



Audit Report
City-wide Procurement Card (P-Card) Compliance FY17
June 27, 2018

City Auditor's Office
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Report of Internal Audit

City-wide P-Card Compliance FY17

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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 29,292 transactions processed by 629 cardholders in FY17 (totaling \$8,322,305), auditors tested 871 transactions (totaling \$334,736); representing 3% of the transactions processed and 4% of the amount spent using P-Cards. The policy applicable for the period audited was dated May 1, 2016.

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 of Findings

With policy improvements and departmental attention during the past fiscal year, more violations are being addressed during the monthly review process. The number of transactions, along with dollar expenditures, has increased nearly 10% annually in recent years. These increases, combined with an audit error rate increase from 1.8% to 2.8%, indicate that continued close monitoring by departments is necessary.

- Compliance: 97% of the transactions tested complied with the policy. The violations were comprised of personal purchases, split transactions, lack of itemized receipts and inadequate documentation.
- Policy: Procurement Management revised the policy in May 2016 to strengthen internal controls; however, additional revisions are recommended.

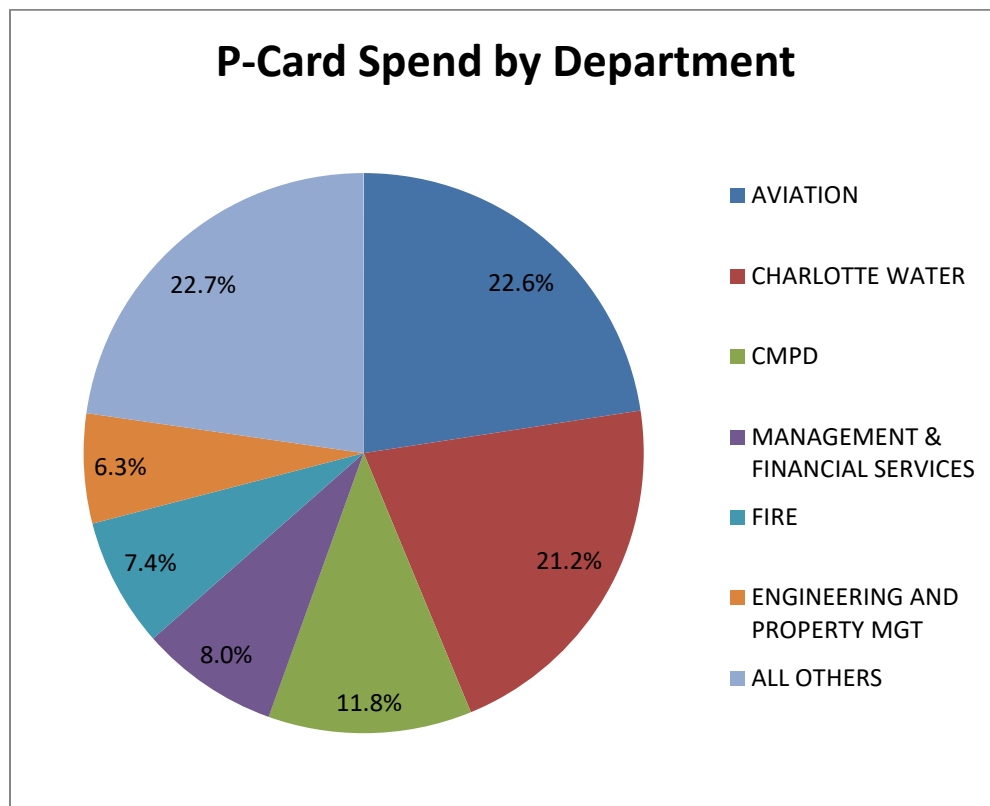
Background

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.

The P-Card program is used for less than 1% of the City's non-personnel expenses, and provides an efficient payment alternative. 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.

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. 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 \$7.6 million in FY16 to \$8.3 million in FY17 but still accounted for less than 1% of expenditures. See comparison chart below.
- The average P-Card transaction continues to range from \$200 to \$300.
- Cardholder purchases made in FY17 consisted of the following: 45% were \$100 or less, 49% ranged from \$101 to \$999 and 6% exceeded \$1,000.
- In FY17, more than half (56%) of the City's total P-Card expenditures were made by three departments combined – Aviation (23%), Charlotte Water (21%), and Charlotte Mecklenburg Police Department (12%).



Audit Findings and Recommendations

1. About 97% of transactions tested were processed in compliance with established policies.

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. Auditors tested 871 transactions and noted 24 policy violations. Some of the violations were detected during departments' monthly reconciliations and handled in accordance with the policy, except where indicated below.

	FY15	FY16	FY17	FY18¹
Cardholders ²	524	576	629	622
Expenditures	\$6,959,425	\$7,586,188	\$8,322,305	\$4,283,071
Transactions	24,383	26,707	29,292	14,922
Tested Items	832	979	871	-
Errors	29	18	24	-
Error Rate	3.5%	1.8%	2.8%	-

¹First six months (July 2017-Dec 2017)

²At June 30 for FY15-FY17; at December 31 for FY18

The following details the areas that require closer attention from departments. All policy references are from the Citywide Procurement Card Policy.

Policy References – Loaned Card Usage
<p>2.15 – P-Cards may not be loaned to or shared by individuals.</p> <p>4.1 – P-Cards are assigned to an individual City employee to be solely used by that named P-Cardholder. The P-Cardholder shall be fully responsible for their P-Card Transactions and all reconciliation activities in compliance with this Policy and all applicable City Policies.</p> <p>Section 9 (Major infraction) All instances of major infractions shall be reported in writing between the P-Card Program Manager and the P-Card Administrator upon discovery by either party.</p>
<p>Comment: A cardholder in CMPD allowed another employee to use a P-Card to purchase meals for three City employees and program participants. The charges ranged from \$46.08 to \$202.66 and were for purchases at fast food restaurants.</p> <p><u>Recommendation:</u> Appropriate disciplinary action should be taken in accordance with the policy.</p> <p><u>Actions Taken:</u> The cardholder received a P-Card infraction and compliance form.</p>

Policy References – Personal Purchases

2.4 – 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.

5.4 – An accidental use of the City P-Card for a personal purchase should either be credited back by the vendor at the point of sale, or reimbursed by the P-Cardholder immediately upon discovery. Such errors will be reported and related records will be maintained.

Section 9 (Major Infraction) – All instances of major infractions shall be reported in writing between the P-Card Program Manager and the P-Card Administrator upon discovery by either party.

Comments: There were nine instances where cardholder transactions among six departments had personal purchases. The purchases ranged from \$4 to \$54. All funds were repaid to the City prior to the audit.

Human Resources had one cardholder who made two personal purchases on the same day totaling \$53.54. The City Manager's Office had one employee with a single transaction totaling \$40. Both departments were aware of the infractions; however, did not issue violations as required by policy.


Charlotte Water had one employee with a single transaction totaling \$40 and Charmeck 311 had one employee with a single transaction totaling \$8.53. Both infractions were discovered by the departments. Charlotte Water issued a written violation and Charmeck 311 issued a verbal reprimand; however, a written violation is required by policy.

CMPD had one cardholder with three transactions totaling \$29.65. The employee received one written violation by the department for all three personal purchases.

Innovation and Technology had one cardholder with a single transaction totaling \$4.28. The employee received a written violation, as required by policy.

Recommendation: Program managers should review transactions in 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).

Human Resources Response: HR is compliant with using the P-Card to purchase items for the use and/or need of a city function, service or body of work.

 Internal Audit noted that HR disagrees a written violation is warranted, even though it is required by policy. As detailed above, the audit determined that Human Resources was not compliant in handling an accidental P-card use, as addressed in policy section 5.4.

City Manager's Office Response: The Program Manager for the City Manager's office will continue to educate and keep all P-Card holders abreast of any changes within the P-Card policy. In addition, appropriate disciplinary action has been taken for the infraction.

Innovation & Technology Response: Innovation & Technology concurs with Internal Audit's recommendation.

Charlotte Water Response: Charlotte Water concurs with the recommendation and currently abides by the recommendation outlined in the P-Card audit. All P-Card transactions are diligently reviewed by the Program Managers every month and personal use is identified. Occurrences of personal use are remedied per City Policy. In addition to the recommendation, Charlotte Water Program Managers offer routine training to staff involved in the P-Card program.

Charmeck 311 Response: The employee is no longer a cardholder. For any subsequent infractions, we will issue written violations as required by policy.

CMPD Response: The employee received a written reprimand and was made aware that any future violations will result in a 30-day suspension of P-Card privileges.

Policy References – Exceeds Single Transaction Limit/Split Transactions
<p>2.8 – Any exception to the standard Single Transaction Limit requires written approval.</p> <p>2.9 – Splitting transactions to avoid the Single Transaction Limit is prohibited. Infractions shall be documented by the P-Card Administrator.</p> <p>5.4 – A purchase shall not be split into multiple transactions to circumvent the Single Transaction Limit in order to obtain a single item whose cost is in excess of the P-Cardholder's transaction limit.</p> <p>Section 9 (Minor Infraction) – All instances of minor infractions shall be reported in writing between the P-Card Program Manager and the P-Card Administrator upon discovery by either party.</p> <p>Comments: Six transactions among four departments were purchases causing the cardholders to exceed their single transaction limits or split transactions. Limits are established to ensure cardholders make purchases up to the threshold approved by their supervisors. Departments can contact the Procurement Card Administrator to request temporary increases to their single transaction limit to allow a specific purchase.</p> <p>Aviation had one cardholder on two separate occasions exceed the single transaction limit. The department issued the employee a combined violation for the incidents and a 45 day card suspension prior to the audit.</p>

CATS had one cardholder pay two recurring monthly invoices at one time causing the single transaction limit to be exceeded. The employee was issued a verbal reprimand prior to the audit.

Fleet Management had one cardholder split transactions causing the single transaction limit to be exceeded. The infraction was discovered by the P-Card Administrator who issued a violation prior to the audit.

Charlotte Fire had two cardholders (one transaction each) split transactions causing each to exceed the single transaction limit. The infractions were noted during the audit. Neither cardholder was issued a violation by the department.

Recommendation: Cardholders should not split transactions to circumvent the limits established for them and should follow 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).

Aviation Response: Aviation agrees with the recommendation. In both instances, Aviation's disciplinary actions taken exceeded those required by the City P-Card Policy.

CATS Response: We concur with your audit comment regarding exceeding single transaction limit. The cardholder is no longer an employee with CATS. We will make sure to check our P-Card transactions regarding single transaction limits so that this type of transaction does not occur again.

Fleet Management Response: The Fleet Department concurs with Internal Audit's recommendation.

Charlotte Fire Response: The Charlotte Fire Department concurs with Internal Audit's recommendation. The P-Cardholders were issued verbal reprimands at the time of the audit but both have since received written violations. The Program Manager will report in writing any inappropriate transactions and all policy and procedure infractions to the Cardholder and the P-Card Administrator.

Policy References – Documentation

2.11 – All P-Card purchases must be entered into and reconciled electronically in the City's System, including correct funding information, commodity codes, taxes, transaction information, receipts, and supporting documentation prior to final approval.

3.4.1 – The P-Cardholder should obtain, maintain, and image original itemized receipts or lost receipt forms 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.

3.4.3 – The P-Card Accountant should ensure the cardholder has scanned and uploaded all applicable purchase 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 9 (Minor Infraction) – All instances of minor infractions shall be reported in writing between the P-Card Program Manager and the P-Card Administrator upon discovery by either party.

Comments: Five transactions among two departments did not have proper documentation loaded in MUNIS (TCM). This included the lack of itemized receipts or lost receipt forms, insufficient documentation and improperly allocating sales taxes into MUNIS.

E&PM had three cardholders with transactions that lacked proper documentation. Two cardholders had one incident each without itemized receipts or lost receipt forms. The third cardholder allocated the sales tax in MUNIS; however, sales tax was not on the receipt.

Aviation had two cardholders with transactions lacking proper documentation. The first transaction did not have an itemized receipt attached. The itemized receipt was added into MUNIS during audit testing. In the second incident, the cardholder uploaded the incorrect receipt. After inquiry with the department, the original receipt could not be located and no lost receipt form was completed.

None of the departments issued violations for the above infractions.

Recommendation: Cardholders should include itemized receipts, lost receipt forms, and other pertinent documentation. Program managers should ensure all documentation is loaded into MUNIS before approving cardholder's transactions. Appropriate disciplinary action should be taken in accordance with the policy for all violations.

E&PM Response: Per the P-Card policy, each employee received in writing appropriate discipline for the minor violations. We had conversations with all staff members who had violations discovered in the Audit and by the P-Card Administrator in subsequent audits.

Aviation Response: Aviation agrees with the recommendation. For the first transaction noted above, the card holder had the proper paid itemized receipt for purchase, but the transaction attachment did not include the supporting quote. For the second transaction, the card holder has uploaded the missing paid itemized receipt in Munis. Aviation's P-Card Program Manager will address and document disciplinary action taken in accordance with City Procurement Policy guidelines.

2. The Procurement Card Policy needs further revisions to strengthen program compliance.

The Procurement Card policy establishes an efficient and effective process to acquire goods and services but there are three areas that need additional guidance. During our review and discussion with program managers, auditors noted the following:

- There are different interpretations among P-Card program managers and cardholders of what is considered a split transaction involving conferences, hotels and membership registrations.
 - Additional guidance through monthly communications and training sessions will provide users a better understanding of this infraction.
- The policy references Card Destruction Forms but there is no timeframe established for program managers to submit the forms to the Procurement Administrator.
 - To improve the policy, a timeframe needs to be set to reduce the risks when P-Cards are compromised. Bank of America reissues P-Cards as soon as alerts are detected and destruction forms may not be submitted until weeks later.
- Auditors noted instances of P-Card purchases being shipped to non-City addresses. The use of P-Cards is intended for business-related purchases and items shipped to home addresses and P.O. boxes bring into question the legitimacy of the purchases.
 - The policy needs to address the issue of where business purchases are shipped.

Recommendation: Procurement Management should revise the P-Card policy for clarification.

M&FS, Finance Office Procurement Management Response: M&FS, Finance – Procurement Management concurs with the recommendations. The Corporate Procurement Card Team has already begun preparing the necessary modifications to the Citywide Procurement Card Policy and the required forms. The team has also established a regular meeting and communications protocol with Department P-Card Program Managers to provide additional clarification to improve compliance. The Procurement Card Training Module is being updated in support of P-Card improvements.