




OFFICE OF THE INSPECTOR GENERAL
CITY OF TALLAHASSEE



DENNIS R. SUTTON
INSPECTOR GENERAL

TO: Mayor and Members of the City Commission
FROM: Dennis R. Sutton, Inspector General 
DATE: December 23, 2021
SUBJECT: Audit of Purchase Card Administration (AR-2201)

We have completed the Audit of Purchase Card Administration. We submit this report which contains our observations and recommended actions, and a response from the City Manager. We will periodically review and report on management's actions to address the observations within this report.

We thank applicable City staff for their assistance and cooperation during this audit. If you have any questions or need a more detailed briefing on this audit, please contact me.

DRS/md

Attachment

cc: Members of the Audit Committee
Appointed Officials
Executive Team
Patrick Twyman, Financial Services
Matt Lutz, Treasurer-Clerk Records
External Auditor



Audit of Purchase Card Administration

Report AR-2201
December 23, 2021

Why We Did This Audit

The City processes approximately 61,000 P-Card transactions annually. In efforts to evaluate the efficiency and effectiveness of the Administration of the City's P-Card Program, this audit reviewed and evaluated P-Card activity within selected City departments, tested transactions for compliance with City P-Card policy and good business practices, evaluated controls over the use of City P-Cards, and reviewed the City P-Card policy for completeness and adequacy for fiscal years 2018 and 2019. The specific audit objectives were to determine: 1) whether policies and procedures governing the City's Purchase Card program (Program) provided adequate internal controls to reasonably ensure the Program's goals and objective would be accomplished, and 2) did operations of the Purchase Card (P-Card) Administration (Admin) section of Procurement Services comply with applicable policies and procedures.

What We Found

We concluded that overall, City P-Card policies and procedures provided adequate internal controls to reasonably ensure P-Card transactions were accurate, properly approved and recorded, served a public purpose, and Program goals would be achieved. However, we did identify where improvements should be made to the administration of the Program. Specifically, we noted the program should be improved by:

- Increasing segregation of incompatible duties in the administration of the program,
- Establishing a formal monitoring process for P-Card activity,
- Improving controls related to the transfer of P-Card Data,
- Revising Administrative Policy and Procedure 603,
- Requiring refresher P-Card training, and
- Revising Program performance measurement.

What We Did



Reviewed:

Policies, procedures, records, files, and industry best practices

Interviewed:

P-Card Program Staff

Observed:

Operations of P-Card Administration

Audit Period:

Fiscal Years 2018-2019

City P-Card Activity

Approximately

**61,000 transactions
and
\$21 million annually**

Observations

Page

1. Segregation of Duties	3
2. Formal P-Card Program Monitoring Process	4
3. Controls related to the Transfer of P-Card Data	5
4. Clarity and Conciseness of P-Card Policy	6
5. Refresher P-Card Training	7
6. Performance Measures	8

Background

The stated objective of the P-Card program (Program) is to reduce the cost of procuring supplies and services through administrative efficiencies. Savings are reported to be obtained through reductions in the number of checks needing to be generated and reductions in the number of employees (and departments) needed to initiate and process transactions. Other reported efficiencies are realized as goods and services can often be obtained more quickly when compared to traditional procurement methods.

The City's Purchase Card (P-Card) program was initiated in 1998. Procurement Services oversees the program while individual departments are responsible for the administration of P-Card activity within their respective areas.

P-Card purchases and monthly bank reimbursements are made in a manner similar to consumer credit cards. The significant difference is that with the City's P-Card Program the bank must be fully reimbursed each month rather than being able to carry a balance forward, as can be done with a consumer credit card.

The P-Card process is as follows. When a City P-Card holder (cardholder) purchases an item with a P-Card, the vendor 1) accepts the P-Card as a form of payment for the goods or services; 2) submits the transaction to the bank for payment; and 3) receives funds from the bank for the transaction. The bank, on a daily basis, accumulates P-Card transactions for all City cardholders and transmits the transaction information to the City. The P-Card Administrative (P-Card Admin) section of Procurement Services receives the transaction information and records it in the City's PeopleSoft P-Card module. To ensure the P-Card transaction information received from the bank is accurate and complete, cardholders and applicable supervisory personnel are required to review, approve, and code the transactions to appropriate expense accounts. Prior to transmittal of the bank's reimbursement, P-Card Admin verifies all P-Card transactions were properly reviewed and approved.

City departments are responsible for retaining records supporting P-Card transactions made by their cardholders. Those records are stored in OnBase, the City's electronic document storage system.

This audit represents the Office of the Inspector General's third review of the P-Card program (previous reports #0326 and #0805).

Observation 1 - Segregation of Duties

Segregation of duties is an important internal control which separates duties and/or responsibilities that should not be conducted by the same person. The separation of incompatible duties is intended to reduce the risk intentional or unintentional errors could occur without timely detection. Our review of the Program showed an inadequate segregation of duties related to certain administrative duties. Specifically, we noted both individuals involved in the administration of the Program were authorized to:

- Request, receive, and distribute new and/or replacement P-Cards,
- Receive P-Card transaction information from the bank,
- Upload P-Card transaction information into the PeopleSoft Financial Management System (FMS), and
- Receive, review, and act on suspicious P-Card activity alerts from the bank.

Those two individuals primarily have separate responsibilities in the administration of the Program and in the course of normal operations incompatible duties are divided between the two staff persons. However, each serves as the back-up for the other and has the ability and authority to perform all the above noted actions.

We recommend the incompatible duties in the Program be separated among more than one staff. In instances when conflicting duties are unable to be segregated, we recommend additional reviews and/or monitoring of those duties by management.

Management's Response and/or Corrective Action

1. Prepare business process guides and flowcharts for the P-Card processes. Review current security role assignments in PSFIN.

Completion Date 1/31/22

2. Evaluate results in task 1 and develop new process that segregates duties including detective, compensating, and mitigating controls in place to ensure process integrity when duties cannot be segregated. Update PSFIN security roles as part of this process.

Completion Date 3/31/22

During the audit period, there were approximately 61,000 P-Card transactions made by 900 cardholders totaling \$21 million.

Management's Response and/or Corrective Action

1. Review Bank of America (BOA) software tools and deploy any that will help mitigate risk.

Completion Date 2/28/22

2. As part of the reimplementation of the P-Card module in PSFIN develop business processes and control that mitigate risks.

Completion Date 9/30/22

Observation 2 - Formal P-Card Program Monitoring Process

Administrative Policies and Procedures #603 - P-Card Procedures (APP 603) requires P-Card Admin to perform periodic monitoring of the Program. P-Card Admin internal procedures provides for the requirement to be satisfied through two activities, transaction monitoring and departmental reviews. The purposes of those activities are to 1) identify, assess, and, when appropriate, take corrective action on P-Card transactions flagged as potentially being fraudulent, and 2) determine departmental compliance with APP 603. A formal and consistently applied monitoring process which includes both transaction monitoring and departmental reviews will reduce the risk errors and fraud may occur within the Program. Our audit did not identify any evidence showing P-Card Admin had

conducted such monitoring activities during the audit period. Additionally, neither a methodology nor criteria for conducting those reviews had formally been established.

We recommend P-Card Admin perform monitoring of individual P-Card transactions, conduct departmental reviews of P-Card usage, and document those monitoring activities. We further recommend the departmental review process include, at a minimum: 1) a risk-based methodology for determining which departments are selected for review; 2) establishment of criteria to be consistently used when evaluating departmental oversight of P-Card activities; and 3) communication of departmental review results to applicable departmental, Financial Services, and executive level leadership.



Observation 3 - Controls related to the Transfer of P-Card Data

During our review of the process for recording P-Card transactions in PeopleSoft FMS, we noted P-Card Admin manually downloaded transaction information from the bank and then manually uploaded that information into PeopleSoft Financials.

The manual process used by P-Card Admin to obtain and record the City's P-Card transaction information is inefficient. Additionally, the file containing the P-Card transaction information is in an unprotected format increasing the risk information could be changed prior to its upload to PeopleSoft FMS.

We recommend the process for transferring P-Card transaction information from the bank to PeopleSoft FMS be automated to increase the efficiency and security of the Program by reducing staff time and involvement in the process. If an automated process is determined not to be feasible, we recommend management implement mitigating controls to help reduce the risks related to alteration of P-Card transaction information.

Management's Response and/or Corrective Action

The P-Card staff will work with ERP and BOA to determine what options are available from BOA system to automate the transfer of daily transactions from BOA System to PSFIN. This will be incorporated into the P-Card reimplementation project.

Completion Date 9/30/22

Strategic Plan

Objective 3B: Implement paperless internal services.

Observation 4 - Clarity and Conciseness of P-Card Policy

Management's Response and/or Corrective Action

1. Develop an interim gift card guidance communication regarding requirements when purchasing gift cards with a P-Card. Establish a threshold when the dollar amount equates to the establishment of a petty cash fund. Provide documentation requirements for P-Card transaction support and reimbursement requests for petty cash funds.

Completion Date 3/31/22

2. Rewrite the P-Card Policy aligning it with the module functionality and current industry best practices.

Completion Date 9/30/22

APP 603 is the City policy establishing requirements for P - C a r d u s a g e a n d administration of the Program. Our review showed the policy needs revision to communicate management's directives and expectations in a more clear and concise manner.

Examples of areas identified where the policy could be enhanced include:

1. APP 603 includes excerpts from other City policies and procedures rather than referencing the applicable parts of the policies that relate to P-Card usage and purchasing.
2. Portions of APP 603 are redundant.

3. Program goals identified in section APP 603.06 do not support the purpose of the Program as stated in APP 603.02.

4. APP 603 specifically prohibits using P-Cards to obtain cash, however using P-Cards to acquire gift cards (generally considered a "cash equivalent") is not prohibited.

We recommend management review and update APP 603 to provide clear, concise, and appropriate P-Card guidance to departments and cardholders. Additionally, we recommend the purchase of gift cards be prohibited.

P-Card purchases represent 8% of total City funds disbursed.

Observation 5 - Refresher P-Card Training

During our review of training provided by P-Card Admin, we noted formal training is required for new cardholders. However, refresher training is not required for existing cardholder. Numerous changes to the P-Card policies, procedures, and processes have occurred since the inception of the Program. Refresher P-Card training will increase cardholder awareness of important aspects of P-Card policies and procedures, reduce the risk of non-compliance with Program requirements, and serve as a mechanism to communicate changes to the program when they occur.

We recommend P-Card Admin require refresher training program for existing cardholders. The refresher training should be required for all P-Card holders on a regular and recurring basis. To help ensure cardholders obtain refresher training, we recommend management consider only issuing replacement P-Cards (e.g., when existing P-Card expires) upon completion of refresher training.

Management's Response and/or Corrective Action

New training on the new business process and PSFIN system processes will be incorporated into the P - C a r d reimplementation project. The training will include a P-Card Policy module that explains requirements and any significant changes.

Completion Date 9/30/22



**Purchasing Card
Training**

Observation 6 - Performance Measures

Management's Response and/or Corrective Action

Develop performance measures for the P-Card program and staff, including a reporting dashboard that monitors transactional activity on a real time basis. We will include statistics on department compliance as part of the performance management program developed.

Completion Date 9/30/22

The use of performance measures is an important tool for evaluating the success and management of programs and services. APP 603.06 states performance measures will be established, used to monitor the achievement of Program goals, and the results of the performance measurement will be reported to executive management.

The goals of the Program, as identified in APP 603, include:

- Reducing the amount of documentation required for small purchases,
- Reducing the support service and departmental administrative support staff time devoted to small purchases,
- Reducing the cost of processing small purchase orders (requisitioning, converting to purchase orders, receiving, paying), and
- Generating a rebate.

Our audit showed a performance measure had been developed for tracking the rebate generated by the Program. However, we were unable to determine whether performance measures had been developed to monitor the three remaining Program goals. Additional performance measures beyond those intended to evaluate the Program's success in achieving its goals would benefit management in monitoring the Program and determining if the Program was meeting the needs of the City.

We recommend management establish performance measures to specifically evaluate the City's success in achieving the Program's goals as identified in APP 603. We further recommend management establish additional performance measures to evaluate the Program's success in achieving business and strategic objectives. Finally, we recommend a formal reporting process to periodically provide performance measure results to executive management.

Appointed Official's Response

City Manager -

We have reviewed the comments included in the Audit of Purchase Card Administration and are pleased to see that overall, the audit concluded that policies governing the P-Card program were sufficient to reasonably assure the program is consistent with applicable City policies, procedures, and industry best practices. We also agree that there are opportunities for improvement with both the P-Card policy and the operations of P-Card Administration section of the Financial Services Department. To this end we will be looking at current policies and processes to address the audit's findings. As part of this, we will evaluate existing monitoring processes, will implement new automation to maximize efficiencies and controls, will conduct refresher training for departments, and will establish relevant performance measures for the program.

I would like to thank the Office of the Inspector General, his staff, and the Financial Services Department for their cooperation and professional work on this audit.

Acknowledgements

We would like to express our appreciation to Procurement Services management and staff for their cooperation and assistance during this audit.

Project Team

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Supervised by:	Patrick Cowen IT Audit Director
Approved by:	Dennis R. Sutton, CPA, CIA, CIG Inspector General

Statement of Accordance

The Office of Inspector General's mission is to advance integrity, accountability, transparency, and efficiency and effectiveness within City government by providing professional, independent, and objective audit and investigative services.

We conducted this audit in conformance with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Please address inquiries regarding this report to the Office of Inspector General at (850) 891-8397 or inspector.general@talgov.com.

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