



**Audit Report**  
**City-wide P-Card Compliance FY15**  
**October 27, 2016**

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

# **Report of Internal Audit City-wide P-Card Compliance FY15 October 27, 2016**

## **Purpose and Scope**

The purpose of this audit was to determine compliance with the City's Procurement Card Policy. Audit software facilitated a large scale review of P-Card transactions processed to identify questionable charges. Of the 24,383 transactions processed in FY15, auditors tested 832 (totaling \$488,573); representing 3% of the transactions processed and 7% of the amount spent using P-Cards. The policy applicable for the period audited was dated July 14, 2014.

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**

Controls over P-card usage are adequate to maintain the overall integrity of the City's program. The inherent risks of the P-card require a high level of oversight by departments and the Program Administrator.

## **Summary Results**

M&FS, Finance Office – Procurement Management has committed additional resources to oversee the program.

The P-Card program expenditures for FY15 totaled almost \$7 million. These expenditures were the result of 24,383 transactions made by over 500 cardholders. 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. The following summarizes the results of our review and recommendations. More detailed information can be found beginning on page 3:

### **1. The Procurement Card Policy was revised to improve program controls.**

Procurement Management (a division within the Management & Financial Services Department) revised the policy effective May 1, 2016. The policy clarified the responsibilities of employees involved with the program. The revised policy details how infractions and subsequent disciplinary actions for noncompliance will be addressed. Also,

the addition of a second Procurement Card Administrator is intended to provide better oversight of the program and improve compliance with the new policy.

2. The majority of transactions tested were processed in compliance with established policies; however, better adherence to controls is required to ensure the continued integrity of the P-Card program.

The P-Card 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. Auditors tested 832 transactions and noted 29 violations. These violations were comprised of gift cards and personal purchases, split transactions, lack of itemized receipts and inadequate documentation. In some instances, violations were detected during the monthly reconciliation process and those departments handled the issues in accordance with policy. Each department agreed with the audit recommendations.

### **Background**

The City's P-Card program was established in 2001. The P-Card policy was significantly revised in FY12. Additional revisions were adopted in July 2014 and May 2016.

Procurement Management 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 (MCC), and have single transaction limits as well as monthly expenditure limits that vary for each cardholder.

P-Card transaction data is uploaded weekly to the City's enterprise resource planning system (MUNIS) for cardholders to verify and allocate appropriately.

- Annual expenditures grew from about \$4 million in FY14 to nearly \$7 million in FY15. Although not part of the audit period, we noted that FY16 P-Card expenditures exceeded \$7.4 million. See comparison chart below.
- The average P-Card transaction amount has ranged \$200-\$300 over the past few years.
- In FY15, more than half (53%) of the City's total P-Card expenditures were made by three departments combined – Charlotte Water (25%), Aviation (17%), and Charlotte Mecklenburg Police Department (11%).

	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>
Cardholders*	545	524	576
Transactions	18,851	24,383	26,695
Expenditures	\$3,955,261	\$6,959,425	\$7,454,388

\*At June 30

### **Audit Findings and Recommendations**

#### **1. The Procurement Card Policy was revised to improve program controls.**

Procurement Management revised the P-Card policy (effective May 1, 2016) to strengthen internal controls. Improvements to the policy follow:

- Program Managers are the final approvers of P-Card transactions. Section 3.4.7 of the revised Citywide Procurement Card policy states:

*“P-Card Program Managers are City employees responsible for supporting the Citywide P-Card Administrator in ensuring the appropriate use of P-Cards and adherence to applicable policies by individuals assigned to functional roles. P-Card Program Managers are prohibited from being issued an Individual or Department P-Card.”*

The addition of another Procurement Card Administrator and the ability to assign roles in MUNIS should ensure this portion of the policy is effective.

- The policy added designee roles for P-Card cardholders, accountants, budget managers and program managers. With the addition of these roles, the MUNIS workflow approval process is strengthened.
- Gift cards were listed as being blocked by MCC, although it is not possible to implement such a control. Section 5.4 now specifically lists gift cards as prohibited transactions.
- Disciplinary action has been reinstated for failure to report a lost or stolen card. It is now listed as a major infraction in section 9 for cardholders, program managers and their designees.
- Section 9 of the policy outlines infractions and disciplinary actions for all program roles and designees, including Procurement Card Administrators. This section reinforces accountability and compliance.

**Actions Taken:** M&FS, Finance Office-Procurement Management (“Procurement”) added a second Procurement Card Administrator effective April 18, 2016. This second resource will assist with the necessary administration and oversight of all programmatic responsibilities as well as the increased requirements designed to improve internal controls and efficiencies. In addition, the department updated the P-Card training module within the City’s SuccessFactors to reflect policy and procedural changes. The completion of this module is mandatory.

2. **The majority of transactions tested were processed in compliance with established policies; however, better adherence to controls is required to ensure the continued integrity of the P-Card program.**

The City's Procurement Card Policy and Procedures Manual details the roles and responsibilities for the P-Card process, which are intended to reduce the risks associated with the P-Card program. The 832 transactions tested yielded 29 violations. The following details the areas that require closer attention from departments.

<b>Policy Reference – Personal Purchases</b>
Section 2.6 - P-Card purchase must be for the use and benefit of the City and no personal purchases are allowed, regardless of intent to reimburse the City.
<p><b>Comments:</b> Four departments: (Aviation, City Manager's Office, Charlotte Water and Innovation &amp; Technology) each had a cardholder who made personal purchases ranging from \$3 to \$13 with their assigned P-Card.</p> <p>Charlotte Water discovered the violation during the monthly reconciliation process. The cardholder received a written warning for the level 3 infraction. The Aviation cardholder informed the program manager of the error and was given a verbal warning.</p> <p>The violations for the City Manager's Office and Innovation &amp; Technology were noted during Internal Audit's review and had not been discovered during the monthly reconciliation process. The violations were brought to the attention of the departments.</p> <p><b>Recommendation:</b> Program managers should review transactions in enough detail to identify personal charges and appropriate disciplinary action should be taken, whether noted during departmental review or during subsequent audits (by the P-Card Administrator, or the City's Internal Audit Division).</p> <p><b>Actions Taken:</b> All four cardholders reimbursed the City for the purchases.</p> <p><b>Response: Aviation</b> – The department agrees with the recommendation.</p> <p><b>Response: City Manager Office</b> – The department agrees with the recommendation and although no disciplinary action was taken, verbal corrective action was given.</p> <p><b>Response: Innovation &amp; Technology</b> – The department agrees with the recommendation and now has a process to identify and address infractions during the monthly reconciliation process. The cardholder has received a written P-Card policy violation.</p>

Policy Reference – Split Transactions
<p>Section 2.13 - Splitting transactions to avoid the single transaction limit is not permitted. Subsection 8 (Level 3) - Program Manager shall review the circumstance and issue written warning to the cardholder. The Program Manager, in consultation with the Citywide P-Card Administrator, may temporarily suspend or deactivate the P-Card as part of the disciplinary action.</p>
<p><b>Comments:</b> There were seven instances where transactions among six departments were split to circumvent the single transaction limit. The limits are established to ensure that cardholders only make purchases up to threshold approved by their supervisors. By splitting the transactions, cardholders exceed their authorized limits.</p> <p>Aviation (one) and CMPD (for one of two) noted the violations during their reviews of monthly transactions and disciplinary action was taken in accordance with the policy.</p> <p><b>Recommendation:</b> Cardholders should not split transactions to circumvent the limits established for them. Program managers should remind cardholders of the process in place to seek temporary increases of the single transaction limits for circumstances deemed acceptable. Appropriate disciplinary action should be taken, whether noted during departmental review or during subsequent audits (by the P-Card Administrator, or the City's Internal Audit Division).</p> <p><b>Response: Solid Waste Services (SWS)</b> – No formal violation was issued. We reviewed the policy with the cardholder and increased their single transaction limit due to their recent role change.</p> <p><b>Response: Charlotte Fire</b> – The department agrees with the recommendation and although no disciplinary action was taken, the policy violation was reviewed with the cardholder.</p> <p><b>Response: Transportation (CDOT)</b> – The department continues to educate P-Card holders on City policies and procedures.</p> <p><b>Response: CMPD</b> – The department agrees with the recommendation and disciplinary action has been taken.</p> <p><b>Response: Engineering (E&amp;PM)</b> – The vendor requested the purchase be separated into two transactions. The department has advised the cardholder not to split transactions in the future.</p>

<b>Policy Reference – Gift Cards</b>
<p>Section 5.4 - Gift card purchases are prohibited.</p>
<p><b>Comments:</b> Auditors noted two cardholders who made five gift card purchases. The gift cards were purchased as rewards for department recognition events. Gift card purchases are prohibited because they can be easily converted to personal use.</p> <p>CMPD noted this violation (one instance) during the monthly reconciliation process and issued the appropriate warning to cardholder.</p> <p>Innovation &amp; Technology noted this violation (four instances) during the monthly reconciliation process but did not discipline the cardholder according to City policy.</p> <p><b>Recommendation:</b> Cardholders should adhere to the P-Card policy, which prohibits the purchase of gift cards. Appropriate disciplinary action should be taken, whether noted during departmental review or during subsequent audits (by the P-Card Administrator, or the City's Internal Audit Division).</p> <p><b>Response: Innovation &amp; Technology</b> – The Department Director, Program Manager and P-Card Accountant discussed the gift card purchases with the cardholder. The cardholder was to issue reimbursement to the City but failed to do so before retirement. A process has been implemented to identify and address this type of infraction during the monthly reconciliation.</p>

<b>Policy Reference – Documentation</b>
<p>Section 3.4.1 - Cardholders should obtain and keep original itemized receipts of all P-Card transactions. In addition, cardholders should scan and upload appropriate supporting documentation regarding the transaction into the System's document repository as required.</p>
<p><b>Comments:</b> Auditors noted 13 instances among five departments where no itemized receipts or documentation was loaded into the System's document repository (TCM).</p> <p>CDOT, City Manager, E&amp;PM, and Innovation &amp; Technology provided copies of the receipts or lost receipt forms.</p> <p><b>Recommendation:</b> Program managers should ensure all receipts and documentation are loaded into TCM before approving cardholder's transactions. Appropriate disciplinary action should be taken in accordance with the policy for all violations.</p>

**Response: City Manager Office** – The department agrees with the recommendation and although no disciplinary action was taken, verbal corrective action was given.

**Response: CDOT** – The department is coaching and counseling P-Card holders about providing original itemized receipts for all transactions.

**Response: CMPD** – No itemized receipt was attached in TCM because the vendor only provides receipts with the total amount of purchase; therefore, no disciplinary action was taken.

**Response: E&PM** – The itemized receipt was attached to another transaction due to the issues with TCM.

**Response: Innovation & Technology** – The department agrees with the recommendation and now has a process to identify and address this type of infractions during the monthly reconciliation process. The cardholders have received a written P-Card policy violation.