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**Office of the City Auditor**

**Audit Report**

**AUDIT OF  
THE CITY OF DALLAS  
PURCHASING CARD PROGRAM  
(Report No. A07-007)**

**March 16, 2007**

**City Auditor**

Craig D. Kinton, CPA

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## Executive Summary

This report presents the results of the audit<sup>1</sup> of the purchasing card (P-Card) program. We evaluated compliance with City policies and procedures by determining whether P-Cards were properly accounted for and effectively monitored. The audit did not include travel related purchases.

The audit showed that City management took a pro-active approach when implementing the program and designed internal controls to minimize the City's financial exposure to fraud, theft, and abuse. Between October 1, 2005 and August 1, 2006, City employees made 12,322 purchases totaling \$2,550,389.

The audit also showed that City management can strengthen program oversight and supervisory reviews to ensure P-Card users comply with program requirements. We found that improvements are needed to ensure accurate cardholder records are maintained, cards are timely cancelled, and justifications for purchases are adequately documented. Further, effective and timely approval and reconciliation processes would have identified potential "split" purchases, improper charges for sales tax, purchases without supporting receipts, and receipts signed by someone other than the cardholder. The P-Card transactions that we identified as not complying with procedures represent a small percentage of City P-Card purchases.

More effective program administration reviews would also assist in assuring that internal controls are properly operating and may have identified the one instance that we found in which an employee made unauthorized purchases. This employee purchased \$207.62 in personal items and had the items shipped directly to his personal residence. This employee noted on the reconciliation log these were personal purchases and submitted a check to reimburse the City. The use of the P-Card for personal purchases was done with full knowledge of the approving supervisor. In addition, the department coordinator reported that all transactions were reviewed and approved, although the coordinator did not receive the receipts and reconciliation log from the employee.

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<sup>1</sup> Audit conducted under authority of Dallas City Charter, Chapter IX, Section 3.

## Recommendations Summary

We recommend the Director of the Department of Business Development and Procurement Services (BDPS):

### Recommendation 1:

Establish a current listing of all P-Cards and maintain comprehensive accurate files on all cardholders to include required and other pertinent documentation such as the cardholder/manager agreement, attendance at P-Card training, card cancellation requests and copies of cancellation confirmations, and changes to P-Card purchasing limits and vendor restrictions.

### Recommendation 2:

Establish a procedure that all departments immediately notify the P-Card program administrator by e-mail if a cardholder retires, terminates employment, or no longer requires a card due to an internal transfer, promotion, etc. and require the P-Card program administrator to immediately cancel the P-Card while waiting for the required paperwork.

### Recommendation 3:

Require a form similar to the one used by the Wastewater Division of Water Utilities to be used by all departments to document the justification for purchases, check against the master agreements, and document managerial approval.

### Recommendation 4:

Provide mandatory training on procedures each year to current P-Card users, and provide training on methods to detect any card misuse to approving officials and department coordinators.

### Recommendation 5:

Revise Administrative Directive 4-15 to require the P-Card program administrator to document audit results, submit reports on the results of audits to both the Department Directors and BDPS Director, and expand audits to include: computer analysis of P-Card transactions, evaluation of the timeliness of reconciliations and on-site review of statements, logs, and purchase receipts.

**Recommendation 6:**

Revise Administrative Directive 4-15 to: (1) require department directors to certify the need to keep P-Cards assigned to a City employee; (2) establish a procedure for temporarily increasing single purchase limits to avoid the actual or appearance of split purchases; (3) require all cardholders to either maintain reconciliation logs in accordance with the current procedure or consider abolishing the log and use bank statements as the reconciliation log; and, (4) mandate that all reconciliation logs be dated as provided for in the user's guide.

**Recommendation 7:**

Require the P-Card program administrator to meet with each department to correct the problems identified in this report that involve establishing spending restrictions, recovering improper sales tax charges, determining the need to reduce approving official's span of control, and emphasizing the need for timely reconciliations.

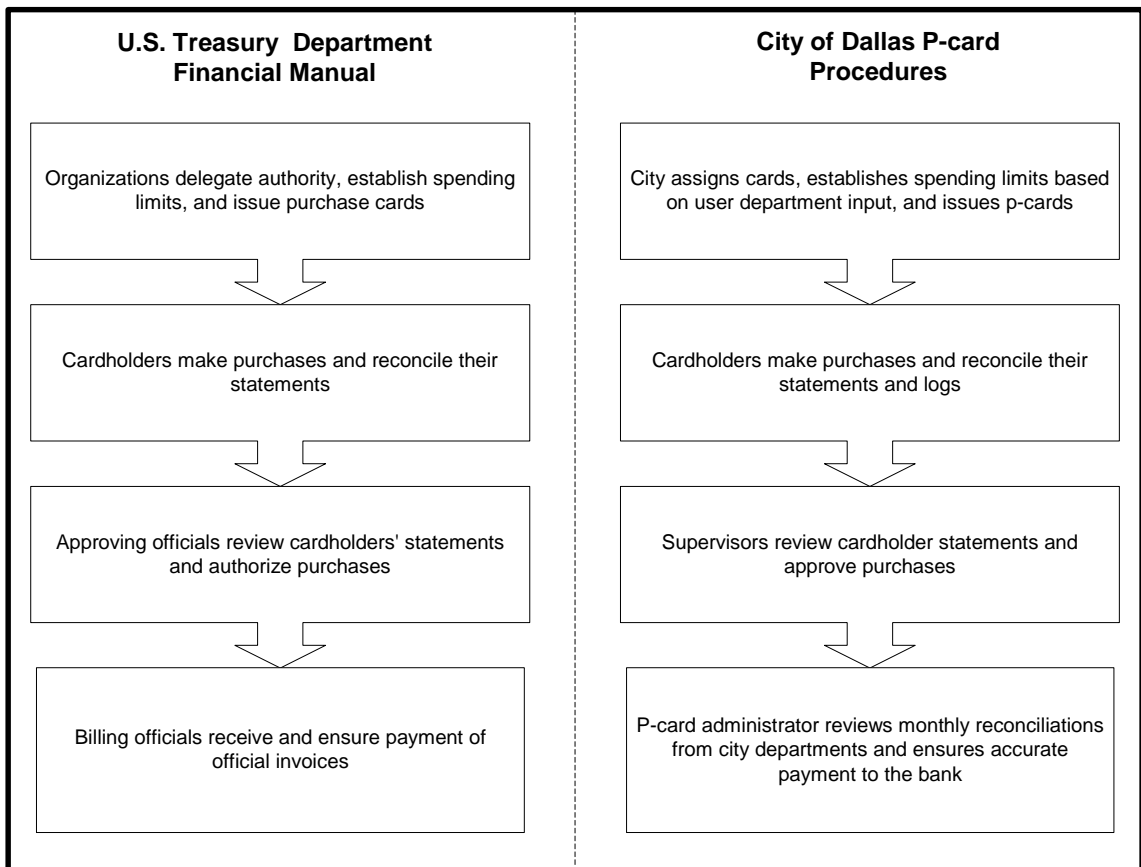
**Management's Response Summary**

The Director of BDPS agrees with the seven recommendations and is taking corrective actions to timely address the issues identified in this report. The complete response is included as Appendix IV to this report.

## Audit Results

### I. City management established adequate controls for the Purchasing Card (P-Card) program.

The P-Card program is a credit card transaction based system used by City employees to purchase goods and services directly from vendors that accept MasterCard. To safeguard taxpayer funds, the City designed a system of internal controls to provide reasonable assurance the P-Cards are only used to purchase low-value, non-inventory, non-capital items. City management followed federal guidelines to design the internal controls for the P-Card program. For example, the following table shows the City's procedures reflect government purchase card program procedures developed by the U.S. Department of the Treasury, Financial Management Service.



Sources: (1) U.S. Government Accountability Office, Purchase Card Audit Guide.  
(2) City of Dallas Administrative Directive 4-15, Purchasing Card Policy and Procedures.

- **Management took a pro-active approach to implement the P-Card program.**

The City began a pilot P-Card program in July 2001 after City Council authorized testing the feasibility of using credit cards to pay for certain City goods and services. The City conducted the pilot P-Card program from July 1, 2001 through December 31, 2002 and limited the program to only five departments. These departments issued cards to 177 employees who made 8,046 purchases for \$1,442,283, or an average transaction of \$179.

During calendar year 2003, after an evaluation of the results of the pilot, the P-Card program was expanded to other departments and travel cards were added to facilitate travel related purchases for the City. BDPS administered the program and issued Administrative Directive 4-15 and a user guide. City departments also issued department procedures for the P-Card program.

The City Auditor's Office, in calendar year 2003, tested the effectiveness of the designed internal controls in the pilot program and found the controls to be sound with a few opportunities for improvement. A follow-up audit of the program in 2005 found the only recommendation that was not implemented was confirming the need to renew each card.

- **Controls were designed to minimize the City's financial exposure to fraud, theft, and abuse.**

**City limited the number of authorized cardholders.** As of September 2006, only 313 city employees were assigned P-Cards. This represents 2.3% of 13,456 employees as of July 17, 2006.

Further analysis shows that 169 or 54% of the cardholders are employees of two departments (Parks and Recreation - PKR, and Equipment and Building Services - EBS). These two departments accounted for 8,744 or 71 percent of all 12,322 transactions and \$1,801,535 or 71% of the \$2,550,389 in purchases made between October 1, 2005 and August 1, 2006. (See Appendix III for purchases by each department).

**City established single transaction and monthly credit limits.** P-Card users currently have a limit of no more than \$1,000 maximum for a single purchase, and all P-Cards have a maximum monthly spending limit of no more than \$10,000. Between October 1, 2005 and August 1, 2006, the average P-Card transaction was \$207 for all departments.

**City restricted both number of purchases and authorized vendors.** The controls were designed to include some limitations on both the number of daily and monthly transactions. Each department is responsible for establishing these limitations. In addition, the City controls where a P-Card can be used by limiting the list of authorized vendors.

**City established approval and reconciliation procedures.** The BDPS P-Card program administrator is responsible for the city-wide program. Each department also designates a coordinator to verify approvals, monitor transactions, and administer the program within the department. The cardholder's approving official is responsible for reviewing and approving receipts and reconciliations submitted to the department coordinator.

## **II. City management needs to improve program oversight and supervisory review.**

Even a well-designed system of internal controls cannot be relied upon if management oversight is not effective. Although the non-compliance issues that we identified represent a small percentage of purchases, these issues should have been identified by more effective program administration and better supervisory reviews.

- **Accurate cardholder records were not maintained.**

We accounted for 313 cards on the listing of accounts provided by the bank. Although the P-Card program administrator did maintain some cardholder files, BDPS does not keep a database or spreadsheet that identifies all P-Cards.

To verify cardholder information and evaluate BDPS compliance with program requirements, we selected 30 active cardholder files and found that 15 files did not either contain the cardholder/manager agreement or documents showing employees received the P-Card training. As discussed later in this report, we also found that cardholder files did not always contain the request to cancel the card or a confirmation that a card was cancelled. An accurate current list of all cardholders, card numbers, and card limits is required by Administrative Directive 4-15 and is the foundation for effective program administration.

- **P-Cards were not timely cancelled.**

A review of cardholder files shows that BDPS does not timely cancel P-Cards, and departments do not always timely submit documents to request P-Card cancellation. We used bank records to identify 91 cards that were cancelled and found the P-Card program administrator did not



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have files on five cardholders and 45 files did not include either a dated request to cancel the card or a confirmation that a card had been cancelled. The remaining 41 files included documents with required dates to allow us to analyze the time it took BDPS to cancel a P-Card. An analysis of the 41 files showed that after the department request to cancel the P-Card, it took BDPS:

- five or less days to cancel 18 cards;
- six to 30 days to cancel 13 cards;
- 33 to 66 days to cancel five cards; and
- 180 to 270 days to cancel five cards.

We conducted further analysis on 20 of these cardholders to determine if the departments had timely submitted a request to cancel the card if the cardholder either retired or had their employment terminated. This analysis showed that departments timely requested the card cancellation for 15 cardholders, but it took from one to 320 days after the employee stopped working for the City before the request to cancel the remaining five cards was submitted by the departments.

The City faces increased risk for fraud by not ensuring the cards are timely cancelled. For example, although transactions did not occur on this card during the audit period, we identified one P-Card that is still active for an employee that retired in October 2004. We identified, however, another P-Card that had a transaction post 20 days after the cardholder retired. The audit showed this was a legitimate transaction as the item purchased was actually ordered several months before the employee retired.

- **Cardholders did not always document justification for purchases.**

A review of cardholder statements, logs, and receipts showed that not all P-Card users document the justification for their purchases. The absence of documentation justifying the purchases hampers management's ability to control P-Card usage and ensure compliance with City policy. We also found that a consistent method is not being used to provide the required justification. For example, some cardholders use the log to make a note of the purpose or the destination of the purchase. The extent and detail of these notes differ between cardholders and sometimes are inadequate. Some departments, such as the Wastewater Division of Dallas Water Utilities, use special forms to document the justification for the P-Card purchase, the result of checking whether items are available from master agreements, and managerial approval of the purchase. In our opinion, this form provides adequate documentation to meet the requirements of the P-Card policy.

- **Approval and reconciliation processes were not always effective or timely.**

City procedures require receipts to be added to an envelope and recorded onto a log immediately after each purchase. To check the legitimacy of every transaction charged to the City before the bank is paid, the cardholders, their supervisors, and department coordinators are required to reconcile, review, approve and summarize posted transactions within ten days after the billing cycle.

**Effectiveness:** An analysis of all 12,322 P-Card transactions identified some transactions that required further analysis to ensure compliance with City procedures. A review of receipts for these transactions identified the following issues that should have been readily detected through an effective review process:

*Split purchases* - 37 instances (\$49,591) in possible split charges for otherwise legitimate purchases exceeding \$1,000. P-Card users stated that a uniform \$1,000 limit hampers their speed of response to emergencies when the use of P-Card rather than purchase order is justified. In addition, the users were not aware that the P-Card program administrator could temporarily increase the single purchase limit to accommodate higher value purchases without violating City policy. While the \$49,591 only represents about 2% of all purchases, the potential “splitting” of charges can undermine or give the appearance of undermining the internal controls.

*Sales tax* - 29 purchases with sales tax (\$307) that was not refunded to the City and 11 purchases in which cardholders accepted cash refunds for sales tax charges (\$17).

*Missing receipts* - 105 of 2,665 purchases or 3.9% did not have supporting receipts for \$14,790 of \$592,157 in purchases, or 2.5% of the purchases that we tested.

*Receipts not signed by cardholder* - 104 receipts for 2,665 transactions or 3.9% were signed by someone other than the cardholder. These 104 receipts were for purchases of \$24,789, or 4.2% of the \$592,157 in purchases that we tested.

We found one instance where an employee made unauthorized purchases. This employee purchased personal items (music CDs and other items) in April, June, and July 2006 in the amount of \$207.62 and had the items shipped directly to his residence. This employee noted on the reconciliation log these were personal purchases and submitted a check to reimburse the City. The use of the P-Card for personal

purchases was known by the approving supervisor. In addition, the department coordinator reported that all transactions were reviewed and approved, although the coordinator never received all receipts and the reconciliation log from the employee.

**Timeliness:** To ensure compliance with the ten day approval requirement, the cardholder must prepare the reconciliation within three days after the billing cycle, and the approving official must review and approve the reconciliation within six days after the billing cycle.

Our review of 193 cardholder statements showed that reconciliation logs were not prepared for 11 statements, but were prepared for 182 statements (94%). Reconciliation logs, however, were not updated as the purchases were made. Instead, cardholders match all their receipts to the bank's "Statement of Account", enclose the receipts in the order of entries on the bank statement, and then copy the entries off of the bank statement onto the log.

Our review of 182 reconciliation logs revealed a lack of compliance with the reconciliation timeframe by cardholders and approving officials. Since many of the reconciliation logs were not dated by the cardholder but most were dated by the approving official, we limited our analysis to those reconciliations that were properly dated. The analysis showed that of the:

- 61 reconciliations (34%) that were dated by cardholders, there were 32 reconciliations that were not completed within the required three days after the billing cycle. BDPS has conflicting guidelines on dating the reconciliation log as Administrative Directive 4-15 does not require a date, but the user guide does.
- 165 reconciliations (91%) that were dated by approving officials, there were 97 reconciliations that were not signed within the required six days after the billing cycle.

If cardholders and approving officials do not comply with the reconciliation timeframes, department coordinators cannot submit the summaries within the required ten days after the billing cycle. Although the P-Card program administrator did not have records of all the monthly summaries, we analyzed 121 summaries and found that 52 (43%) were not timely submitted by the department coordinators. As a result, during the audit period, all ten monthly payments to the bank were made before all transactions were reviewed and reconciled.

- **BDPS needs to perform more effective P-Card data reviews.**

The P-Card program administrator is required to perform random audits of P-Card transactions to evaluate compliance with City policies. Although we did not find any documentation of these reviews, we were told by the former P-Card program administrator that audits had been conducted.

Although City procedures do not specifically state what should be included in the audits, in our opinion, effective random audits should not only include on-site review of purchase receipts and other documentation, but also computer analysis to identify questionable transactions or patterns of activity such as the names of questionable vendors, charges for sales tax, and potential split purchases. Although not inclusive of all the types of analysis that could be conducted, the following computer analysis that we conducted to identify problems could also be routinely conducted by the P-Card program administrator to ensure internal controls are properly operating.

**Cardholder Use:** After comparing a listing of all cardholders with a listing of cardholders who performed transactions, we identified 50 of 313 accounts or 16% that show no transactions from October 1, 2005 through August 1, 2006. While all employees do not have to use the card, the City faces increased risk by issuing cards unnecessarily. The analysis of card use would also have identified the issue we found related to an open unused account belonging to an employee who retired in October 2004. The card remained open, although not used. Further, 85 cardholders (27%) performed no more than ten transactions in ten months.

**Merchant Codes:** By comparing merchant codes of all 12,322 transactions with the merchant codes authorized for the cardholders, we identified 744 purchases (6% of all transactions) from vendors not authorized by the city. This situation was caused either by the department coordinator adding and deleting various merchant codes, or by the merchant temporarily overriding the controls and allowing a purchase. The purchases in question appear to be legitimate, but incomplete records undermine the City's ability to identify unauthorized charges.

**Card Restrictions:** We reviewed the restrictions on cards and found that 12 cards do not have restrictions either on the number of purchases or the amount of single purchase. We also found 26 cards that have the restriction on the number of transactions set too high to serve any purpose (999 or 5,000 transactions per month and 99 transactions per day). These situations are the result of either the user department request or the BDPS lack of control over card issuance.

**Span of Control:** While the P-Card program's average span of control is reasonable with one supervisor to oversee two cardholders, the actual span of control ranged from one to 17 cardholders. Further analysis showed that supervisors with a span of control of eight cardholders or higher had more non-compliance issues. For example, the supervisor with a span of control of eight cardholders did not identify one potential split purchase and two sales tax issues and the supervisor responsible for 17 cardholders did not identify six potential split transactions and the one employee that retired in 2004 still being assigned a card.

## **Recommendations and Management's Response**

We recommend the Director of the Department of Business Development and Procurement Services (BDPS):

### **Recommendation 1:**

Establish a current listing of all P-Cards and maintain comprehensive accurate files on all cardholders to include required and other pertinent documentation such as the cardholder/manager agreement, attendance at P-Card training, card cancellation requests and copies of cancellation confirmations, and changes to P-Card purchasing limits and vendor restrictions.

### **Management Response**

Agree. BDPS has reviewed and compared the contents of all centralized cardholder files against the department's records to ensure the accuracy of all pertinent information such as attendance at P-Card training, card cancellation requests, and vendor restrictions. JP Morgan Chase Bank uses PVSNet, an internet-based solution for managing commercial purchasing card programs, as the cardholder database. The City of Dallas uses this system to review transactions, change accounting information, as well as many other administrative functions. BDPS created a separate City database of all current P-Card holders that will be continuously updated and checked against the bank's database.

### **Recommendation 2:**

Establish a procedure that all departments immediately notify the P-Card program administrator by e-mail if a cardholder retires, terminates employment or no longer requires a card due to an internal transfer, promotion, etc. and require the P-Card program administrator to immediately cancel the P-Card while waiting for the required paperwork.

### **Management Response**

Agree. Administrative Directive 4-15 states that departments are to cancel cards immediately. BDPS has changed its practice to require that departments notify the P-Card Program Administrator immediately of any cardholder changes to ensure appropriate and immediate action is taken.

### **Recommendation 3:**

Require a form similar to the one used by the Wastewater Division of Water Utilities to be used by all departments to document the justification for purchases, check against the master agreements, and document managerial approval.

### **Management Response**

Agree. BDPS will not create an additional form, but has modified the current P-Card transaction log form to incorporate some of the same “requested information” that is used in the document used by Dallas Water Utilities.

### **Recommendation 4:**

Provide mandatory training on procedures each year to current P-Card users and provide training on methods to detect any card misuse to approving officials and department coordinators.

### **Management Response**

Agree. BDPS will revise the existing training to strongly emphasize the rules, policies, and procedures for the deficiencies identified during the audit and will document methods to detect misuse of the card. The training will continue to be given citywide on a yearly basis and individually to new cardholders.

### **Recommendation 5:**

Revise Administrative Directive 4-15 to require the P-Card program administrator to document audit results, submit reports on the results of audits to both the Department Directors and BDPS Director, and expand audits to include computer analysis of P-Card transactions, evaluation of the timeliness of reconciliations and on-site review of statements, logs, and purchase receipts.

### **Management Response**

Agree. Administrative Directive 4-15 is being revised. The P-Card program administrator has already completed 13 “unannounced audits” of departments. The audits consisted of randomly selecting transactions, folders, and documentation to review for program compliance. The findings are being shared with the departments and will be maintained by BDPS for further review and auditing. The department will be given a time frame to correct any findings and a second “unannounced audit” will be conducted, if necessary, to ensure compliance. If the departments fail the follow-up audit, BDPS will immediately notify the department Director and P-Card administrator, and the department Director will be responsible for implementing immediate corrective action. Depending on the severity of the findings, BDPS has the authority to suspend all P-Card transactions until all issues are satisfactorily addressed by the Department.

### **Recommendation 6:**

Revise Administrative Directive 4-15 to: (1) require department directors to certify the need to keep P-Cards assigned to a City employee; (2) establish a procedure for temporarily increasing single purchase limits to avoid the actual or appearance of split purchases; (3) require all cardholders to either maintain reconciliation logs in accordance with the current procedure or consider abolishing the log and use bank statements as the reconciliation log; and, (4) mandate that all reconciliation logs be dated as provided for in the user’s guide.

### **Management Response**

Agree. Administrative Directive 4-15 is being revised to require departments to confirm the need for P-Card assignments. Current procedures allow a temporary single purchase increase over the \$1,000 limit if the department submits the proper documentation with the approval of the Department Director. BDPS modified the P-Card transaction log to include a date for receipt by the departmental P-Card coordinator. This will further ensure appropriate documentation is being timely recorded and will provide a consistent transaction review and reconciliation process.

### **Recommendation 7:**

Require the P-Card program administrator to meet with each department to correct the problems identified in this report that involve establishing spending restrictions, recovering improper sales tax charges, determining the need to

reduce approving official's span of control, and emphasizing the need for timely reconciliations.

**Management Response**

Agree. BDPS has taken steps to correct the problems identified in this report. In addition to the citywide and individual training, BDPS will meet with individual P-Card coordinators and cardholders and emphasize the importance of complying with policies and procedures as governed by State Law, City Ordinances, Dallas City Code, and Dallas City Charter. BDPS will survey each departmental P-Card coordinator to address the span of control issues, will compile the results, and will make individual recommendations based on the findings.



## Appendix I

### Background, Objective, Scope and Methodology

#### Background

The City of Dallas has an agreement with JP Morgan Chase Bank to provide MasterCard Purchasing Cards (P-Cards). As of September 5, 2006, the City of Dallas had 313 cardholders in 26 Departments. Between October 1, 2005 and August 1, 2006, city employees made 12,322 purchases for \$2,550,389.

The P-Card program is designed to improve processing efficiency and allows employees to purchase small dollar supplies as needed from multiple vendors convenient to their workplace. Administrative Directive 4-15 and the P-Card user guide provide program guidelines and specify the roles and responsibilities of the cardholder supervisor, department coordinator, and P-Card administrator.

Each cardholder has to save receipts and document P-Card purchases in a log and then reconcile their monthly statements with the receipts for each purchase. Reconciliation logs have to be reviewed and signed by a supervisor. In addition, the department P-Card coordinator has to verify the reconciliation, total department card usage, and submit the verified figure to the P-Card program administrator. The P-Card program administrator then compares the reconciliation with the bank's billing statement and ensures accurate payment to the bank.

#### Objective, Scope and Methodology

The overall audit objective was to evaluate compliance with City P-Card policies and procedures. We limited the audit to non-travel related items and focused on determining whether P-Cards are properly accounted for and effectively monitored. The audit was conducted in accordance with generally accepted government auditing standards and covered transactions that occurred from October 1, 2005 through August 1, 2006.

To develop an understanding of relevant internal controls, we interviewed City department managers and staff, evaluated administrative directives and other relevant policies and procedures, reviewed previous audit coverage, and compared program controls with other similar programs. We reviewed BDPS documentation for all cancelled cards and for a sample of 30 randomly selected active accounts.

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To verify if the internal controls are effective and that P-Card purchases comply with City policy, we analyzed a database of all P-Card transactions from October 1, 2005 through August 1, 2006 to identify dormant accounts, cancelled accounts, purchases with amounts in excess of set limits, “split” purchases in excess of the single purchase limit, purchases from unauthorized vendors, sales tax charges, and questionable purchases.

To review compliance with purchase and reconciliation procedures, we examined 193 monthly statements for potential problem transactions identified during our analysis and reviewed the accompanying logs and receipts. The 193 statements represented 2,665 transactions (22% of all transactions during the audit period) for a total of \$592,157 (23% of all expenditures for the audit period). In addition, we verified the accuracy and timeliness of reconciliations and examined all receipts that accompanied the statements. We also verified the justification for some purchases and, in some cases, observed evidence that purchased items are in City possession and have not been diverted to personal use.

## Appendix II

### Major Contributors to This Report

Gary Lewis, CPA, CFE, Audit Manager  
Anatoli Douditski, CIA, MPA, Auditor,  
Harry Krewson, Auditor

Appendix III

City-Wide P-Card Purchases  
 October 1, 2005 –August 1, 2006

Department	Number of P- Cards	Number of Transactions	Transaction Amount	Average Transaction
Parks and Recreation	96	3,325	\$664,995.78	\$200.00
Equipment and Building Services	73	5,419	\$1,136,539.07	\$209.73
Street Services	35	645	\$114,323.90	\$177.25
Water Utilities	29	724	\$232,253.78	\$320.79
Development Services	14	183	\$37,548.94	\$205.19
Aviation	13	269	\$77,991.84	\$289.93
Library	12	138	\$21,194.24	\$153.58
Sanitation Services	8	670	\$121,223.65	\$180.93
Fire Rescue	3	699	\$89,241.43	\$127.67
Housing	3	16	\$1,436.72	\$89.80
Economic Development	2	56	\$9,270.49	\$165.54
Business Development and Procurement	2	28	\$20,079.99	\$717.14
Convention and Event Services	2	22	\$5,411.14	\$245.96
Mayor and City Council	2	13	\$128.35	\$9.87
Environmental Quality	2	10	\$1,468.47	\$146.85
Trinity River Corridor Project	2	4	\$220.68	\$55.17
City Secretary	2	3	\$893.90	\$297.97
Environmental and Health Services	2	3	(\$255.57)	(\$85.19)
Emergency Management	2	2	\$226.85	\$113.43
Court and Detention Services	2	1	\$216.40	\$216.40
Fair Housing	2	0	\$0.00	\$0.00
Communication and Information Services	1	41	\$7,177.37	\$175.06
Cultural Affairs	1	25	\$5,038.45	\$201.54
Police	1	16	\$2,880.58	\$180.04
Civil Service	1	9	\$833.00	\$92.56
Human Resources	1	1	\$50.00	\$50.00
<b>Total</b>	<b>313</b>	<b>12,322</b>	<b>\$2,550,389.45</b>	<b>\$206.98</b>

Source: JP Morgan Chase

Management's Response to the Draft Report

**Memorandum**

DATE March 5, 2007

TO Craig D. Kinton, CPA  
City Auditor

SUBJECT **Audit Report – The City of Dallas Purchasing Card Program**

RECEIVED

MAR 06 2007

CITY AUDITOR'S OFFICE



The Department of Business Development and Procurement Services (BDPS) was requested to provide a response to the audit report of the Purchasing Card Program. Our response to the audit recommendations are as follows:

**Recommendation 1:**

Establish a current listing of all P-Cards and maintain comprehensive accurate files on all cardholders to include required and other pertinent documentation such as the cardholder/manager agreement, attendance at P-Card training, card cancellation requests and copies of cancellation confirmations, and changes to P-Card purchasing limits and vendor restrictions.

AGREE  DISAGREE

**CORRECTIVE ACTION PLAN**

JPMorgan Chase Bank historically has used PVSNet (an internet-based solution for managing commercial purchasing card programs) as the record and database for all cardholders. This system is used by the P-Card Program Administrator and Departmental Coordinators to review real-time transactions, search for cardholders, daily and cycle limits, review or change accounting information as well as many other critical administrative functions. In addition since the audit, BDPS has reviewed and compared the contents of all centralized cardholder files against the department's records for accuracy of maintaining all pertinent documentation such as the cardholder/manager agreement, attendance at P-Card training, card cancellation requests, copies of cancellation confirmations, changes to P-Card purchasing limits and vendor restrictions. While BDPS is confident in the integrity of the bank's database software, BDPS has created a separate City database of all current P-Card holders that will be continuously updated. This list will be routinely checked against the bank's database to ensure synchronization.

**IMPLEMENTATION DATE**

December, 2006

**RESPONSIBLE MANAGER**

Ade Williams

**Recommendation 2:**

Establish a procedure that all departments immediately notify the P-Card program administrator by e-mail if a cardholder retires, terminates employment, or no longer requires a card due to an internal transfer, promotion, etc. and require the P-Card program administrator to immediately cancel the P-Card while waiting for the required paperwork.

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AGREE  DISAGREE \_\_\_\_\_

**CORRECTIVE ACTION PLAN**

The existing policies and procedures documented in A. D. 4-15 state that departments are to cancel a card immediately. BDPS has the ability to immediately decrease card limits to zero, which is a practice typically used, upon notification from the user department. BDPS has changed its practice to require that departments also notify the P-Card Program Administrator immediately of any cardholder changes so as to insure that the appropriate and immediate action required is taken.

**IMPLEMENTATION DATE**

February 2, 2007

**RESPONSIBLE MANAGER**

Ade Williams

**Recommendation 3:**

Require a form similar to the one used by the Wastewater Division of Water Utilities to be used by all departments to document the justification for purchases, check against the master agreements, and document managerial approval.

AGREE  DISAGREE \_\_\_\_\_

**CORRECTIVE ACTION PLAN**

While BDPS does not agree to create an additional form, as a result of the Auditor's recommendation, BDPS has reviewed the suggested document and has made modifications to the current P-Card transaction log form that will incorporate some of the same "requested information" as in the one used in DWU.

**IMPLEMENTATION DATE**

March, 2007

**RESPONSIBLE MANAGER**

Ade Williams

**Recommendation 4:**

Provide mandatory training on procedures each year to current P-Card users, and provide training on methods to detect any card misuse to approving officials and department coordinators.

AGREE  DISAGREE \_\_\_\_\_

**CORRECTIVE ACTION PLAN**

BDPS' current practice is to provide mandatory training to all cardholders prior to issuing P-cards and user guides. This training covers all aspects of correct P-Card use, including policies and procedures. As a result of the audit finds, BDPS will revise the existing training material so as to strongly emphasize the rules, policies and procedures of areas where deficiencies were found, and document methods to detect misuse. This training will continue to be given citywide on a yearly basis and individually as new cardholders arise.

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**IMPLEMENTATION DATE**

May 2007

**RESPONSIBLE MANAGER**

Ade Williams

**Recommendation 5:**

Revise Administrative Directive 4-15 to require the P-Card program administrator to document audit results, submit reports on the results of audits to both the Department Directors and BDPS Director, and expand audits to include: computer analysis of P-Card transactions, evaluation of the timeliness of reconciliations and on-site review of statements, logs, and purchase receipts.

AGREE  DISAGREE \_\_\_\_\_

**CORRECTIVE ACTION PLAN**

Revisions to Administrative Directive 4-15 are currently being made. The P-Card Program Administrator has already completed 13 “unannounced audits” of departments within the City. The audit consisted of randomly selecting a number of transactions, folders, and documentation to review for program compliance. The findings are being compiled and will be shared with the department’s P-Card coordinator and Director and will be kept centrally for further review and auditing. The department will be given a time frame in which to correct noncompliant findings (if any) and a second “unannounced audit” will be conducted (if needed) to ensure compliance. If the departments fail the follow-up audit, BDPS will immediately inform the department’s Director and P-Card coordinator; it will be the Director’s responsibility to act appropriately so that immediate corrective action is implemented. Depending on the severity of the findings, BDPS has the authority to suspend all P-Card transactions until all issues are satisfactorily addressed by the Department.

**IMPLEMENTATION DATE**

June 2007

**RESPONSIBLE MANAGER**

Ade Williams

**Recommendation 6:**

Revise Administrative Directive 4-15 to (1) require department directors to certify the need to keep P-Cards assigned to a City employee; (2) establish a procedure for temporarily increasing single purchase limits to avoid the actual or appearance of split purchases; (3) require all cardholders to either maintain reconciliation logs in accordance with the current procedure or consider abolishing the log and use bank statements as the reconciliation log; and (4) mandate that all reconciliation logs be dated as provided for in the users guide.

AGREE  DISAGREE \_\_\_\_\_

**CORRECTIVE ACTION PLAN**

Revisions to Administrative Directive 4-15 are currently being made requiring departments to confirm the need for P-Card assignments. The current policies and procedures allow for a temporary single purchase increase over the \$1,000 limit. Currently, the temporary increase is only made once a Request and Maintenance form is received from the department, which includes justification and Department Director’s approval. The P-Card Transaction Log is

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used to record all transactions, and to reconcile against the bank statement. As a result of the Auditor's recommendation, BDPS has made modifications to the P-Card Transaction Log to include a date of receipt by the departmental P-Card coordinator. This change will further insure that the appropriate documentation is being recorded at the appropriate time, and will provide a consistent transaction review and reconciliation process.

### IMPLEMENTATION DATE

June 2007

### RESPONSIBLE MANAGER

Ade Williams

### Recommendation 7:

Require the P-card program administrator to meet with each department to correct the problems identified in this report that involve: establishing spending restrictions, recovering improper sales tax charges, determining the need to reduce official's span of control, and emphasizing the need for timely reconciliations.

AGREE  DISAGREE \_\_\_\_\_

### CORRECTIVE ACTION PLAN

BDPS has received the details from the City Auditor's Office and has already initiated the necessary steps to correct the identified problems. In addition to the citywide and individual training, BDPS will meet with individual P-Card coordinators and card holders and emphasize the importance of complying with policies and procedures as governed by State Law, City Ordinances, Dallas City Code, and Dallas City Charter. BDPS will survey each departmental P-Card coordinator to address the span of control issues addressed in the audit. BDPS will compile the survey results and make individual recommendations based on the finding.

### IMPLEMENTATION DATE

April, 2007

### RESPONSIBLE MANAGER

Ade Williams

If you have any questions or need additional information, please feel free to contact me at 670-5349.



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