

# Memorandum



**CITY OF DALLAS**  
(Report No. A09-005)

**Date:** December 5, 2008

**To:** Honorable Mayor and Members of the City Council

**Subject:** Final Report – Follow-Up of Audit Recommendations, Department of Business Development and Procurement Services, Fiscal Years 2006 to 2007

The Department of Business Development and Procurement Services (BDPS) has responded to recommendations resulting from audits of the City Surplus Store, the City's Price Agreements, and the City of Dallas Purchasing Card Program. For the City's Purchasing Card Program, the staff training, training guides, and revised transaction log will strengthen program operations; however, program administration can be improved.

*Attachment A* provides detailed information for the nine recommendations included in this audit<sup>1</sup> report.

## Summary of Follow-up Audit Results

Fiscal Year Audit Report Issued	Number of Report Recommendations	Recommendations Implemented	Recommendations Partially Implemented	Recommendations Not Implemented
<b>2006</b>	2	0	1	1
<b>2007</b>	7	4	2	1
<b>Totals</b>	<b>9</b>	<b>4</b>	<b>3</b>	<b>2</b>

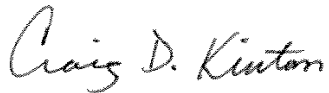
Management has accepted the risks associated with partially implementing or not implementing five recommendations. The City Auditor's Office will not conduct any further follow-up on these recommendations, but will consider the risks in determining future audit coverage as part of the annual audit plan.

<sup>1</sup> This audit was conducted under the authority of the City Charter, Chapter IX, Section 3 and in accordance with generally accepted government auditing standards. The audit objective was to verify that management has taken corrective action(s), the corrective action(s) are achieving the desired results or management has assumed the risk of not taking corrective action(s). We interviewed BDPS department personnel, examined cardholder files, reconciled cardholder lists, and reviewed training materials, sign-in sheets, and Administrative Directives.

We appreciate the cooperation of BDPS. This report was discussed with BDPS management, but a written response was not requested.

If you have any questions or need additional information, please contact me at 214-670-3222 or Gary Lewis, Assistant City Auditor, at 214-670-5347.

Sincerely,

A handwritten signature in cursive script that reads "Craig D. Kinton".

Craig D. Kinton  
City Auditor

Attachment A

C: Mary K. Suhm, City Manager  
Dave K. Cook, Chief Financial Officer  
Ade Williams, Director – BDPS

**ATTACHMENT A**

Audit Report	Audit Issues	Audit Recommendations	Audit Follow-Up Results
<b>Follow-Up Audit of the City Surplus Store (February 24, 2006)</b>	<b>Inventory and transfer controls need improvement.</b>	- Update Administrative Directive 6-1, Control of City Property, regarding transfers to/from the store and to prohibit personal use of City Property.	<b>Not Implemented.</b> Administrative Directive 6-1 has not been revised and a specific City Surplus Store user guide has not been prepared.
<b>Follow-Up Audit of the City's Price Agreements (March 17, 2006)</b>	<b>A Price Agreement was improperly used to purchase equipment and to by-pass competitive bidding.</b>	- Develop a Price Agreement user's guide, independent of Administrative Directive 4-5, and conduct mandatory (initial and recurring) training.	<b>Partially Implemented.</b> BDPS included Master Agreements (formerly called Price Agreements) in a training guide, Basics of Procurement & Advantage, with specific instructions on the use of Master Agreements.  BDPS conducted training with 250 participants during October, November, and December 2007. BDPS does not have policies in place to identify who must attend training on the use of Master Agreements and how often this training must occur.

Audit Report	Audit Issues	Audit Recommendations	Audit Follow-Up Results
<p><b>Audit of the City of Dallas Purchasing Card Program (March 16, 2007)</b></p>	<p><b>Accurate cardholder records were not maintained.</b></p>	<p>- 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.</p>	<p><b>Not Implemented.</b> BDPS created a separate database of P-Card holders to compare to the bank's listing to ensure accuracy of the BDPS cardholder list; however, the BDPS database listing is not routinely checked against the bank's listing.</p> <p>A reconciliation of the July 2008 City/bank listings for approximately 250 cardholders disclosed three cardholders, included on the bank's list, that were not included on the City's list. Six cardholders on the City's list were not included on the bank's list.</p> <p>All of the discrepancies, except one, were on the City's list. The bank list had one cardholder whose account was closed in July 2006 due to the cardholder's transfer to another City department. This cardholder's account still appears as "open" on the bank's list even though a detail card query on the bank's system shows the cardholder's account closed and a credit limit of zero.</p> <p>Furthermore, the P-Card master files maintained by BDPS are not complete. The following results are from a random sample of 63 cardholder files: five percent did not have a Cardholder Agreement, eight percent did not have a Commercial Application, 22 percent did not have a Bank User Confirmation and 52 percent did not have a Training Certificate. Although training certificates were not on file, mandatory training was conducted for cardholders as noted on page 5 of Attachment A.</p> <p>The accuracy of the cardholder lists and the master files cannot be determined and ensured without reconciliations. Performing periodic reconciliations of the cardholder lists and the P-Card master files against the department files would enhance BDPS oversight of the P-Card program.</p>

Audit Report	Audit Issues	Audit Recommendations	Audit Follow-Up Results
	<p><b>P-Cards were not timely cancelled.</b></p>	<p>- 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.</p>	<p><b>Implemented.</b> BDPS has established a procedure for departments to notify the P-Card Program Administrator immediately of any cardholder changes. This procedure is described in the City of Dallas Purchasing Card User Guide, the Purchasing Card Program training materials, and the Departmental Coordinators training materials.</p> <p>However, it should be noted that to verify cards are cancelled, BDPS proposed a new procedure to cross-reference a list of terminated employees with the P-Card user list to ensure BDPS has been notified of all P-Card cancellations. This procedure has not been implemented, but oversight of the P-Card program would be improved with implementation of this procedure.</p>
	<p><b>Cardholders did not always document justification for purchases.</b></p>	<p>- 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.</p>	<p><b>Implemented.</b> The P-Card Transaction Log form has been revised to include: Master Agreement Yes/No, Purchase Approval by Manager, Justification for Purchase, and Date Departmental Coordinator Received Reconciliation. The proper use of the Transaction Log form is addressed in the Purchasing Card User Guide and the P-Card program training materials.</p>
	<p><b>Approval and reconciliation processes were not always effective or timely.</b></p>	<p>- 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.</p>	<p><b>Implemented.</b> BDPS provided mandatory training with emphasis on prevention and detection of P-Card misuse. Training for Departmental Coordinators was held in June, July, and August 2008. P-Card user training was conducted during June through September 2008.</p>

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	<p><b>BDPS needs to perform more effective P-Card data reviews.</b></p>	<p>- 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.</p>	<p><b>Partially Implemented.</b> The P-Card Program Administrator conducted 30 departmental audits in Fiscal Year (FY) 2007 and 24 audits in FY 2008. The on-site departmental audits included reviews of statements, transaction logs, and purchase receipts.</p> <p>Per BDPS management, "Administrative Directive 4-15, section 5.1.2, the P-Card Program Administrator is responsible for conducting random audits of P-Card transactions to act as a check on departments carrying out their responsibility for audit and compliance with City policies."</p> <p>There are no BDPS policies and procedures related to computer analysis of P-Card transactions. Again, P-card oversight would be improved with routine computer analysis of P-Card transactions to include: cardholder use (inactive cards), merchant codes (unauthorized codes), card restrictions (number of purchases) and span of control (supervisor to number of cardholders).</p> <p>Administrative Directive 4-15 has not been revised.</p>

Audit Report	Audit Issues	Audit Recommendations	Audit Follow-Up Results
		<p>- 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.</p>	<p><b>Partially Implemented.</b> The reconciliation log has been revised and the proper usage is described in the City of Dallas Purchasing Card User Guide.</p> <p>BDPS management responded that AD 4-15 already has a procedure to temporarily increase single purchase limits.</p> <p>Department directors do not certify the need to keep P-Cards assigned to employees.</p> <p>Administrative Directive 4-15 has not been revised.</p>
		<p>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.</p>	<p><b>Implemented.</b> BDPS has developed training guides, conducted training with P-Card holders and Departmental Coordinators and audited department records to address the problems identified in the audit report.</p>