



Audit Report
City-wide Procurement Card (P-Card) Compliance FY16
April 17, 2017

City Auditor's Office
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Report of Internal Audit

City-wide P-Card Compliance FY16

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Purpose and Scope

The purpose of this audit was to determine compliance with the City's P-Card Policy. Audit software facilitated a large scale review of P-Card transactions processed to identify questionable charges. Of the 26,707 transactions processed in FY16, auditors tested 979 (totaling \$492,464); representing 3.7% of the transactions processed and 7% of the amount spent using P-Cards. The policy applicable for 10 months of the period audited was dated July 14, 2014. A revised policy was issued May 1, 2016 which covered the remaining months.

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.

Summary of Findings

Most 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. Departments have made improvements in following the applicable City policies. Additional resources have been devoted to monitor employee P-Card usage. As a result, violations are being addressed at the department-level review and fewer than 2% of transactions examined in the audit needed further attention.

The P-Card program expenditures for FY16 totaled about \$7.6 million. These expenditures were the result of 26,707 transactions made by almost 600 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 consistent adherence to the policy. The following summarizes the results of our review and recommendations. More detailed information can be found beginning on page four.

1. Over 98% of transactions tested were processed in compliance with established policies.

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. Departments have improved their compliance with relevant policies.

2. The business purpose of meals purchased with P-Cards was inadequately documented in 26% of tested transactions.

Internal Audit tested 107 meal-related P-Card purchases of which 79 included the Business Meal Employee Reimbursement Form or a detailed description written on the receipt or within the MUNIS description field. The remaining 28 transactions totaling \$485 (ranging from \$3 to \$125) had insufficient documentation to substantiate a business purpose. Procurement Management is taking steps to improve compliance.

3. Adherence to controls is required to maintain the integrity of the P-Card program.

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 979 transactions and noted 18 violations. These violations were comprised of personal purchases, split transactions, lack of itemized receipts, and inadequate documentation. In some instances, violations were detected during monthly reconciliation processes and departments handled the issues in accordance with the policy. Each department agreed with the audit recommendations.

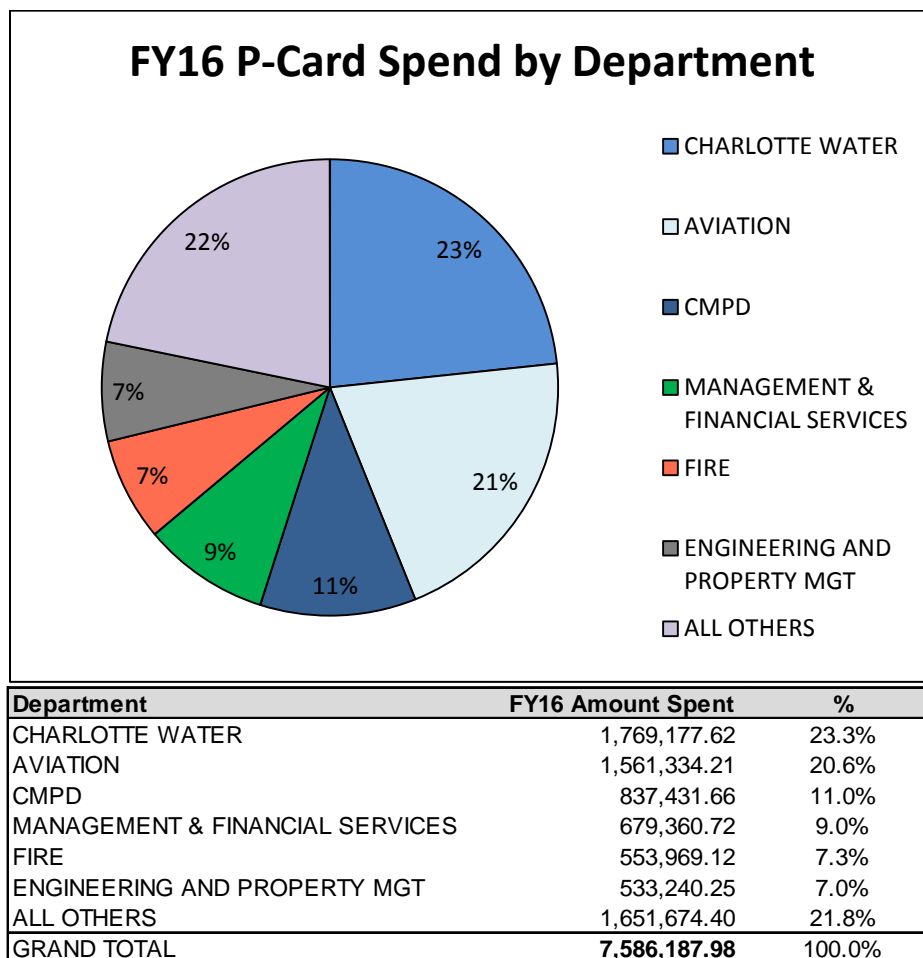
Background

The City's P-Card program was established in 2001. The P-Card Policy was significantly revised in FY12 with additional revisions 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 have grown about \$500,000 per year over the last two fiscal years and, through December 2016, are on pace to continue this trend in FY17.
- The City receives a rebate of about 1.5%, which totaled \$125,458 for the year ended January 31, 2017.
- During FY16, more than 26,700 transactions were processed by 576 cardholders.
- The average P-Card transaction amount has ranged \$200-\$300 over the past few years.



Audit Findings and Recommendations

1. Over 98% of transactions tested were processed in compliance with established policies.

Departments have improved their compliance with relevant policies. The percent of P-Card audit findings to tested transactions has decreased over the last three years. The error rate decreased from 5.4% in FY14 to 1.8% in FY16. The improvements in compliance can partly be attributed to the addition of a second P-Card Administrator within the Procurement Management Division.

	FY14	FY15	FY16	FY17 ¹
Cardholders ²	545	524	576	566
Expenditures	\$3,955,261	\$6,959,425	\$7,586,188	\$4,063,341
Transactions	18,851	24,383	26,707	13,971
Tested Items	497	832	979	-
Errors	27	29	18	-
Error Rate	5.4%	3.5%	1.8%	-

¹First six months (July 2016 – December 2016)

²At June 30 for FY14-FY16; at December 31 for FY17

M&FS, Finance Office Procurement Management Response: M&FS concurs with the audit findings. Improvements to the program include an updated policy which identifies enhanced department roles and responsibilities as well as more defined expectations regarding P-card management within the departments.

2. The business purpose of meals purchased with P-Cards was inadequately documented in 26% of tested transactions.

The policy states that itemized receipts, other supporting documentation, and all forms required by the Employee Travel and Reimbursement Policy are to be documented in the system (section 3.4.1). As per Section 1B of the Employee Travel and Reimbursement Policy, in addition to itemized receipts for meals, an approved Business Meal Employee Reimbursement Form must be submitted. This form requires the business purpose and attendees of the meeting.

Internal Audit reviewed 107 meal-related P-Card purchases. Twenty-five (23.4%) included the Business Meal Employee Reimbursement Form, as required. Fifty-four (50.5%) provided a detailed description written on the receipt or within the MUNIS description field. The remaining 28 transactions (26.2%) had insufficient documentation to substantiate a business purpose. These transactions totaled \$485 and ranged from \$3 to \$125.

Recommendation: Cardholders should adhere to the P-Card Policy and include the Business Meal Employee Reimbursement Form for food purchases (see Exhibit A).

M&FS, Finance Office Procurement Management Response: M&FS concurs with the audit findings. In support of the City's Corporate Procurement Program and to promote the appropriate use of P-cards in conjunction with the City's Employee Travel and Reimbursement Policy, Procurement Management will implement the following:

- Include additional written reminders of the need for sufficient documentation for meal purchases in P-Card monthly communications to all P-cardholders and department program managers;
- Request all department program managers to increase internal reviews of meal expenses related to travel.

3. Adherence to controls is required to maintain the 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 979 transactions tested yielded 18 violations. The following details the areas that require closer attention from departments.

A. Personal Purchases

The policy states that P-Card purchases must be for the use and benefit of the City and no personal purchases are allowed, regardless of intent to reimburse the City (section 2.4). If a personal purchase is accidentally made, the vendor needs to credit back the transaction at the point of sale or the P-Cardholder needs to reimburse the City immediately upon discovery (section 5.4). Personal purchases should be reported in writing to the P-Card Administrator upon discovery (section 9). Effective with the May 2016 policy update, personal purchases are classified as major infractions.

CMPD had two cardholders who made a total of seven personal purchases with their P-Cards. One cardholder had a single transaction totaling \$50.40. The money was paid back as soon as the error was made; however, no written violation was given. The other cardholder made six transactions with the same vendor within a one-week span totaling \$40.68. In this instance, a written violation was given but the funds were not recovered by the City.

The City Manager's Office (CMO) had one cardholder who made two personal purchases totaling \$18.21. These charges were reimbursed to the City; however, no written violation was given to the cardholder.

Recommendations: CMPD should issue a violation for the first transaction and should receive the repayment of \$40.68 for the second violation. 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 subsequent audits (by the P-Card Administrator, or the City's Internal Audit Division).

Actions Taken: The CMO issued a written violation to the cardholder. CMPD has received payment from the cardholder in the amount of \$40.68. The CMPD cardholder with the \$50.40 purchase is no longer a city employee; therefore, no violation can be issued.

CMO Response: The CMO issued the written violation to the cardholder as instructed by the P-Card policy and this audit. The purchase in question was an online transaction made with the cardholder's personal profile. Since the cardholder made both personal and legitimate business purchases via this profile, it contains both a form of personal payment and business payment, which were unintentionally mixed up in this case. The CMO has advised its cardholders to create separate business profiles for online purchases.

CMPD Response: CMPD concurs with the audit recommendation.

B. Split Transactions

Cardholders should not split transactions to circumvent the established single transaction limits and if needed, should seek temporary increases in accordance with the P-Card Policy. The policy states that splitting transactions to circumvent the Single Transaction Limit is prohibited and these infractions should be documented by the P-Card Administrator (sections 2.9 and 5.4). Split transactions, a minor infraction, should be reported in writing between the P-Card Program Manager and the P-Card Administrator upon discovery (section 9).

The limits are established to ensure that cardholders only make purchases up to the threshold approved by their supervisors. There were three instances where transactions among three departments were split to circumvent the single transaction limit.

Aviation and Charlotte Water (each with one split) noted the violations during their reviews of monthly transactions and disciplinary action was taken in accordance with the policy.

Auditors noted a split transaction was made by a CMPD cardholder and no violation was issued. All departments should take appropriate disciplinary action, whether noted during departmental review or during subsequent audits (by the P-Card Administrator, or the City's Internal Audit Division).

Action Taken: A written violation was issued to the P-Card holder.

C. Documentation

The policy states that P-cardholders should obtain, maintain, and image original itemized receipts of all P-Card transactions. Additionally, cardholders should scan and upload appropriate supporting documentation regarding the transaction into the System's document repository (section 3.4.1). The P-Card Accountant should ensure the cardholder has scanned and uploaded all applicable receipts or forms associated with the transactions in the system. Failure to complete these responsibilities or non-compliance will be documented and reported to the Department Director (section 3.4.3). Documentation issues, a minor infraction, should be reported in writing to the P-Card Administrator upon discovery (section 9).

Auditors noted six instances among three departments where no itemized receipts were loaded into MUNIS (TCM) or there was insufficient/incorrect documentation.

E&PM (1 transaction) and Innovation & Technology (4 transactions) provided copies of the receipts or lost receipt forms subsequent to audit inquiry but no disciplinary action was taken for the approval of transactions lacking the required support.

The City Manager's Office had one transaction that was approved without the proper backup attached in MUNIS.

Recommendation: Program managers should ensure all receipts and documentation are loaded into MUNIS before approving a cardholder's transaction(s). Appropriate disciplinary action should be taken in accordance with the policy for all violations.

CMO Response: The employee in question is no longer a card holder, and this method of payment for the service in question has ceased. This transaction was the regular \$10.66 monthly payment for a service from a utility provider. A supporting document for the same payment in the preceding month was included.

E&PM Response: The correct documentation was added to MUNIS and the employee and program manager were reminded verbally to make sure the proper receipts are included with the transactions.

I&T Response: I&T concurs with the Internal Audit's recommendation. Further, we are confident that these types of violations (totaling less than \$30 combined) will not be an issue moving forward due to P-Card policy revisions that have been implemented and I&T's own internal business process changes.

EXHIBIT A

Business Meal Employee Reimbursement

Date: _____

Amount: _____

(Attached itemized meal receipt.
Exclude any alcoholic beverages)

Names & Titles of Participants:

Business Purpose of the Meal:

I certify that the amount referenced above is an expense that was incurred and has been paid via City issued Procurement Card (P-Card) and that I have not/will not submit a duplicate claim.

Employee Name - PRINT

Employee Signature

Date

Approver Name - PRINT

Approver Signature

Date