the total value of purchases, the number of purchases, and the number of purchases from the same vendor.
- The procedure to follow to ensure that every department is reviewed annually.
- Ensuring that recurring purchases are not posted to the cardholder's account as required by Administrative Directive 4-15, *Purchasing Card Policy and Procedures*, Section 6.18, *Purchasing Services*. Two recurring monthly purchases were noted in our testing.
- The proper documentation that should be retained for each purchase reviewed and how long the documentation should be retained.

Additionally, the Office of Procurement Services was unable to locate documentation for 77 percent (30 of 39) of the annual department audits selected for review. As a result, we were not able to conclude the random reviews of purchasing card purchases required by Administrative Directive 4-15, *Purchasing Card Policy and Procedures*, Section 5.1.2 were performed.

### Criteria

- ❖ Administrative Directive 4-15, *Purchasing Card Policy and Procedures*, Section 5. *Responsibilities* 5.1.2.
- ❖ Standards for Internal Control in the Federal Government,(Green Book), Principle 10.02 - *Response to Objectives and Risks*.

We recommend the **Director of the Office of Procurement Services:**

**E.1:** Provide further guidance to the Purchasing Card Administrator on performing annual department audits of purchasing card purchases to ensure that Administrative Directive 4-15, *Purchasing Card Policy and Procedures*, Section 5.1.2 requirements are met for the Purchasing Card Administrator to conduct random reviews of purchasing card purchases.

## **Observation F: Recurring Purchases**

Recurring purchases made by Public Affairs and Outreach do not comply with Administrative Directive 4-15, Purchasing Card Policies and Procedures, Section 6.18, *Purchasing Services*. As a result, there is an increased risk that the City will pay for a service not received.

Two recurring monthly purchases were made on a terminated employee's card after the employee left the organization because the card: (1) had not been canceled; and, (2) had been set-up with a merchant for recurring payments.

### Criteria

- ❖ Administrative Directive 4-15, Purchasing Card Policies and Procedures, Section 6. *Procedures* 6.18.
- ❖ Standards for Internal Control in the Federal Government (Green Book), Principle 10.02 - *Response to Objectives and Risks*.

We recommend the **Director of the Office of Procurement Services:**

**F.1:** Develop procedures to ensure that departments adhere to Administrative Directive 4-15, Purchasing Card Policy and Procedures, Section 6.18, *Purchasing Services*.



## Audit Results:

### Section 2 – Management Activities

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#### Observation G: Split-Transaction Guidelines

Administrative Directive 4-15, *Purchasing Card Policy and Procedures* does not define a split-transaction. As a result, there is an increased risk that purchase card purchases will exceed the cardholder's single purchase system limit.

##### Criteria

- ❖ Office of Procurement Services' OPS-PRO-709: *Purchasing Card User Guide*.
- ❖ Office of Procurement Services' BDPS-PRO-708: *Annual Audits*.
- ❖ Standards for Internal Control in the Federal Government (Green Book), Principle 7.06, *Analysis of Risks*.

We recommend the **Director of the Office of Procurement Services**:

- G.1:** Define a split-transaction in Administrative Directive 4-15, *Purchasing Card Policy and Procedures*.

#### Observation H: Permanent Merchant Category Code Additions

The Office of Procurement Services does not perform an annual review of the need for cardholders to have permanent merchant additions to their originally assigned Merchant Category Code template. As a result, there is an increased risk that cardholders will make non-official City business purchases at merchants that were not included in their originally assigned Merchant Category Code template.

##### Criteria:

- ❖ Standards for Internal Control in the Federal Government (Green Book), Principle 7.06, *Analysis of Risks*.
- ❖ The General Service Administration's *Management and Use of the GSA SmartPay Purchase Card*, Section 1.C.4.

We recommend the **Director of the Office of Procurement Services**:

**H.1:** Annually review the need for permanent additions to the cardholder's originally assigned Merchant Category Code template and ensure documentation is on file for all permanent additions.

## Observation I: Credit Exposure

The Office of Procurement Services does not review the City's overall credit card exposure on a periodic basis. As a result, the City is open to a greater credit card liability than what is required to meet business needs.

The Office of Procurement Services requests department directors to review their outstanding cardholders each year and confirm that the cardholders' monthly purchase system limit is still appropriate<sup>1</sup>. However, neither the department nor the Office of Procurement Services analyzes each cardholder's spending in relation to the cardholder's monthly purchase system limit. More than half of the cardholders spent 20 percent or less of their monthly purchase system limit in their highest spending month. As of January 3, 2019, the City's overall credit exposure for credit cards was approximately \$3.8 million.

Criteria:

- ❖ Government Accountability Office Audit Guide: Auditing and Investigating the Internal Control of Government Purchase Card Programs, *Internal Control and the Control Environment: Testing Key Elements of Internal Control – Financial Exposure*.
- ❖ Standards for Internal Control in the Federal Government (Green Book), Principle 7.06, *Analysis of Risks*.

We recommend the **Director of the Office of Procurement Services**:

**I.1:** Develop a formalized process to evaluate the City's overall credit card liability exposure on a periodic basis.

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<sup>1</sup> The Office of Procurement Services permits a maximum credit exposure of \$3,000 per transaction and \$20,000 per month. Many departments choose to limit the transaction credit exposure to \$1,000 per transaction.

## Observation J: Master Agreements

The Office of Procurement Services does not review cardholder purchases to ensure purchases are appropriate for use of the purchasing card instead of the regular procurement process, which involves purchasing through a vendor master agreement. As a result, there is an increased risk of higher cost and/or lower quality purchases.

Cardholders are primarily responsible for ensuring master agreements are used. However, approximately 14 percent of purchases tested lacked documentation to justify why the purchasing card was used instead of using the regular procurement process, and purchasing through a vendor master agreement.

### Criteria:

- ❖ Administrative Directive 4-15, *Purchasing Card Policy and Procedures*, Section 6. *Procedures*, 6.3.4.
- ❖ Administrative Directive 4-7, *Authorization and Reimbursement for Out-Of-Town Travel and Travel Related Expenses*, Section 6.2.1, *Air Travel*.
- ❖ Standards for Internal Control in the Federal Government, (Green Book), Principle 10.02 – *Response to Objectives and Risks*.

We recommend the **Director of the Office of Procurement Services**:

**J.1:** Develop procedures to ensure purchases are appropriate for use of the purchasing card instead of the regular procurement process, which involves purchasing through a vendor master agreement.

## Appendix A: Background and Methodology

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### Background

Through the State of Texas cooperative agreement with Citibank, the City of Dallas' Purchasing Cards Program provides employees commercial credit cards used for small dollar purchases of goods and/or service, air travel and hotel accommodations necessary for official City business. The Office of Procurement Services administers the program through Administrative Directive 4-15, *Purchasing Card Policy and Procedures*; Administrative Directive 4-7, *Authorization and Reimbursement for Out-Of-Town Travel and Travel Related Expenses*; the OPS-PRO-709, *Purchasing Card User Guide*; and, the BDPS-PRO-710, *Travel Card User Guide*.

Each cardholder is required to document each purchase on a monthly *P-Card/Travel-Card Transaction Log* and reconcile their monthly credit card statement to the *P-Card/Travel-Card Transaction Log* and supporting purchase receipts. The monthly credit card statement reconciliation with supporting receipts is reviewed by the cardholder's supervisor and the cardholder's designated Department Purchasing Card Coordinator to ensure that the *P-Card/Travel-Card Transaction Log* is complete and accurate. The Department Purchasing Card Coordinator submits a copy of each cardholder's *P-Card/Travel-Card Transaction Log* to the Purchasing Card Administrator monthly. The original *P-Card/Travel-Card Transaction Log* and supporting receipts are retained in the cardholder's Department. The Purchasing Card Administrator is responsible for managing adjustments to purchasing cards with Citibank, ensuring accurate payment to Citibank, performing transaction reviews, and overseeing the program.

During the audit period October 1, 2016, through September 30, 2018, approximately \$9 million in purchases were made from approximately 36,800 purchases. As of January 3, 2019, the City had 402 credit cards outstanding with a total credit exposure of approximately \$3.8 million.

### Methodology

To accomplish our audit objectives, we performed the following steps:

- Interviewed personnel from the Office of Procurement Services.
- Reviewed Office of Procurement Services policies and procedures, the *Texas Local Government Code*, relevant Administrative Directives, and best practice guidance from federal entities regarding purchasing card programs.
- Performed various analyses and reviewing documentation as needed to support the analyses conclusions.
- Considered risk of fraud, waste, and abuse

- Considered information technology risks.

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## Major Contributors to the Report

Andrew Yates, CPA, CIA – Project Manager

Rory Galter, CPA – Audit Manager

## Appendix B: Management's Response

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### Memorandum



**DATE:** November 4, 2019  
**TO:** Mark S. Swann, City Auditor  
**SUBJECT:** Response to Audit of the City of Dallas' Purchasing and Travel Cards

This letter acknowledges that the City Manager's Office received the *Audit of the City of Dallas' Purchasing and Travel Cards* and submitted responses to the recommendations, in consultation with the Chief Financial Officer and the Office of Procurement Services.

We agree it is important to have a succinct, well-documented, and efficient Purchasing (P-Card) and Travel (T-Card) program with appropriate internal controls.

As City Manager, I am very pleased, but not surprised, that the audit did not uncover any instances of dishonest or fraudulent P-Card or T-Card usage during the audit period.

The Office of Procurement Services has emphasized improving documentation, ensuring transparency, and creating a user-friendly experience. The Office of Procurement Services has already implemented the following enhancements to strengthen the internal controls of the P-Card program, as summarized below:

- October 2018 – revised AD 4-15 and program forms
- April 2019 – P-Card program administrator added to Electronic Termination Notification Form (ETNF) to ensure timely deactivation of purchase and travel cards
- August 2019 – P-Card group email created to help ensure document retention, including in the event of employee turnover
- September 2019 – new system reports created to facilitate auditing
- October 2019 – revised P-Card training materials

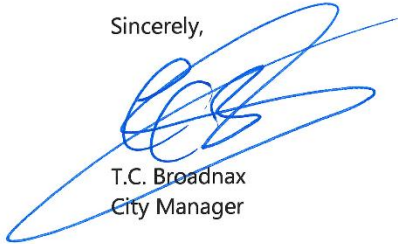
In addition, the Office of Procurement Services anticipates implementing automated expense reports, developing additional procedures, and strengthening monitoring activity of the P-Card program during the current fiscal year.

However, the Office of Procurement Services will not implement the recommendation to periodically review the City's overall credit liability exposure. As the monthly total credit liability exposure represents approximately 0.1% of the City's annual budget, the City accepts the risk.

"Our Product is Service"  
Empathy | Ethics | Excellence | Equity

Further, the Office of Procurement Services already reduces credit liability exposure on an individual credit card basis by setting maximum transaction and monthly total credit limits.

Sincerely,



T.C. Broadnax  
City Manager

C: Kimberly Bizer Tolbert, Chief of Staff  
M. Elizabeth Reich, Chief Financial Officer  
Chhunny Chhean, Director, Office of Procurement Services

"Our Product is Service"  
Empathy | Ethics | Excellence | Equity

Recommendation	Concurrence and Action Plan	Implementation Date	Maturity/ Follow-Up Date
We recommend the <b>Director of the Office of Procurement Services</b> :			
<p><b>A.1:</b> Develop procedures to ensure purchasing cards are deactivated timely.</p>	<p><b>Agree:</b> The P-Card Program Administrator was added to the Electronic Termination Notification Form (ETNF) distribution list in April 2019. OPS will develop procedures that include promptly reviewing the ETNFs and deactivating purchase cards for terminated employees.</p> <p>Additionally, OPS will continue to provide training to department p-card coordinators to ensure compliance with AD 4-15 section 5.2.1 regarding the requirement to notify the P-Card program administrator immediately of any changes in cardholder status.</p>	06/30/2020	12/31/2020
<p><b>B.1:</b> Develop procedures to ensure that merchant additions to the standard Merchant Category Code template are properly approved.</p>	<p><b>Agree:</b> OPS is revising the MCC Change Request Form and associated training documents to ensure temporary changes are documented.</p> <p>In addition, OPS will develop procedures to ensure documentation is retained. The procedures will establish a general email for all P-Card related questions, require the P-Card program administrator to ensure merchant additions are properly approved on the MCC Change Request Form, and require a consistent electronic filing system for MCC Change Request Forms and other documentation.</p>	06/30/2020	12/31/2020



Recommendation	Concurrence and Action Plan		Implementation Date	Maturity/ Follow-Up Date
We recommend the <b>Director of the Office of Procurement Services</b> :				
<p><b>C.1:</b> Develop procedures to monitor purchases that exceed the single purchase system limit to ensure the procedures in Administrative Directive 4-15, <i>Purchasing Card Policy and Procedures</i> are followed.</p>	<b>Agree:</b>	OPS and Citibank have worked to generate new exception reporting capability in Citibank's Global Card Management System. OPS will develop procedures requiring the P-Card program administrator to review the exception reports periodically and identify purchases exceeding the single limit transactions.	9/30/2020	6/30/2021
<p><b>D.1:</b> Develop procedures to properly maintain authorized users and their role in the Citibank's Global Card Management System.</p>	<b>Agree:</b>	OPS will develop procedures to ensure users of Citibank's Global Card Management System are assigned to the correct role. In addition, the procedures will require the P-Card program administrator to conduct an annual review of all authorized users to ensure proper access.	9/30/2020	6/30/2021
<p><b>E.1:</b> Provide further guidance to the Purchasing Card Administrator on performing annual department audits of purchasing card purchases to ensure that Administrative Directive 4-15, <i>Purchasing Card Policy and Procedures</i>, Section 5.1.2 requirements are met for the Purchasing Card Administrator to conduct random reviews of purchasing card purchases.</p>	<b>Agree:</b>	OPS will develop P-Card audit procedures to ensure a consistent process for sampling and testing purchases, identifying recurring purchases, and retaining appropriate documentation.	9/30/2020	6/30/2021
<p><b>F.1:</b> Develop procedures to ensure that departments adhere to Administrative Directive 4-15, <i>Purchasing Card Policy and Procedures</i>, Section 6.18, <i>Purchasing Services</i>.</p>	<b>Agree:</b>	OPS will revise the P-Card training to provide additional guidance and clarify the use of P-Cards for re-occurring purchases and automatic payments. Additionally, OPS will develop monitoring procedures to ensure departments do not use P-Cards to make recurring purchases.	9/30/2020	6/30/2021

Recommendation	Concurrence and Action Plan		Implementation Date	Maturity/ Follow-Up Date
We recommend the <b>Director of the Office of Procurement Services</b> :				
<b>G.1:</b> Define a split-transaction in Administrative Directive 4-15, <i>Purchasing Card Policy and Procedures</i> .	<b>Agree:</b>	Although split-transactions are included in the existing P-Card training, the definition of a "split-transaction" will be added to AD 4-15 during the next revision cycle.	9/30/2020	6/30/2021
<b>H.1:</b> Annually review the need for permanent additions to the cardholder's originally assigned Merchant Category Code template and ensure documentation is on file for all permanent additions.	<b>Agree:</b>	OPS will develop a procedure for the annual review of permanent changes to cardholders MCC templates. The review will ensure there is documentation supporting the continuing need for the permanent change.	6/30/2020	12/31/2020
<b>I.1:</b> Develop a formalized process to evaluate the City's overall credit card liability exposure on a periodic basis.	<b>Accept Risk:</b>	The administrative burden to periodically review and increase or decrease purchase limits for over 400 cardholders exceeds the risk.  OPS will continue to rely on the discretion of the requesting department to select appropriate credit limits, up to the maximum amount established in the AD 4-15, purchasing card policies and procedures.	N/A	N/A
<b>J.1:</b> Develop procedures to ensure purchases are appropriate for use of the purchasing card instead of the regular procurement process, which involves purchasing through a vendor master agreement.	<b>Agree:</b>	Additional clarification will be added to the P-Card training and a new training for P-Card coordinators will be developed to provide guidance on how to review master agreements.  Additionally, OPS will develop monitoring procedures to ensure departments use the regular procurement process, and not P-Cards, when goods are available on master agreement.	9/30/2020	6/30/2021