



20 E Main St Suite 820  
PO Box 1466  
Mesa, Arizona 85211-1466

Date: June 9, 2011

To: Audit, Finance & Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Procurement Card Program Audit – Final Report

cc: Trisha Sorensen, Assistant to the City Manager  
Ed Quedens, Business Services Director  
Jim Ruiz, Purchasing Administrator  
John Albin, Materials & Supply Administrator-SA  
Stacie Hopper, Sr. Program Assistant  
Mary Kay Rota, Sr. Accountant

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed an audit of the City's Procurement Card Program. The final report with management's response is attached. Please feel free to contact Jason Taylor at x3635 or me at x3767 if you have any questions.



20 E Main St Suite 820  
PO Box 1466  
Mesa, Arizona 85211-1466

mesaaz.gov

## AUDIT REPORT

CITY AUDITOR

**Report Date: May 9, 2011**

**Department: Business Services Department/Purchasing Division**

**Subject: Audit of Procurement Card Program**

### **OBJECTIVES**

With regard to the City's Procurement Card Program, determine whether:

- Adequate controls are in place and operating effectively to prevent or detect errors, fraud, waste and/or abuse.
- Procurement card users and administrators comply with applicable policies and procedures.
- Opportunities exist to improve efficiency and effectiveness.

### **SCOPE & METHODOLOGY**

To accomplish our objectives, we reviewed the procurement card services contract, applicable policies and procedures, and other established guidance; interviewed City staff members; and reviewed procurement card transactions from July 1, 2009 through December 7, 2010.

### **BACKGROUND**

The City's procurement card program was implemented in 1999 in order to streamline travel-related and small-dollar purchases and reduce petty cash transactions. Credit limits for City procurement cards generally range from \$500 to \$2,500 per transaction, and \$500 to \$5,000 per month. There are various card types with different limitations, depending on the cardholders' needs. For example, fuel cards can only be used at gas stations and have credit limits as low as \$500, whereas traveler cards may be used at a variety of merchant types and have higher credit limits. At the time of our audit, there were 309 active procurement cards. Total procurement card spending in 2010 was approximately \$2 million.

Cardholders are recommended by their department managers and receive training from the Program Administrator before the cards are issued. Supervisors review all transactions, and then Accounts Payable reviews every invoice/receipt before approving payment to Bank of America. If a concern is identified, Accounts Payable contacts the cardholder and the Program Administrator. The Program Administrator then takes appropriate enforcement action. Depending on the circumstances, this can range from a simple reminder to card revocation. Accounts Payable's review of all transactions and the Program Administrator's proactive monitoring approach provide a strong control environment for the Program.

Mesa uses the City of Chandler's contract with Bank of America for procurement card services, as do several other municipalities. One of the highlights of the agreement is that Bank of America waives all maintenance fees for participating agencies and pays annual rebates to the agencies based on card usage. For rebate year 2010, Mesa's rebate was about \$25,700.

Purchasing has identified various opportunities to increase procurement card rebates. For example, all purchases from the Wist office supply contract are made via procurement card, which will likely account for about \$10,000 in rebates for fiscal year 2011. Purchasing has also begun asking potential vendors whether they will accept payment in the form of procurement cards. Finally, the CityEdge system may allow the City to work with Bank of America to implement a service known as "e-Payables," which could transition even high-dollar vendor payments from check to procurement card while retaining the current levels of review.

### **CONCLUSION**

Overall, the Procurement Card Program is operating effectively and efficiently, and is supported by effective controls. Although we noted no instances of fraud or abuse, we did identify a few opportunities to further reduce risks and improve the Program, as listed below. For additional details, please see the four attached Corrective Action Plans (CAPs).

### **RECOMMENDATIONS**

1. Purchasing should revise its policies, procedures, and forms to more clearly state management authorization requirements for cardholders and their credit limits.
2. To help prevent inappropriate purchases, Purchasing should review merchant category restrictions on an annual basis and revise them as needed.
3. Purchasing and Accounts Payable should improve cardholder accountability for Missing Documentation forms. Specifically:
  - a. Accounts Payable should ensure that all Missing Documentation Forms include itemized descriptions of all purchases.
  - b. Accounts Payable should log cardholders' usage of Missing Documentation Forms and forward the log to Purchasing on a monthly basis.
  - c. Purchasing should establish limits and enforcement actions related to the use of Missing Documentation Forms, and should incorporate them into existing policies and procedures.
4. On an annual basis, Purchasing should identify procurement cards not used within the past year and ask the appropriate managers to determine whether the cards are still needed.
5. Purchasing should continue assessing whether the CityEdge ERP system can be configured to facilitate implementation of e-Payables, as a means to further increase rebates.

---

**CAP #1: Policies, Procedures, and Forms Should Be Clarified**

---

**Observations:** Several cardholders had increased credit or transaction limits without the required authorization. One cardholder did not have a signed Procurement Card User Agreement on file.

**Comments:** Management Policy 211, *Procurement Card Program*, requires extended credit limits (over \$2,500 per transaction or over \$5,000 per month) to be authorized by the City Manager or Designee. Unauthorized increases to credit limits could provide an opportunity for fraud or abuse.

By not ensuring that cardholders have read and signed the Procurement Card User Agreement, the Program Administrator cannot be assured that the cardholders understand their responsibilities related to the program. It should be noted that the Program Administrator immediately obtained the proper authorizations and forms for the cardholders that we identified.

The missing documentation that we noted may have been caused by a lack of clarity and consistency among the policies, procedures, and forms used for the Procurement Card Program. Specifically the policies and procedures do not mention all of the required forms/documentation; and the forms do not reference all of the authorization requirements for extended credit limits.

- Recommendations:**
1. Purchasing should clarify some items in the Procurement Card Program's policies, procedures, and forms. Specifically:
    - a. The *Procurement Card Program Guidelines and Procedures* should explain when Procurement Card Change forms should be used, and should specify the required approvals for both the original applications and any subsequent Change Forms.
    - b. Management Policy 211, *Procurement Card Program*, and/or the *Procurement Card Program Guidelines and Procedures* should require that a signed Procurement Card User Agreement be maintained for every cardholder.
    - c. The Procurement Card Application and Change forms should designate the approval required for transaction limits over \$2,500.
    - d. The Procurement Card Application and Change forms should require approval signatures to be accompanied by an employee ID number to help identify the approver.

---

**CAP #2: Merchant Category Code Restrictions Should be Reviewed/Updated**

---

**Observations:** Current Merchant Category Code (MCC) restrictions are not consistent with the intended restrictions listed in the *Procurement Card Program Guidelines and Procedures*. For example, non-travel cards could be used at hotels, and department office supply cards could be used to make various unrelated purchases. In addition, there are unrestricted MCCs for which no regular business need has been established, including alcohol wholesalers, pawn shops, and tourist attractions.

The City has not assessed the appropriateness of its MCC restrictions for several years.

**Comments:** When feasible, the City should implement controls designed to prevent or deter fraud, waste, or abuse. For example, Procurement cards can be programmed to automatically decline purchases from certain types of merchants. Specifically, cards intended only for refueling City vehicles can be programmed such that the card is declined when used anywhere other than at a gas station.

**Recommendations:**

1. Purchasing should review programmed MCC restrictions for all card profiles on an annual basis, revising them to be in alignment with intended business uses.
2. Purchasing should establish a new card profile for department cards, aligning the MCC restrictions with the intended use (currently only office supplies).

---

**CAP #3: Accountability For Missing Documentation Forms Should Be Improved**

---

**Observations:** We noted a few instances in which cardholders used Missing Documentation Forms, but were not required to provide itemized lists of items purchased. In addition, Accounts Payable and Purchasing do not track how often cardholders use the forms and have not established related usage limits.

**Comments:** The *Procurement Card Program Guidelines and Procedures* states:  
*If a receipt is lost, the Cardholder is required to attach a "Missing Documentation Form"...describing the purchase in detail, including the merchant's name, date, amount of purchase and a complete description of what was purchased.*

Under the *Procurement Card Program Guidelines and Procedures*, Accounts Payable is responsible for notifying the Program Administrator of payment requests with incomplete/unclear documentation; and the Program Administrator is responsible for modifying or revoking cardholder privileges based on documented incidents of inappropriate use.

Use of a Missing Receipt Form is one way in which a clearly-inappropriate purchase could go undetected, especially if the cardholder does not provide an itemized description of the purchase. Since the use of the Missing Receipt Forms is not tracked, we could not determine the extent of the problem or verify that other instances have been detected or communicated. Formally tracking the use of the Forms would provide a systematic way to ensure compliance.

**Recommendations:**

1. Accounts Payable should ensure that all Missing Documentation Forms include an itemized description of the purchase.
2. Accounts Payable should log cardholders' usage of Missing Documentation Forms and provide the log to Purchasing on a monthly basis.
3. Purchasing should establish limits and enforcement actions related to cardholders' use of Missing Documentation Forms, and should include them in the *Procurement Card Program Guidelines and Procedures*.

---

**CAP #4: Unneeded Procurement Cards Should be Identified and Cancelled**

---

**Observations:** We identified 30 procurement cards that had not been used in at least a year. The respective managers asserted that at least 5 of these cards were no longer needed (several of the remaining cards were still awaiting disposition as of the end of the audit).

**Comments:** In general, an employee should not have the ability to process transactions if his/her job does not involve doing so. In addition, Management Policy 211 *Procurement Card Program* suggests that, in determining who should have a procurement card, department directors should consider whether the employee's use of the procurement card will enhance productivity.

Each procurement card is subject to the risks of fraud, waste or abuse, whether by the cardholder or an unauthorized user. While various controls are in place to mitigate this risk, including Accounts Payable's detailed review of all transaction receipts, and fraud protection from Bank of America, if a card is no longer needed it should be cancelled to further mitigate the risk.

**Recommendation:** 1. On an annual basis, Purchasing should identify cards not used within the past year and ask the appropriate managers to determine whether the cards are still needed.



20 E Main St Suite 450  
PO Box 1466  
Mesa, Arizona 85211-1466

BUSINESS SERVICES  
DEPARTMENT

mesaaz.gov

**To:** Jennifer Ruttman, City Auditor  
**Date:** June 8, 2011  
**Subject:** Audit Response – Procurement Card Program

We appreciate your review and recommendations.

We are pleased that most of the recommendations are very minor and we feel that overall the recommendations will make the program even stronger. We think there may be some opportunities to further enhance the program and we hope we can work with you and your staff to vet these ideas in the near future.

Again, we appreciate your review and look forward to working together as we continue to improve our processes. Special thanks to Jason Taylor for his efforts on this audit.

If you have any questions about our response, please let us know.

A handwritten signature in black ink, appearing to read "Jim Ruiz".

Jim Ruiz, CPPB  
Purchasing Administrator

A handwritten signature in black ink, appearing to read "Edward Quedens".

Edward Quedens, CPPO, C.P.M.  
Business Services Director

cc: Patricia Sorensen, Assistant to the City Manager



**AUDIT RESPONSE FORM**  
**Audit of Procurement Card Program - May/2011**

Recom- mendation #	Agree Or Disagree	BRIEF Summary of Implementation Plan (NOTE: If recommendation will not be implemented, please explain your alternative plan to address the observation noted in the CAP.)	Estimated Implementation Date (M/YYYY)
<b>CAP #1: Policies, Procedures and Forms Should Be Clarified</b>			
<b>Rec #1:</b> Purchasing should clarify some items in the Procurement Card Program's policies, procedures, and forms. Specifically:			
<b>Rec #1a</b>	Agree	The <i>Procurement Card Program Guidelines and Procedures</i> should explain when Procurement Card Change forms should be used, and should specify the required approvals for both the original applications and any subsequent Change Forms.	7/2011
		Various sections of the Procurement Card Program Guidelines and Procedures are being updated to comply with the recommendation.	
<b>Rec #1b</b>	Agree	Management Policy 211, <i>Procurement Card Program</i> , and/or the <i>Procurement Card Program Guidelines and Procedures</i> should require that a signed Procurement Card User Agreement be maintained for every cardholder.	7/2011
		This has been the intent however Section III (G) of Management Policy 211 is being clarified.	
<b>Rec #1c</b>	Agree	The Procurement Card Application and Change forms should designate the approval required for transaction limits over \$2,500.	5/2011
		Monthly limits over \$5,000 were designated as requiring City Manager or designee approval but per transaction limits over \$2,500 were not designated on the forms. Both the Application and Change form have been updated.	
<b>Rec #1d</b>	Agree	The Procurement Card Application and Change forms should require approval signatures to be accompanied by an employee ID number to help identify the approver.	5/2011
		The employee ID number is not used on the bank's system but this recommendation is simply to clarify who signed the application or change form. Both the Application and Change form have been updated.	
<b>CAP #2: Merchant Category Code Restrictions Should be Reviewed/Updated</b>			
<b>Rec #1</b>	Agree	Purchasing should review programmed MCC restrictions for all card profiles on an annual basis, revising them to be in alignment with intended business uses.	7/2011
		We believed that when new Merchant Category Classifications (MCCs) were added by the bank, that they would only be allowed if we added the MCC to the card profile. It appears though that our assumption was incorrect and new MCCs may have been made available by the bank as they added MCCs without our intervention. We agree that an annual review would be beneficial to open or restrict MCCs based on business need.	
		Certain changes to tax reporting requirements are allowing us to re-examine the use of and the benefits of Merchant Category Classifications (MCC) restrictions. We will include this recommendation in that conversation and resultant program changes.	
<b>Rec #2</b>	Agree	Purchasing should establish a new card profile for department cards, aligning the MCC restrictions with the intended use (currently only office supplies).	7/2011
		Will be addressed in same meeting.	
<b>CAP #3: Accountability For Missing Documentation Forms Should Be Improved</b>			
<b>Rec #1</b>	Agree	Accounts Payable should ensure that all Missing Documentation Forms include an itemized description of the purchase.	5/2011
		Purchasing has met with Accounts Payable to ensure this requirement is met by cardholders and that the P-Card Administrator is notified when the requirement is not met for disciplinary action.	

**AUDIT RESPONSE FORM**  
**Audit of Procurement Card Program - May/2011**

Recom- mendation #	Agree Or Disagree	BRIEF Summary of Implementation Plan (NOTE: If recommendation will not be implemented, please explain your alternative plan to address the observation noted in the CAP.)	Estimated Implementation Date (M/YYYY)
<b>Rec #2</b>	Agree	Accounts Payable should log cardholders' usage of Missing Documentation Forms and provide the log to Purchasing on a monthly basis.	
		Accounts Payable has started this process beginning with the statement closing date of 3/15/11.	3/2011
<b>Rec #3</b>	Agree	Purchasing should establish limits and enforcement actions related to cardholders' use of Missing Documentation Forms, and should include them in the <i>Procurement Card Program Guidelines and Procedures</i> .	
		The Procurement Card Program Guidelines and Procedures are being updated in Section 1, Item C. restating the cardholder's responsibility and possible disciplinary action for repeated violations.	7/2011
<b>CAP #4: Unneeded Procurement Cards Should be Identified and Cancelled</b>			
<b>Rec #1</b>	Agree	On an annual basis, Purchasing should identify cards not used within the past year and ask the appropriate managers to determine whether the cards are still needed.	
		The Procurement Card Program Guidelines and Procedures are being updated in Section 2, Item E. A query has been developed to identify cards that haven't been used and departments will be asked to surrender the card or justify why the card is still needed.	5/2011