



CITY AUDITOR'S OFFICE

Purchasing Card Controls

August 19, 2022

AUDIT NO. 2205

CITY COUNCIL

Mayor David D. Ortega

Tammy Caputi

Vice Mayor Tom Durham

Betty Janik

Kathy Littlefield

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August 19, 2022

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *Purchasing Card Controls*, which was included on the Council-approved FY 2021/22 Audit Plan. This audit was conducted to review access and supervisory controls over and use of the City's purchasing cards, including the transition to the new system.

Our audit concluded that purchasing card documentation requirements need to be enforced and monitoring practices can be strengthened. Over the past couple of years, a significant number of purchasing card logs have not been submitted or timely reviewed by supervisors.

As well, other aspects of program administration could be improved, including timely deactivation of cards and system access for separated and transferred employees, reduction of administrative access to the purchasing card system, and verification of annual cardholder and supervisor training.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

A handwritten signature in blue ink that reads "Sharron Walker".

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

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Elizabeth Brandt, CIA, CGAP, CPM – Sr. Auditor
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AUDIT HIGHLIGHTS

Purchasing Card Controls

August 19, 2022

Audit No. 2205

WHY WE DID THIS AUDIT

An audit of *Purchasing Card Controls* was included on the City Council-approved fiscal year (FY) 2021/22 Audit Plan. The audit objective was to review access and supervisory controls over and use of the City's purchasing cards, including the transition to the new system.

BACKGROUND

The purchasing card (P-card) program, administered by the Purchasing department, is designed to help maintain control of authorizing, tracking, paying, and reconciling small purchases. As of June 2022, the program had about 330 active cards.

In February 2020, the City contracted with BBVA USA (now PNC Bank) for commercial card services, including P-cards and virtual card payments. Starting in June 2020, the Purchasing department began transitioning P-card users to the new system, and all users changed over by June 2021.

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WHAT WE FOUND

Purchasing card documentation requirements need to be enforced and monitoring practices can be strengthened.

A significant number of cardholders had not submitted supporting documentation for purchases during the past two years. We identified 309 missing monthly transaction logs for the new P-card system and requested these from cardholders and their supervisors.

- Of the 309 missing logs, cardholders or supervisors did not submit 56.
- Of the 253 reviewed, 20% had not been signed by the supervisor, and another 52% were signed when submitted for this audit. About 23% of the transactions did not have invoices or receipts.
- Policies need to be more consistently enforced. Four cardholders were each missing as many as 12 or 13 supporting logs.
- Tracking procedures could be improved by automating and expanding system reporting functions.

Other aspects of program administration can be improved.

- Closeout procedures need to be clarified. Supervisors did not notify the P-card administrator of cardholders transferring departments so that their P-cards could be deactivated and ensure documentation was submitted.
- Completion of required annual training has not been verified, and a number of P-cards had little or no use.

WHAT WE RECOMMEND

We recommend the Purchasing department:

- Enforce documentation and review requirements, including escalating to card suspension or termination based on policy.
- Establish procedures for prompt deactivation and verification of all necessary documentation when a cardholder leaves or transfers, and monitor completion of training requirements. As well, annually review the need for low-use cards.

MANAGEMENT RESPONSE

The Purchasing department agreed with the recommendations and plans to implement changes by December 2022.

BACKGROUND

Since 1996, the City of Scottsdale has used purchasing cards (P-cards) as a payment method, with the Purchasing department administering the program and monitoring its use by city departments. Purchasing card programs are designed to efficiently maintain control of authorizing, paying, tracking, and reconciling small dollar purchases. Purchasing may also approve P-card use for larger payments in limited situations. The program is designed to prescribe cardholder spending limits for individual transactions and their monthly totals.

In February 2020, the City contracted with BBVA USA (now PNC Bank) for commercial card services, including P-cards and virtual card payments.

Subsequently, in June 2020, the Purchasing department began transitioning City P-card users to the new system in phases, and all purchasing card users were changed to the new system by June 2021.

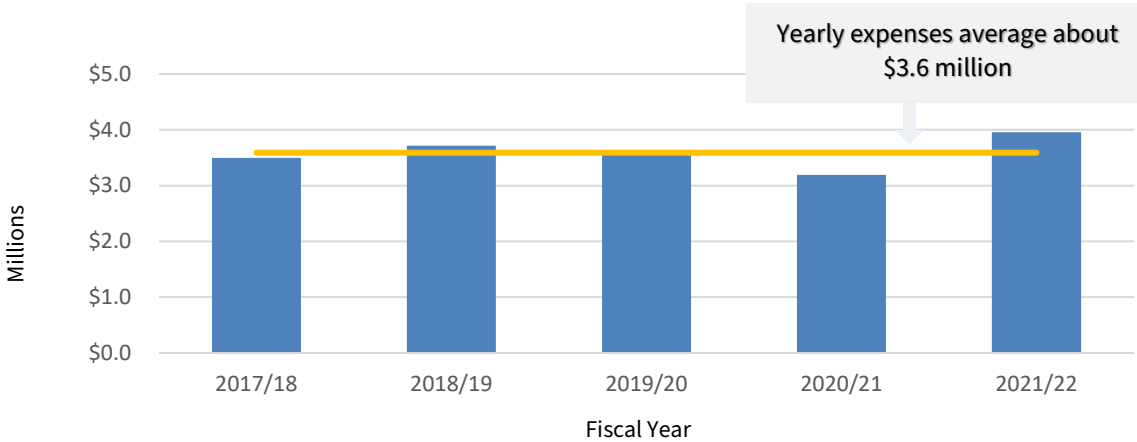
Separately, the Accounting department administers the virtual card payment program, which is optional for vendors. The City began paying enrolled vendors through virtual cards in July 2020. This audit primarily focused on access and supervisory controls over the city's purchasing cards.

Purchasing Card Program

As intended, small dollar purchases comprise the vast majority of P-card transactions as about 91% of transactions were \$500 or less. As summarized in Figure 1 on page 4, purchasing card transactions have totaled from about \$3.2 to \$4.0 million per year during fiscal years 2017/18 through 2021/22, and averaged about \$3.6 million per year.

(continued on next page)

Figure 1. Purchasing Card use has remained fairly constant over the past five fiscal years.



SOURCE: Auditor analysis of SmartStream Reports for FY 2017/18 through FY 2021/22.


As of June 2022, the Purchasing department had authorized about 330 purchasing cards that remained active.

P-card issuance and ongoing approval and monitoring activities are a multistep process as outlined by Figure 2 on page 5. A department wanting to add an authorized cardholder submits a P-card request to the Purchasing department. After the proposed cardholder and cardholder supervisor complete required training, Purchasing authorizes the P-card issuance and the online purchasing card system accounts.

The bank's online purchasing card system allows the program administrator to request and deactivate cards, set cardholder spending limits, and establish the cardholder and supervisor online accounts. The system also allows cardholders to review transactions, add explanatory notes and applicable general ledger expense codes, and create expense logs for supervisor review. Supervisors review and approve the printed expense log with the related transaction documentation, such as receipts or invoices, and they review and approve the monthly online report.

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Figure 2. Key city policies governing purchasing card issuance and use.

<p>Step 1</p> 	<p>Supervisors and managers can request an employee be issued a purchasing card with specific transaction and monthly limits. Division Director approval is also required before the request is submitted to Purchasing.</p>
<p>Step 2</p> 	<p>Supervisor and cardholder complete required training on proper purchasing card use, expense recording, and documentation, review, and approval requirements.</p>
<p>Step 3</p> 	<p>Prior to card issuance, cardholder, and supervisor sign agreements to indicate they understand their roles and responsibilities and agree to comply with city policies and procedures.</p>
<p>Step 4</p> 	<p>Throughout the month, cardholder accumulates transaction documentation, such as receipts and invoices. At the end of the month, cardholder reconciles the monthly bank statement to a transaction log and the supporting documents.</p>
<p>Step 5</p> 	<p>Cardholder supervisor reviews the log and transaction documents and approves transactions in the online system and on the printed bank statement and log.</p>
<p>Step 6</p> 	<p>Program administrator receives, tracks, and archives scanned images of the approved cardholder documents. Other responsibilities include monitoring purchasing card usage, reviewing the submitted logs for abuse, and developing training.</p>
<p>Step 7</p> 	<p>Cardholder supervisor returns the P-card and notifies the program administrator when a cardholder terminates employment or transfers to a different department so that the cardholder account can be closed.</p>

SOURCE: Auditor analysis of AR 220 – *Purchasing Card Usage and Administration (PROCARD)* and supervisor and cardholder agreements and training materials.

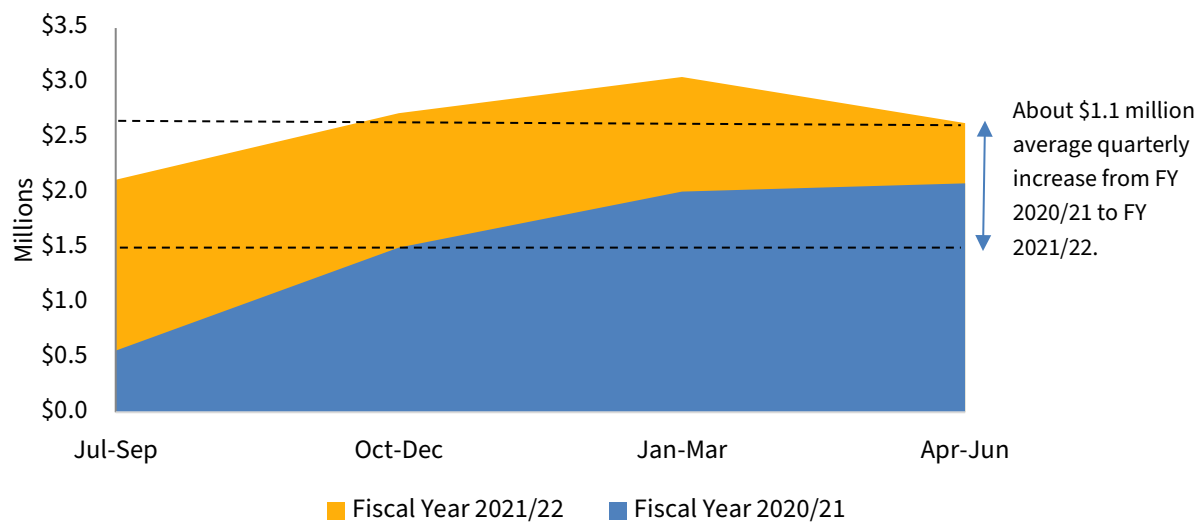
Virtual Card Payment Program

Vendors that can process credit card payments can enroll to allow the City to pay their invoices through a virtual credit card. This program allows the City to pay vendors more quickly than through check issuance, and it pays the City a small rebate on most purchases.¹ However, credit card processing fees are incurred by the vendor, so some eligible vendors choose not to receive virtual card payments.

Virtual card payments go through the same accounts payable process as other invoices. Then, once the City authorizes virtual card payment, the service provider (bank) emails the vendor a unique virtual card number that the vendor charges for the payment. The bank bills the City monthly for these virtual card charges, and the Accounting department reconciles the virtual card billing to accounts payable records before paying the bank.

As illustrated by Figure 3, the virtual card payment program has significantly grown since its inception in July 2020 as more vendors opted in. As of May 2022, the city’s program had 174 enrolled vendors.

Figure 3. Virtual card payments have significantly increased since program inception.



Note: Amounts based on when the city authorized the vendor charges.

SOURCE: Auditor analysis of SmartStream reports of payments authorized in fiscal years 2020/21 and 2021/22 as of July 2022.

¹ The city’s rebate percentage, based on monthly and annual charge volume, is generally 1.6%. However, payments to certain vendors that the bank categorizes as “large ticket” or eligible for reduced interchange rates result in a lower rebate of 0.7%.

OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of *Purchasing Card Controls* was included on the City Council-approved fiscal year (FY) 2021/22 Audit Plan. The audit objective was to review access and supervisory controls over and use of the City's purchasing cards, including the transition to the new system.

To obtain background information about potential risks with purchasing card programs, we reviewed prior related City Auditor reports including Audit No. 1412, *Procurement Card Use & Control* and recent similar audits conducted by other cities and federal guidance for auditing and investigating internal controls of government purchase card programs.

As well, to gain an understanding of recent processes and controls relevant to purchasing cards, we interviewed the Purchasing Card Program administrator, a Purchasing supervisor, and an Accounting manager. We also reviewed applicable regulations, guidance, and contract, including:

- The City's Administrative Regulation (AR) 220 – *Purchasing Card Usage and Administration (PROCARD)*, AR 214 – *Purchasing Requirements, Methods and Procedures*, AR 285 – *Signature Authority*, AR 205 – *Business Meeting Expenditures*, and AR 210 – *City Travel Expenditures*.
- Purchasing cardholder and supervisor training materials, including the Purchasing Card Guide (dated December 21, 2021), purchasing card forms, cardholder agreements and supervisor agreements.
- City Services Contract No. 201803.2 between the City and BBVA USA.
- BBVA/PNC purchasing card system manuals.

To review access controls over the use of the City's purchasing cards, we:

- Reviewed access rights of cardholders, program administrator and system users.
- Evaluate the timeliness of P-card deactivation by comparing deactivation dates to employee termination and promotion reports provided by the Human Resources department for the period from July 2020 through April 2022.

To evaluate controls over the use of the City's purchasing cards, we:

- Exported and reviewed purchasing card data from the current (PNC) system (transaction statement periods dated June 4, 2020 through May 4, 2022), and the last year of transaction data from the previous (Bank of America) P-card system.
- Analyzed purchasing card transaction data to identify potentially higher-risk transactions to test supporting documentation. These included high-volume cardholders, recurring or high-dollar vendors, unapproved or auto-approved transactions, travel and meals, and key-word searches of transaction descriptions.

After observing several instances of missing cardholder logs and supporting documentation, we expanded this work to identify all logs missing from the document management system between July 2020 and March 2022. Then we focused additional audit review on the 309 missing

logs for transactions in the new PNC system, about 1,700 transactions totaling approximately \$323,600. Given the higher fraud-risk associated with undocumented purchases, we asked the individual cardholders to provide the missing logs and related receipts or invoices for review. Besides looking for evidence of supervisory review and valid supporting receipts or invoices, we requested additional information for any unusual transactions.

Including other risk-based transactions selected, we reviewed a total of about 2,000 transactions, spanning over 150 cardholders.

- Evaluated the effectiveness of Purchasing's monitoring procedures by reviewing the department's tracking spreadsheets from July 2021 through February 2022 for completeness and accuracy. We then tested a sample of 53 missing reconciliations from the 309 we identified to assess actions taken when cardholders did not submit the required cardholder logs and related invoices or receipts.
- Analyzed training records for 359 card holders and 134 supervisors to determine compliance with annual training requirements. As well, we tested a judgmental sample of 25 cardholder and 20 supervisor training records to verify compliance with initial training requirements.
- Tested the accuracy of bank rebate amounts received by the city.
- Reviewed virtual card payment reconciliation procedures and evaluated controls over changes to vendor information.

Our audit concluded that purchasing card documentation requirements need to be enforced and monitoring practices can be strengthened. As well, other aspects of program administration could be improved, including timely deactivation of cards and system access for separated and transferred employees, reduction of administrative access to the purchasing card system, and verification of annual cardholder and supervisor training.

We conducted this performance audit 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 on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place from April 2022 to July 2022.

FINDINGS AND ANALYSIS

1. Purchasing card documentation requirements need to be enforced and monitoring practices can be strengthened.

When our audit began, a significant number of cardholders had not yet submitted supporting documentation for purchases made over the past two years. Cardholders are required to submit monthly P-card transaction logs along with invoices, receipts, and other related supporting documentation for each purchase made. As well, the cardholder's supervisor is required to sign the log to confirm that the purchases are sufficiently documented and had been approved.

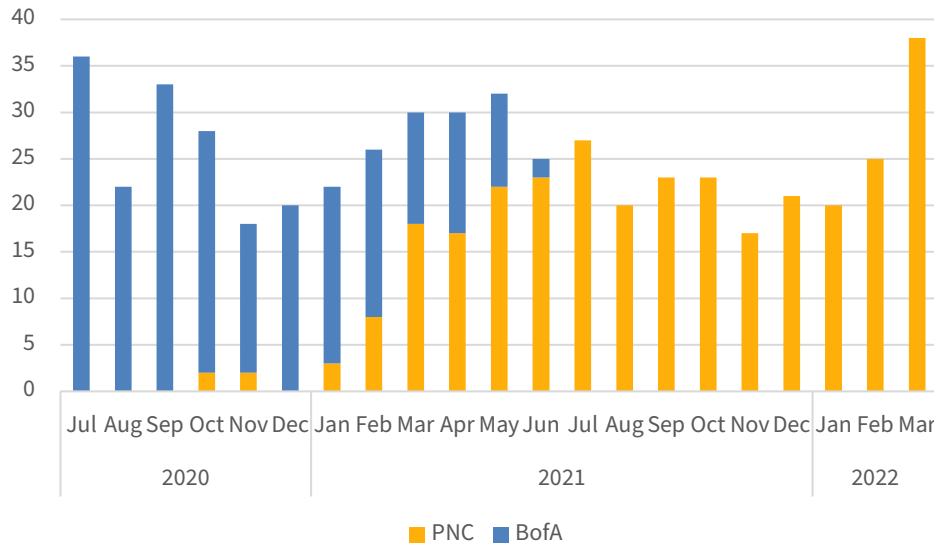
- A. About \$475,000 in purchases made between July 2020 through March 2022 were not documented in the Purchasing department's document management (DM) system when our audit began. For purchases in the new (PNC) P-card system, these transactions were recorded on 309 monthly statements, or about 10% of the approximately 3,100 monthly logs that cardholders should have submitted during this period.²

As illustrated in Figure 4 on page 10, from 17 to 38 cardholder logs and supporting documents were missing each month over the past 21 months. This analysis presents results for both the current and the prior purchasing card systems.

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² We reviewed the logs that were available in Purchasing's DM as of May 31, 2022, which allowed nearly 3 months for the latest statements tested (March 4, 2022) to be provided.

Figure 4. Significant number of logs were not in the Document Management system.



SOURCE: Auditor analysis of cardholder logs and supporting documents saved in Purchasing’s document management as of May 31, 2022, compared to the current PNC and the previous Bank of America purchasing card systems statements for July 2020 through the statement date of March 4, 2022.

Our additional audit work focused on the missing logs and supporting documents for transactions in the current PNC system, which totaled almost \$324,000.

Based on the potential fraud risk represented by missing documentation, we emailed each cardholder and their supervisor to request the missing logs. Subsequently, we obtained 253 of the 309 missing logs and related documentation, including some that were sent directly to the program administrator in response to her requests sent earlier during the audit.

1. From reviewing these logs and related documentation, we determined that:
 - 20% had not been signed by the cardholder’s supervisor (purchases totaling about \$45,300).
 - 52% were signed by the supervisor in June or July 2022, when they were submitted late (purchases totaling about \$147,000).
 - 23% of invoices or receipts were missing (purchases totaling about \$58,500).

The remaining 56 requested monthly logs and other necessary supporting documentation had not been received as of the completion of this audit.

While no obvious misuse was identified in these transactions, timely supervisory review and complete documentation are critical aspects for the city's P-card program. Due to the varied nature of city operations, the supervisory review of the receipts and invoices is better able to determine any issues with transactions than the program administrator can. For example, purchases such as dog food, snacks, and batteries are common personal items, but are also needed for some city programs. Some of the spending that was not documented included purchases at office supply, home improvement, and general merchandise stores (such as Walmart or Target). Even when the cardholder adds a transaction comment to the required log, the supervisor cannot confirm what was actually purchased without the detailed receipt or invoice.

2. Based on the purchasing card system reports, we noticed that a small number of cardholders had uploaded receipts or other support documents into the system for 45 of the logs that were missing from DM. The program administrator did not look for uploaded receipts because cardholders have not been instructed to use this function. Before authorizing this method, Purchasing plans to evaluate the impact to records retention requirements and accessibility to other city users that may need to view the documents.

As with any use of city monies, transaction documentation is necessary to support the validity and appropriateness of the purchase.

- B. Purchasing's monitoring and enforcement of P-card policies need to be more consistently performed to reinforce program expectations.

The program administrator maintains a monthly tracking spreadsheet to note the cardholder logs received, any notable noncompliance, and, since July 2021, any repeat occurrences of noncompliance. Logs that were missing signatures or documentation are saved in a Pending file until those items are received.

1. While reviewing the monthly tracking spreadsheets for July 2020 through February 2022, we noted a lack of issue escalation in the manual tracking process. The program administrator documented sending an initial reminder email for 39 of 53 missing logs that we tested (or 74%). However, when cardholders did not respond or submit their missing logs and documents, the continuing noncompliance was not escalated based on policy. As

Non-Compliance Process for Missing Key Documents

- 1st occurrence: Notification to supervisor for discussion with employee and cardholder required to attend refresher training.
- 2nd occurrence: Notification to supervisor for possible discipline, cardholder required to attend in-person refresher training, and purchasing card suspended for 30 days.
- 3rd occurrence: Purchasing card canceled, notification to supervisor for possible discipline.

SOURCE: AR220 *Purchasing Card Usage and Administration (PROCARD)*

summarized in the textbox on page 11, AR 220 provides for P-card suspension after the second occurrence of missing documentation and cancellation after the third occurrence.

Eleven cardholders did not submit 7 or more of the required logs and documentation, with 4 of those cardholders missing 12 or more logs each.

Number of Missing Logs and Transaction Documents	Number of Cardholders
1 log	73
2 to 3 logs	33
4 to 6 logs	12
7 to 11 logs	7
12 to 13 logs	4
Total	129

For one of the 4 highest offenders, who also failed to complete the online expense reports, the program administrator asked the cardholder and their supervisor to complete the online P-card program refresher training. For another, the program administrator stated that Purchasing had discussed the issue with the cardholder’s supervisor, although this action was not documented in the cardholder files or on the tracking spreadsheet. Neither of these actions resulted in the cardholder and supervisor promptly submitting the missing logs and supporting documents.

Further, the tracking spreadsheets do not indicate any cardholders with missing logs and transaction documentation have had their P-cards suspended or canceled.

2. Minor errors on the manual tracking spreadsheet also result in issues going unnoticed.
 - When cardholder logs and the supporting documents were classified as “late” in the monthly tracking spreadsheet, this status was not later changed to a more accurate description if they were never submitted. For example, the program administrator had classified 100 logs as “late” for July 2021 through January 2022 but as of May 2022, their status was not changed to “not submitted.” Of 53 missing logs that we tested, 50 were classified on the tracking sheet as “late,” one log was misclassified as “received,” and two logs were noted as “pending.”
 - Five cardholders with monthly transactions were not added to the tracking spreadsheet so the program administrator did not identify their missing logs for follow-up reminders. One of these cardholders, now a former employee, had 7 missing logs but was not contacted with reminders. The former employee’s supervisor had not reviewed the transaction logs with the required supporting receipts or invoices and has not been able to locate the documents to respond to our audit inquiry.
 - In 7 instances, cardholders were incorrectly identified on the tracking spreadsheet as not having transactions that month. These cardholders’ monthly transactions ranged

from two account credits up to approximately \$2,000 in monthly charges. As a result, reminders were not sent when they did not submit the required logs and transaction documents.

The tracking spreadsheet is maintained manually, and as such, inaccuracies may occur. Creating system reports that list all cardholders with monthly activity would help the program administrator perform monitoring activities more efficiently and effectively.

3. System reporting functions could be expanded to help make monitoring more efficient, effective, and timelier. At the time our audit started in May 2022, the program administrator was reviewing February 2022 logs.

At least one contributing factor was manually matching the emailed logs and supporting documents to the purchasing card system statements. In addition, the program administrator reviews logs and transactions for compliance with certain policies, such as getting IT concurrence on technology purchases.

Also, the new purchasing card system's reporting features do not appear to be as user-friendly compared to the previous system. The department has created a few reports for its monthly review, but including certain information, such as the monthly balance, supervisor approval, merchant, and transaction description, may help the program administrator more easily complete the review.

Further, current system reporting does not show reliable information about card declines, card status, and Level 3 purchasing card data, which would make the online transaction review more effective. Level 3 data provides line-item transaction detail for larger merchants such as Amazon, Office Depot, and Home Depot, and was easily viewable in the previous purchasing card provider's system.

- C. Transactions that have not been electronically approved on time by the cardholder supervisor may be auto-approved when exported to the accounting system. (The purchasing card deadlines are summarized in the textbox.)

In both the previous system and the new system, Purchasing may close the month's transactions by automatically approving them before exporting the data to the accounting system. The benefit is that changes cannot be made to accounting data in the P-card system to differ from that in the accounting system. It also allows prompt payment

Purchasing Card Deadlines:

Statement cycles close on the 4th of each month.

- *By the 10th of the month* – Cardholder reconciles the purchasing card statement to the receipts/invoices, completes the expense codes and transaction notes, and signs off online and on printed copies of the statement and log.
- *By the 15th of the month* – Supervisor reviews the P-card documents and signs off online and on the printed copies.
- *By the 20th of the month* – Cardholder (or supervisor) scans the signed bank statement, log and supporting documents and emails them to Purchasing.

SOURCE: Auditor analysis of Purchasing Card Guide.

of all undisputed transactions so the city can receive the program's monthly rebate from the sponsoring bank.

However, the auto-approved closed transactions result in supervisors no longer being prompted to review these cardholder purchases. As a result, a small number of transactions were not reviewed at all:

- For 41 of the 309 missing logs we reviewed, the monthly transactions had been auto-approved or not approved in the online system. About 68% these also did not have supervisor signatures on the printed transaction logs, or the supervisors signed them when responding to the audit inquiry.³
- Of 20 additional auto-approved transactions that we reviewed, 7 did not have evidence of supervisory review of the supporting documentation.

Enforcing review procedures and deadlines is critical for ensuring that use of city purchase cards is properly reviewed. Cardholder supervisors have the direct knowledge of day-to-day activity that is needed to assess the business purpose of spending.

Recommendations:

The Purchasing Director should:

- A. Ensure program expectations are consistently communicated and enforced so that P-card purchases are adequately documented. Evaluate whether uploading receipts into the purchasing card system may facilitate documentation submission and review.
- B. Enforce documentation and review requirements, including escalating to card suspension or termination based on policy. Evaluate ways to make the monthly compliance monitoring more accurate, efficient, and timely by automating the process as much as possible.
- C. Enforce review deadlines for supervisory reviews and identify and address noncompliance.

2. Other aspects of program administration can be improved.

To strengthen purchasing card controls, procedures are needed to ensure timely deactivation of P-cards and system accounts and submission of final documents when a cardholder leaves city employment or changes departments. As well, processes should verify required annual training and limit administrative-level system access.

- A. To ensure purchasing cards are canceled timely and records are complete, closeout procedures need to be clarified for cardholders leaving city employment or transferring to a new position.

³ The monthly closeout process in the PNC system changed in March 2021. Auto-approvals prior to this time were not easily identifiable, so a larger number may have been approved in this manner.

1. For 10 cardholders who changed departments, the program administrator did not cancel their cards for 3 weeks to almost 10 months. For 2 of the 3 transfers we reviewed, the program administrator had not been notified when they transferred to a new job. Instead, the cardholder or former supervisor reported the transfer, or the program administrator identified it, 6 to 7 months later.

Delayed P-card cancelation increases the risk of unauthorized purchases going unnoticed. A new supervisor may not be aware the employee has a city P-card, and the former supervisor would not be an appropriate reviewer to authorize continuing transactions. Also, the prevalence of missing documentation and supervisor approvals increases this risk.

2. Cardholders and supervisors are not ensuring P-card recordkeeping has been properly completed when an employee is leaving city employment or changing jobs within the city.

AR 220 and the Purchasing Card Guide requires that a cardholder supervisor collect the P-card when a cardholder is terminating employment or transfers to another department. However, these procedures and the Employee Exit checklist do not remind the supervisor to ensure all P-card logs and supporting documents have been submitted and approved prior to separation or transfer. During the period we reviewed, from July 2020 to March 2022:

- 14 of the 41 cardholders who left city employment had 1 or more missing logs and supporting documents. For 11 of these 14, the cardholder supervisor could not locate and provide a copy of some or all supporting documents.
- 2 employees who transferred to other city departments had 12 or 13 missing cardholder logs and documentation. In response to our audit inquiry, the employees could not provide the documentation and the departments indicated they had not retained them as part of their financial records either.

The signed purchasing card logs with receipts and invoices are part of the city's financial records and have a retention period of 3 years after the fiscal year they were created.

- B. Although the cardholder and supervisor are required to complete annual training on P-card requirements, Purchasing does not currently have an efficient method to monitor training completion.

In addition to the New Cardholder/Supervisor training, computer-based training (CBT) on the use of purchasing cards is required for all cardholders and approving supervisors when they are initially added to the P-card program. Annually thereafter, they are required to take the CBT again as a refresher. When Purchasing completed transitioning departments to the new purchasing card system, all cardholders and supervisors were required to take both trainings again by December 2021.

However, as of May 2022, about 83% of cardholders had completed the Cardholders CBT and 47% of approvers had completed the Supervisors CBT. The Purchasing department has not yet

established a process to efficiently monitor the annual training completion. Ensuring cardholders and supervisors are completing the annual refresher training could enhance compliance with program requirements.

- C. User access to the purchasing card system was not deactivated upon cardholder termination, and too many users were established with administrative access rights.

Even when the program administrator deactivated P-cards promptly upon termination of a cardholder's employment, their user access to the purchasing card system was not deactivated. Instead, the online accounts remained available until the system automatically closed them after 90 days of inactivity. According to the program administrator, users cannot reactivate their own P-cards without the administrator's assistance. However, users can access the web-based third-party system from any computer, increasing the risk of unauthorized changes to transaction information after their termination.

Additionally, 7 users were granted administrative access within the system, and 3 of these users were also cardholders or approving supervisors in the system. Administrative access allows a user to request and issue new cards, add, or delete users, and modify user information. To reduce the risk exposure, administrative access rights should be granted to the fewest users that is operationally feasible.

During the audit, the Purchasing department reduced the number of users with administrative access to 2.

- D. Cards with little or no usage need to be evaluated for continuing need.

Of the approximately 330 active cards in the purchasing card system, 44 had little or no usage. Of these, 20 had no transactions, and many of these cardholders had not even created a user login in the system. The other 24 cards had transactions totaling from \$26 to about \$5,000 in 1 to 4 months over the past 1 to 2 years that they were active. For these 24 low-use cards, 8 cardholders had not submitted one or more monthly logs (as described in Finding 1). About half of these low-usage cards are in the public safety departments and may have been issued as a contingency.

Cards with little or no use should be reviewed at least annually, and the departments asked to confirm whether the card is still needed. Low-usage cards are at a higher risk of being stolen or misused because the cardholder and/or the supervisor is not regularly reviewing the account activity. As well, cardholders who do not normally make purchases may be less familiar with documentation requirements. Other alternatives, such as purchasing assistance from other departmental cardholders, may be an effective solution for such infrequent needs.

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Recommendations:

The Purchasing Director should:

- A. Establish procedures for promptly deactivating P-cards and verifying that all necessary documentation has been received when a cardholder leaves city employment or transfers to another department.
- B. Monitor compliance with annual training requirements.
- C. Promptly deactivate user access to the purchasing card system when they are no longer authorized and ensure system access is limited to administrative-level access to the fewest users that is operationally feasible.
- D. Annually review P-cards with little or no use, asking departments to evaluate whether there is a continuing need or a feasible alternative solution.

MANAGEMENT ACTION PLAN

1. Purchasing card documentation requirements need to be enforced and monitoring practices can be strengthened.

Recommendations:

The Purchasing Director should:

- A. Ensure program expectations are consistently communicated and enforced so that P-card purchases are adequately documented. Evaluate whether uploading receipts into the purchasing card system may facilitate documentation submission and review.
- B. Enforce documentation and review requirements, including escalating to card suspension or termination based on policy. Evaluate ways to make the monthly compliance monitoring more accurate, efficient, and timely by automating the process as much as possible.
- C. Enforce review deadlines for supervisory reviews and identify and address noncompliance.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

The Purchasing Department is committed to developing written procedures in support of the audit recommendations that enhance cardholder documentation processing and establishes clear parameters for monthly compliance monitoring which will establish clear expectations of cardholders and the associated supervisors. Audit findings and enhanced program expectations will be proactively communicated by the Purchasing Department's management team through comprehensive outreach meetings conducted with department/division management. Requirements will be enforced with strict standards supporting policy that will be incorporated into updated mandatory training for all program participants.

RESPONSIBLE PARTY: Purchasing Supervisor, Lynn Gustafson

COMPLETED BY: 12/31/2022

2. Other aspects of program administration can be improved.

Recommendations:

The Purchasing Director should:

- A. Establish procedures for promptly deactivating P-cards and verifying that all necessary documentation has been received when a cardholder leaves city employment or transfers to another department.

- B. Monitor compliance with annual training requirements.
- C. Promptly deactivate user access to the purchasing card system when they are no longer authorized and ensure system access is limited to administrative-level access for the fewest users that is operationally feasible.
- D. Annually review P-cards with little or no use, asking departments to evaluate whether there is a continuing need or a feasible alternative solution.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

The Purchasing Department will develop and implement strict written procedures in support of the audit recommendations to enhance the management of program administration with the focus of bringing all required documents into compliance by December 31, 2022 and the application of an improved routine compliance review process initiated in the new calendar year. Automated tracking tools will be developed and implemented to enforce mandatory training programs, track cardholder status and rigorously monitor compliance.

RESPONSIBLE PARTY: Purchasing Supervisor, Lynn Gustafson

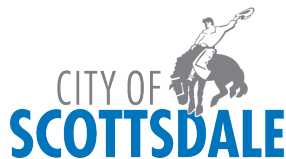
COMPLETED BY: 12/31/2022

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