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Date: September 18, 2012

To: Audit, Finance & Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Audit of Procurement Card Program – Follow-up Review

cc: Alex Deshuk, Manager of Technology & Innovation  
Ed Quedens, Business Services Department Director  
Alyce Benge, Purchasing Administrator

Attached is the final report on the follow-up review of our 2011 Audit of the City's Procurement Card Program. This report will be presented at the next scheduled meeting of the Audit, Finance and Enterprise Committee. If you have any questions, please feel free to contact me at x3767.

## **FOLLOW-UP REVIEW**

**CITY AUDITOR**

<b>Report Date:</b>	<b>September 18, 2012</b>
<b>Department:</b>	<b>Business Services Department/Purchasing Division</b>
<b>Subject:</b>	<b>Procurement Card Program</b>
<b>Lead Auditor:</b>	<b>Karen Newman, Sr. Internal Auditor</b>

### **OBJECTIVE**

The objective of this review was to determine whether the Purchasing Division of the Business Services Department has effectively implemented the action plans presented in their responses to our May 2011 audit of the City's Procurement Card Program.

### **SCOPE & METHODOLOGY**

To accomplish our objectives, we reviewed applicable policies and procedures and other established guidance; interviewed City staff members; and reviewed procurement card transactions from May 2011 through May 2012.

### **BACKGROUND**

On May 9, 2011, we issued a report on our audit of the City's Procurement Card Program. The objectives of that audit were to determine if adequate controls are in place and operating effectively; procurement card users and administrators comply with applicable policies and procedures; and whether opportunities exist to improve efficiency and effectiveness.

The audit report included several recommendations, which can be summarized as follows:

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 City's new ERP system can be configured to facilitate implementation of e-Payables, as a means to further increase rebates.

In response to the report, the department agreed with the recommendations and presented corrective action plans.

### **CONCLUSION**

All of the corrective action plans have been implemented. A complete list of corrective action plans, along with our findings regarding their implementation status at the time of this review, is presented in the attached [Appendix](#).

**APPENDIX**

 = Implemented

 = In Progress

 = Not Implemented

<u>Corrective Action</u>	<u>Implementation Status</u>	
<b>CAP#1: Policies, Procedures and Forms Should Be Clarified</b>		
<p><b>Recommendation:</b> 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.</p> <p><b>Management Response:</b> Various sections of the Procurement Card Program Guidelines and Procedures are being updated to comply with the recommendation.</p>	<p><b>Implemented</b></p> <p>The Procurement Card Guidelines and Procedures dated 1/2012 were updated to include information regarding Change Forms and the approvals required for both the original applications and subsequent Change Forms.</p>	
<p><b>Recommendation:</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.</p> <p><b>Management Response:</b> This has been the intent however Section III (G) of Management Policy 211 is being clarified.</p>	<p><b>Implemented</b></p> <p>The Procurement Card Guidelines and Procedures dated 1/2012 were updated to include that the User Agreement must be signed.</p> <p>Additionally, a proposed (<i>expected to become effective in Sept/2011</i>) revision to Management Policy 211 specifies that the User Agreement must be signed.</p>	
<p><b>Recommendation:</b> The Procurement Card Application and Change forms should designate the approval required for transaction limits over \$2,500.</p> <p><b>Management Response:</b> 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.</p>	<p><b>Implemented</b></p> <p>The Procurement Card Application and Change forms now include the approval required for transaction limits over \$2500.</p>	
<p><b>Recommendation:</b> The Procurement Card Application and Change forms should require approval signatures to be accompanied by an employee ID number to help identify the approver.</p> <p><b>Management Response:</b> 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.</p>	<p><b>Implemented</b></p> <p>The Procurement Card Application and Change form now include the employee ID number.</p>	

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<b><u>Corrective Action</u></b>	<b><u>Implementation Status</u></b>	
<b>CAP#2: Merchant Category Code Restrictions Should be Reviewed/Updated</b>		
<p><b>Recommendation:</b> Purchasing should review programmed MCC restrictions for all card profiles on an annual basis, revising them to be in alignment with intended business uses.</p> <p><b>Management Response:</b> 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.</p> <p>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.</p>	<p><b>Implemented</b></p> <p>A MCC review was performed in April 2012. Changes were made to the MCC's and submitted to Bank of America.</p>	
<p><b>Recommendation:</b> Purchasing should establish a new card profile for department cards, aligning the MCC restrictions with the intended use (currently only office supplies).</p> <p><b>Management Response:</b> Will be addressed in same meeting.</p>	<p><b>Implemented</b></p> <p>A new department card profile was established for office supply purchases only.</p>	
<b>CAP#3: Accountability For Missing Documentation Forms Should Be Improved</b>		
<p><b>Recommendation:</b> Accounts Payable should ensure that all Missing Documentation Forms include an itemized description of the purchase.</p> <p><b>Management Response:</b> 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.</p>	<p><b>Implemented</b></p> <p>The Missing Documentation Forms reviewed did include an itemized description of the purchase.</p>	

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<b>Corrective Action</b>		<b>Implementation Status</b>
<p><b>Recommendation:</b> Accounts Payable should log cardholders' usage of Missing Documentation Forms and provide the log to Purchasing on a monthly basis.</p> <p><b>Management Response:</b> Accounts Payable has started this process beginning with the statement closing date of 3/15/11.</p>	<p><b>Implemented</b></p> <p>A log of Missing Documentation Forms has been created and is provided to Purchasing monthly.</p>	
<p><b>Recommendation:</b> 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.</p> <p><b>Management Response:</b> 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.</p>	<p><b>Implemented</b></p> <p>The Procurement Card Guidelines and Procedures dated 1/2012 were updated to include information regarding the use of Missing Documentation Forms and enforcement actions for repeated violations.</p> <p>Additionally, Purchasing has notified department supervisors of individuals that frequently use the form.</p>	
<p><b>CAP#4: Unneeded Procurement Cards Should be Identified and Cancelled</b></p>		
<p><b>Recommendation:</b> 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.</p> <p><b>Management Response:</b> 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.</p>	<p><b>Implemented</b></p> <p>An inactive card review was performed in January 2012 and procurement cards were deactivated based on review findings.</p> <p>Additionally, the Procurement Card Guidelines and Procedures dated 1/2012 were updated to include information regarding the review of inactive cards.</p>	