Audit Report
City-wide P-Card Compliance
November 19, 2015

City Auditor's Office
Gregory L. McDowell, CPA, CIA

Report of Internal Audit
City-wide P-Card Compliance
November 19, 2015

Purpose and Scope

The purpose of this audit was to evaluate the City's Procurement Card Policy and departmental compliance with the policy. For FY14, Internal Audit tested 497 transactions (totaling $689,823); representing 3% of the transactions processed and 17% of the amount spent using P-Cards. Auditors reviewed these procurement card (P-Card) transactions for compliance with the City's policy, and completed comparative analyses of P-Card transactions city-wide and by department. The policy applicable for the period audited was dated July 1, 2011. A new policy became effective July 14, 2014, coinciding with the City's integration of an enterprise resource planning system (MUNIS) to manage its financial functions.

On September 6, 2014, the Chief Financial Officer (CFO) authorized a P-Card modification process to expedite vendor payments during the implementation of the MUNIS system (See Appendix A for CFO memo). The memo detailed the reasons for the temporary program modification and the single and monthly transaction limit changes. Department Heads determined which cardholders would be granted this modification. Monthly and single transaction limits were adjusted for 58 of the 545 cardholders. Auditors reviewed the September through December 2014 transactions for these cardholders to determine that payments complied with the CFO's memo. Transactions and dollars processed by cardholders granted the modification totaled 43, and $209,842, respectively.

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.

This report is intended for the use of the City Manager's Office, City Council and all City Departments.

Conclusion

P-Card oversight needs to be improved. Implementation of the City's MUNIS computer system has begun to provide better controls; however, a greater level of supervisory review and adherence to existing policies will be required to prevent misuse of City resources.

The P-Card program is used for less than 1% of the City's non-personnel expenses, and provides an efficient payment alternative. The risk of misuse can be mitigated through careful and consistent attention to policy. However, the following issues raise concerns that indicate some

additional resources are needed to ensure no serious violations impact the organization in the future:

- The volume of transactions and number of employees empowered has increased over the past several years, without a comparable change in resources allocated to oversight.

- System controls cannot ensure compliance with policies prohibiting certain transactions (e.g., gift cards and split transactions).

- Many minor violations and one former employee's extended period of misuse were noted, requiring substantial follow-up by department Program Managers, and the Procurement Card Administrator.

Summary of Recommendations and Actions

During FY 2014, about 550 cardholders made 18,851 P-Card transactions totaling almost $4 million dollars. Our review resulted in the following observations and recommendations, along with management's corrective actions where applicable, summarized as follows, and further detailed beginning on page 4:

1. While the majority of transactions were processed in compliance with established policies, better adherence to controls is required to ensure the continued integrity of the P-Card program.

   The misuse of a P-Card by a cardholder is an inherent risk to any P-Card program. Purchase orders and contracts require approvals in advance of transactions. With a P-Card, however, employees have the ability to spend up to $3,000 per transaction and as much as $10,000 per month with no advance approval or immediate supervisory review. This method of payment is designed to enhance efficiency of operations and payment convenience to vendors but also carries a risk of misuse which can only be determined after funds have been expended.

   The City's Procurement Card Policy and Procedures Manual details the roles and responsibilities which comprise many of the internal controls for the P-Card process and are intended to reduce the risks associated with the P-Card program. While violations occurred during the audit period, 95% of the transactions tested complied with the policy.

   - Several types of policy violations were noted among seven departments. Each department agreed with the audit recommendations and has taken appropriate actions to mitigate future exceptions.

2. Policy violations will be prevented, or significantly reduced, due to improved ERP controls.

   In addition to the violations addressed in finding #1, several other issues were identified which should not reoccur. New technology processes have been initiated which will help ensure that proper approvals are completed and documentation is attached.

A former employee committed theft through use of the City's P-Card to purchase services and merchandise for personal use. The audit found no evidence that any other City employee was aware of the thefts or facilitated the former employee's actions. Weak supervisory oversight allowed the thefts to continue over a period of at least four years.

Documentation of $15,361 could not be obtained. The former employee (A) was contacted and admitted to obtaining personal benefit by using the City's P-Card. These charges were incurred mostly in 2013 and 2014, for the purchase of telecommunication devices and service charges.

- The findings have been referred to CMPD and Human Resources.

3. During the three month modification period, P-Card transactions were processed appropriately.

The City allowed a temporary modification to cardholder limits. Following the initial ERP implementation in July 2014, some vendors did not receive timely payments. To expedite payment processing, the single and monthly transaction limits for selected cardholders were increased.

For the modification period (September 29, 2014 through December 31, 2014), auditors reviewed procurement card transactions for payments that exceeded the cardholder's pre-modification threshold.

- The temporary increases for transaction and monthly P-Card limits assisted departments in making timely payments during the initial ERP implementation period. No improper transactions were noted during the modification period.

4. The Procurement Card Policy needs revisions to help ensure program integrity.

While the policy details procedures to compensate for a lack of segregation of duties, enforcing the policy requires a high level of monitoring to ensure adherence. Given the limited resources available for program oversight, the policy as written is ineffective. Additional policies require clarification.

- Procurement Management has revised the policy to prohibit a cardholder from also functioning as a Program Manager. The policy has also been revised to correct the language regarding gift card purchases and the consequence for failing to report a lost or stolen P-Card. The revised policy is expected to be effective January 1, 2016.

Background

The City's P-Card program was established in May 2001. Following the issuance of an Internal Audit report, the P-Card policy was significantly revised in FY12 and was in effect until further revisions were implemented in July 2014. Procurement Management (a division within the

Management & Financial Services Department) administers the City's P-Card program and coordinates issuance of P-Cards by Bank of America. The cards are restricted from use at certain types of vendors, as defined by Merchant Category Codes, and have single transaction limits as well as monthly expenditure limits that vary for each cardholder.

The City's P-Card information is processed in the Bank of America WORKS system. During FY14, transaction data was transmitted electronically to the City monthly for reconciliation by cardholders. Prior to testing, we performed analytical reviews and made the following observations:

- Since the last Internal Audit review of the P-Card program in 2011, annual expenditures grew from $3.2 million to about $4 million in 2014. Although not part of the audit period, we noted that FY2015 P-Card expenditures reached nearly $7 million.

- During FY 2014 more than 18,000 transactions were processed by over 500 cardholders.

- The average P-Card transaction amount has ranged $200-$300 over the past few years.

- In FY14, more than half (56%) of the City's total P-Card expenditures were made by three departments combined – Charlotte Water (29%), Charlotte Mecklenburg Police Department (15%), and Shared Services (11%). (Shared Services no longer exists as a separate department, but has been absorbed into the Management & Financial Services Department which was created in September 2014.)

Audit Findings and Recommendations

1. ***While the majority of transactions were processed in compliance with established policies, better adherence to controls is required to ensure the continued integrity of the P-Card program.***

   The misuse of a P-Card by a cardholder is an inherent risk to any P-Card program. Purchase orders and contracts require approvals in advance of transactions. With a P-Card, however, employees have the ability to spend up to $3,000 per transaction and as much as $10,000 per month with no advance approval or immediate supervisory review. This method of payment is designed to enhance efficiency of operations and payment convenience to vendors but also carries a risk of misuse which can only be determined after funds have been expended.

   The City's Procurement Card Policy and Procedures Manual details the roles and responsibilities which comprise many of the internal controls for the P-Card process and are intended to reduce the risks associated with the P-Card program. While violations occurred during the audit period, 95% of the transactions tested complied with the policy. Even with 95% compliance, it is important to highlight policy issues that should be addressed. The following details the areas that require closer attention from departments and the P-Card Administrator.

Violation Type Dept. (Instances)	Policy Reference
Gift Card Violation Community Relations (5)	4.7 - The use of a P-Card to purchase a gift card or gift certificate is a violation of policy and procedures.

Comments: Five cardholders coordinated the purchase of 28 gift cards, totaling $8,304. The Procurement Card Administrator and department Program Manager noted these violations during a random audit and disciplinary action was taken in accordance with the policy. Gift card purchases are prohibited because they can be easily converted to personal use.

The gift cards were purchased for recipients of a community relations award. The cost of the gift cards was covered by donations from sponsors. The Community Relations Division provided the list of award recipients.

Recommendation: Cardholders should adhere to the policy which prohibits the purchase of gift cards using a P-Card. As indicated in Finding #4, the current policy should be revised to include language which reinforces that P-Cards should not be used for gift card purchases.

Response: The Division will not use P-Cards to purchase gift cards in the future.

Violation Type Dept. (Instances)	Policy Reference
Unauthorized Travel Use M&FS – P-Card Administrator (3) Charlotte Department of Transportation (1)	2.1 - The department will work with the Program Manager to complete a new cardholder setup form and, if applicable, a Travel Request form. 2.2 - The Procurement Card Administrator will review, approve, and enter the cardholder information from the new cardholder setup form into Works.

Comments: Four cardholders made travel-related purchases although their profiles in WORKS were not designated for travel. Bank of America processed the transactions despite the lack of travel authorization because its policy is to not leave a cardholder stranded (during travel).

Three of the four cardholders had properly submitted the required authorization form to the Procurement Card Administrator and their Bank of America profiles should have reflected their ability to make a travel related purchase. However, the Procurement Card Administrator had not updated their profiles. One cardholder was not authorized to use his P-Card for travel.

Recommendation: Bank of America should be instructed to report to the Procurement Card Administrator any exceptions to the City's established controls, i.e., when the bank processes travel-related transactions for unauthorized cardholders.

The P-Card Administrator should make sure that cardholder profiles are accurate in the WORKS system.

Action Taken: The P-Card Administrator has corrected the profiles for the three cardholders who were authorized for travel.

Response: M&FS Procurement – Procurement Management has reviewed and concurs with the audit findings. Additional full-time support is needed to close any gaps and would help improve not only cardholder profile management, but many other tasks. The Corporate Procurement Card Program has a single administrator responsible for thousands of transactions, day-to-day programmatic tasks, departmental support, system administration and management (both MUNIS and WORKS), training, reporting, and audit and compliance initiatives. The need for an additional staff member has been identified as the program has grown over time.

Response: CDOT – The cardholder did not have authorization to use his P-Card for travel. He assumed that all P-Cards had travel authorization, and therefore, made a reservation for a hotel room for a future conference on his card. Later, when paying for the room at the completion of his trip, Bank of America allowed the transaction to proceed so that our employee was not stranded during travel.

CDOT is taking the following actions:
- Reeducating CDOT cardholders on the use of P-Cards for travel-related expenditures; including how to add the authorization for travel expenses
- Identifying cardholders that currently have travel authorization, and modifying the list based on the needs for each division

Violation Type Dept. (Instances)	Policy Reference
Documentation Deficiency Community Relations (1) Charlotte Area Transit System (1) Charlotte Fire (1) CMPD (2)	5.1.3 - If a cardholder uses the P-Card for travel the reconciliation should include a signed Travel Authorization and Advance Form and Travel Expense Report the month business travel is final.

Comments: There were five instances in which a Travel Expense Report was omitted from the monthly reconciliation packet. There is no process to automatically ensure that travel related P-Card purchases are not also reimbursed to an employee on a Travel Expense Report.

If Departments don't review the expense reports in conjunction with P-Card transactions, employees could be inappropriately reimbursed for expenses paid using a P-Card. Internal Audit obtained copies of the expense reports from Accounts Payable and determined that the expenses were properly reported.

Recommendation: Departments should ensure that monthly reconciliation packets contain a completed travel expense report when travel related P-Card purchases are made. Departments should also review the documentation to ensure that all expenses are appropriately included on the expense report.

Response: CATS – The department agrees with the recommendation above and will ensure that monthly reconciliation packets contain a completed travel expense report when travel related P-Card purchases are made. CATS will also review documentation to ensure that all expenses are appropriately included on the expense report.

Response: CMPD – The department agrees with the recommendation. CMPD's P-Card accountant has begun to check every P-Card reconciliation to ensure an approved travel requisition has been loaded to the City's document management system in MUNIS (TCM) and reconciled to the P-Card expenses.

Response: Charlotte Fire – The department agrees with the recommendation.

Response: Community Relations – The division agreed with the recommendation and hosted an employee travel expense training session for its cardholders in June 2015 to reinforce proper travel policies. The session was conducted by a member of the Finance Office.

Violation Type **Dept. (Instances)**	**Policy Reference**
Split Transactions Community Relations (3) Charlotte Water (1) CMPD (2) Charlotte Fire (1)	3.1.1 – The cardholder is authorized to make a transaction on behalf of the City. A responsibility associated with this role is to not split a transaction to circumvent a credit limit. 3.2.1 – The Supervisor shall review cardholder reconciliation packet for split transaction violation.

Comments: Seven transactions among four departments were split to circumvent the single transaction limit. The single transaction limits are established to ensure that cardholders only make purchases within their allowable thresholds. By splitting the transactions, cardholders could make unauthorized purchases. CMPD and Community Relations noted the violations during their reviews of monthly transactions and disciplinary action was taken in accordance with the policy.

Currently, departments contact the Procurement Card Administrator to request temporary increases to their single transaction limit to allow a specific purchase. There is not an established process to manage these requests and to document approval.

Recommendation: Cardholders should not split transactions to circumvent the limits established for them. M&FS – Finance/Procurement should formalize a process to allow a cardholder to temporarily increase the single transaction limit for circumstances deemed acceptable.

A formalized procedure will provide backup documentation for the Departments and the Procurement Card Administrator when these exceptions are made.

Response: M&FS Procurement – Procurement Management has reviewed and concurs with the audit findings. Procurement Management will develop and implement an appropriate procedure to assist departments with temporary modifications to transaction limits, as may be needed from time to time to complete P-Card transactions that may fall outside of the established threshold. Supporting documentation and formal written communications detailing any exception or modification will be required, per the policy revision planned to take effect January 1, 2016.

Responses: Fire, CMPD, Community Relations – Agrees.

Response: Charlotte Water – The division within Charlotte Water has been notified that they must bundle employee purchases. If the purchase amount will exceed a cardholder's single transaction limit (STL), Charlotte Water's Program Manager must be contacted immediately to find out whether or not the STL can be increased. If this is not an available option, then a purchase order must be created. In addition, cardholders must tell the vendor not to split the transactions should the vendor attempt to make this suggestion.

New cardholders will continue to be cautioned about what creates a split transaction and advised against creating them. Current cardholders will continue to have their transactions reviewed by the Program Manager roles and questioned as necessary.

P-Card accountants will continue to be included in all email transactions requiring clarification of purchases to provide both training and notification that a possible violation has occurred.

2. *Policy violations will be prevented, or significantly reduced, due to improved ERP controls.*

In addition to the violations addressed above, several other issues were identified which should not reoccur. The first issue noted in Section A below is addressed separately due to the serious nature of the violation. The remaining issues are summarized in section B.

A. Theft, Weak Supervisory Oversight for One Cardholder

For FY14, one cardholder (Employee A, now a former employee) did not complete monthly reconciliations. The department could not provide receipts for most of the transactions charged by Employee A. Therefore, the department could not demonstrate that these were valid City purchases. The Program Manager is the department representative who is accountable for use and compliance with the P-Card Policy. In this instance, Employee A functioned as the Program Manager for other cardholders in the department. Employee B was responsible for the Program Manager duties related to Employee A's purchases.

Because the department could not provide receipts for FY14, we obtained available documentation for the previous three fiscal years to determine the scope of noncompliance. Older documentation was not readily available. If we had obtained and reviewed documentation prior to July 2010, it's possible that more transactions would have been questioned. However, the overall finding and recommendation would not have been impacted by obtaining additional historical information.

For FY11 through FY14, Employee A made $54,766 in purchases. The department provided receipts for $15,133 of the total processed for those years. Auditors compared these receipts to the P-Card statements without exception. Subsequent research and contact with vendors (some by other City employees) enabled documentation to be obtained for all but $15,361, including $9,046 for Verizon and $1,140 for Time Warner Cable. The former employee (A) was contacted and admitted to obtaining personal benefit by using the City's P-Card. These charges were incurred mostly in 2013 and 2014, for the purchase of telecommunication devices and service charges. While some of the remaining undocumented expenditures were likely City expenses, auditors could not evaluate the expenses with insufficient documentation, which the former employee did not address in the admission.

Conclusion: Former Employee A committed theft through use of the City's P-Card to purchase services and merchandise for personal use. The audit found no evidence that any other City employee was aware of the thefts or facilitated the former employee's actions. Weak supervisory oversight allowed the thefts to continue over a period of at least four years.

Recommendations: To address this finding, Internal Audit recommends three actions, as follows:

- Management should consider referring the theft by former Employee A to CMPD.

- The department should consult with Human Resources regarding appropriate actions to address Employee B's lack of supervisory oversight.

- The P-Card Administrator should obtain annual statements of responsibility from Program Managers. (See Finding and Recommendation #4 beginning on page 11 regarding additional policy and procedural improvements.)

B. Other Violations which will be Controlled or Prevented in the Future

While the appropriate policy was in place and employees should have complied in the past, the violations are addressed in aggregate below, because no further actions are required. That is, new controls should prevent their reoccurrence. For FY14, we tested 497 transactions totaling $683,823. During our review, we noted the following:

- Missing Supervisor approval (3 instances) – The policy required supervisors to sign reconciliation packets to document approval. We noted three instances where the reconciliation lacked a supervisor's signature.

- Missing Program Manager approval (5) – The policy required Program Managers to sign reconciliation packets to document completion of packet review. There were five instances where the Program Manager did not sign the reconciliation form.

- Missing Specific fuel usage approval (5) – The policy required the department head's signature on receipts for fuel purchases. There were five fuel transactions among departments for which a signature was not documented.

- Missing reconciliation packets (18) – The policy required Program Managers to submit completed reconciliation packets to the Finance Office. There were eighteen reconciliation packets (of hundreds we reviewed) that could not be located within Finance or the other departments.

3. *During the three month modification period, P-Card transactions were processed appropriately.*

As indicated in the Purpose and Scope section above, the City allowed a temporary modification to cardholder limits. Following the initial ERP implementation in July 2014, some vendors did not receive timely payments. To expedite payment processing, the single and monthly transaction limits for selected cardholders were increased. In some cases, the Accounts Payable Department had received an invoice for items paid via P-Card. One of the concerns of using the P-Card during this period was that a vendor could be paid twice for the same goods or services. It was the department's responsibility to make sure that invoices paid via the P-Card were not also processed in MUNIS.

For the modification period (September 29, 2014 through December 31, 2014), auditors reviewed procurement card transactions for payments that exceeded the cardholder's pre-modification threshold. For these cardholders, auditors compared information on the Accounts Payable Spend by Vendor report with the transaction data from the WORKS system to determine if any duplicate payments were processed. No exceptions were noted. Internal Audit also compared the voided check list maintained by the M&FS – Finance Office Department to P-Card transaction data. The existence of voided checks might indicate that a duplicate payment had been made, but later voided if a vendor reported receiving initial payment via P-Card. None of the voided checks reviewed were the result of a duplicate P-Card payment. On January 2, 2015, all original cardholder limits had been restored to the pre- modifications amounts.

Conclusion: The temporary increases for transaction and monthly P-Card limits assisted departments in making timely payments during the initial ERP implementation period. No improper transactions were noted during the modification period.

4. ***The Procurement Card Policy needs revisions to help ensure program integrity.***

The Procurement Card Policy, effective July 14, 2014, reflects changes required with the implementation of the MUNIS system. Additional changes are warranted:

- In MUNIS, ten cardholders are also Program Managers. Program Managers are the final approvers of P-Card transactions. Section 2.4 of the current Citywide Procurement Card policy states:

  "Individuals with P-Card roles and responsibilities, as detailed in Section 3, may also be a Cardholder; however a Cardholder may not approve their own purchases. In those instances where a Cardholder is also an approver, the Department Director must designate a secondary approver, with the same or higher approval threshold, to perform approval duties, and must notify Procurement Management of this designee. While forwarding of approval workflows is prohibited by policy (See SS-18 Citywide Procurement Policy), by exception, a Department Director may allow manual forwarding in the System, as detailed in the Citywide Procurement Process and Procedure Manual."

  While the policy details procedures to compensate for this lack of segregation of duties, enforcing the policy requires a high level of monitoring to ensure adherence. Given the limited resources available for program oversight, the policy as written is ineffective.

- The provision in the previous policy which prohibited gift card purchases was revised to state that this purchase type is automatically blocked by Merchant Category Code (MCC). However, MCC blocks are based on vendor type rather than the actual item purchased. Therefore, the purchase of gift cards cannot be automatically blocked.

- Section 8 of the July 2014 policy does not include a disciplinary action for failure to report a lost or stolen card. Failing to report the P-Card as lost or stolen could potentially put the City at risk for unauthorized and inappropriate purchases. Reinstating this section of the policy would make cardholders more accountable for the security of the P-Card.

Recommendation: Procurement Management should revise the policy to prohibit a cardholder from also functioning as a Program Manager. The policy should also be revised to correct the language regarding gift card purchases and the consequence for failing to report a lost or stolen P-Card.

Response: **M&FS Procurement** – Procurement Management has revised the policy to prohibit a cardholder from also functioning as a Program Manager. The policy has also been revised to correct the language regarding gift card purchases and the consequence for failing to report a lost or stolen P-Card. The revised policy is expected to be effective January 1, 2016.

CHARLOTTE.

MEMO

TO:	Ron Kimble, Deputy City Manager
FROM:	Randy Harrington, Chief Financial Officer
DATE:	9/26/2014
RE:	Procurement Card Program Policy Exceptions / Recommendations

In support of the City's initiative to manage current challenges related to payment processing, staff has identified alternative short term recommendations in several areas. These recommendations have been vetted collaboratively by Finance, Shared Services, Innovation & Technology and Internal Audit. The corporate Procurement Card (P-Card) Program offers a viable, stable, legal and fully-functioning solution that can be both quickly and effectively deployed to support efficient and effective vendor payments.

Specific recommendations to the P-Card Program, along with requirements that will assist with compliance include:

1. The maximum Single Transaction Limit of $3,000 shall be modified to $10,000 for a limited number of department designated p-cardholders.

2. For those department designated p-cardholders with $10,000 Single Transaction Limit, the maximum Monthly Transaction Limit may be modified to a limit of $50,000 or $100,000, dependent upon departmental need. Minor adjustments, less than the identified $50,000 and $100,000 Monthly Transaction Limits, may also be requested and granted.

3. Department p-cardholders with increased limits, whether single or monthly, should have a special designation to either pay invoices for the department or make purchases for the department, but not both functions.

4. Departments must ensure that payments and purchases made using these modifications to the program comply with established policies and procedures.

5. Higher Monthly Transaction Limits of $100,000 should be reserved primarily for department representatives designated to pay invoices, while Monthly Transaction Limits of $50,000 most appropriately should be assigned to individuals making purchases.

6. These modifications will be in effect short term beginning on or about September 29, 2014 and continue in effect not later than December 31, 2014, but may be sooner terminated as payment processing improves. Conversely, any necessary extension to the period will require review and approval by the City Manager's Office.

Pursuant to the Citywide Procurement Card Policy – SS 13, Section 5.1.2., Single Transaction Limit, the City Manager may authorize increased Single Transaction Limits on specific cards, or under special circumstances as needed. Sections 2.9, 2.12, and 5.3 of the subject Policy, require modification of the Single Transaction Limit from $3,000 to $10,000 and/or may require the waiver of certain system requirements for purchase orders and contracts to support the short term initiatives detailed above.

All modifications will be accomplished primarily through secure system controls established in the City's Procurement Card Program in concert with the Bank of America Works System. A plan for monitoring, reporting and compliance will be developed and administered in collaboration with Internal Audit.

By signing below, your consent is given to allow the necessary policy exceptions and to implement the approved recommendations.

_____   9-26-14
Ron Kimble, Deputy City Manager   Date

CC: Jeff Stovall, Innovation & Technology
       Greg McDowell, Internal Audit
       Robert Campbell, Finance
       Scott Greer, Finance
       Marie Harris, Shared Services
       Kay Elmore, Shared Services