



Office of the City Auditor

**Report to the City Council
City of San José**

**AN AUDIT OF THE CITY OF
SAN JOSE'S PROCUREMENT
CARD PROGRAM**

**The City's Procurement Card Program Has
Weak Internal Controls Which Expose The
City To Improper, Abusive, And Fraudulent
Uses Of Procurement Cards**

**Report 06-03
September 2006**

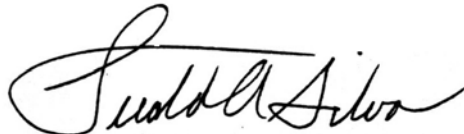
September 12, 2006

Honorable Mayor and Members
of the City Council
200 East Santa Clara Street
San Jose, CA 95113

Transmitted herewith is a report on *An Audit Of The City Of San José's Procurement Card Program*. This report is in accordance with City Charter Section 805. An Executive Summary is presented on the blue pages in the front of this report. The City Administration's response is shown on the yellow pages before the appendices.

This report will be presented to the Making Government Work Better Committee at its September 21, 2006, meeting. If you need any additional information, please let me know. The City Auditor's staff members who participated in the preparation of this report are Eduardo Luna and Chris Constantin.

Respectfully submitted,



Gerald A. Silva
City Auditor

finaltr
GS:lg

cc: Les White Walter Rossmann Ed Overton
Kay Winer Alex Gurza Bill Sherry
Scott Johnson Rob Davis Ken Ferguson



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City of San José**

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Executive Summary

In accordance with the City Auditor's 2005-06 Workplan, we have audited the City's Procurement Card Program. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

Finding I The City's Procurement Card Program Has Weak Internal Controls Which Expose The City To Improper, Abusive, And Fraudulent Uses Of Procurement Cards

Our audit of the City's Procurement Card Program (Program) revealed several control weaknesses concerning the use, processing, and monitoring of Procurement Card transactions. These control weaknesses expose the City to improper, abusive, or fraudulent uses of procurement transactions. Our limited review of electronic bank information revealed questionable City Cardholder uses of Procurement Cards.

In our Risk and Vulnerability Assessments, we found that the Finance Department (Finance) had no controls or weak controls in place for more than half of the 32 threats we identified. During our limited data testing, we found examples of City Cardholders violating City Procurement Card policies by:

- Splitting purchases to circumvent purchasing limits;
- Purchasing meals in violation of the City Manager's budget freeze on food and meal expenditures;
- Inappropriately procuring services in excess of \$1,000 limitations;
- Making gifts to visiting VIPs using public funds;
- Purchasing from non-City vendors when the City had a Citywide open purchase order from a different vendor;

- Finance processing Procurement Card statements without appropriate Approving Official approval and/or Cardholder signatures;
- Making a personal purchase with a City Procurement Card; and
- Several Retirement Services Department Procurement Cardholders making travel-related transactions that appear to be improper.

In our opinion, Finance should strengthen controls to address the control weaknesses and vulnerabilities we identified, and develop a comprehensive Procurement Card Procedures Manual and use the Manual to advise and train staff who are assigned Procurement Cards. Further, the City Council's Rules Committee should add an on-going audit of Procurement Cards. Additionally, we recommend that the Federated and Police and Fire Retirement Boards request that the City Council's Rules Committee add to the City Auditor's 2006-07 Audit Workplan, an audit of the Retirement Services Department's travel-related expenses. Finally, the City Administration should develop a policy to guide the purchasing and giving of gifts using public funds.

RECOMMENDATIONS

Based upon our Risk Assessment of the Procurement Card Program and our limited review of Procurement Card transactions, we recommend that the Finance Department:

Recommendation #1 **1) Strengthen controls to address the identified weaknesses and vulnerabilities; 2) incorporate in the City's Policy Manual procedures for the Procurement Card Program which provide adequate guidance for employees; and 3) use the procedures to advise and train City staff on the proper uses and restrictions of Procurement Cards. (Priority 2)**

We recommend that the City Council's Rules Committee:

Recommendation #2 **Add an on-going audit of the Procurement Card Program to the City Auditor's Workplan. (Priority 3)**

We recommend that the City Administration:

Recommendation #3 Develop a policy to guide City officials when giving gifts to visiting VIPs and dignitaries. (Priority 2)

We recommend that the Federated and Police and Fire Retirement Boards:

Recommendation #4 Request that the City Council's Rules Committee add to the City Auditor's 2006-07 Audit Workplan, an audit of the Retirement Services Department's travel-related expenses. (Priority 3)

Introduction

In accordance with the City Auditor's 2005-06 Workplan, we have audited the City's Procurement Card Program. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

The City Auditor's Office thanks the Finance Department (Finance) management and staff for giving their time, information, insight, and cooperation during the audit process.

Background

The City of San José participates in the State of California's CAL-Card Program. The State of California entered into a Master Services Agreement with US Bank, for VISA Procurement Card services, effective through December 22, 2006. US Bank provides the City with Visa Procurement Cards for the purchase of items, such as supplies, materials, or equipment.

Procurement Cards are a means of purchasing supplies, materials, and equipment expediently without the need of obtaining a purchase order. Procurement Cards are sometimes referred to as credit cards or P-cards. For the purpose of this report, we will use the term Procurement Cards in place of credit card or P-cards. Unlike traditional Procurement Cards, the Cal-Card Program requires the City to maintain added controls over Procurement Cards. The controls include several spending controls, such as restrictions on the type of merchants the card will accept, and a more defined reporting structure to oversee card transactions. The City currently maintains single purchase and billing cycle limits on all City Procurement Cards. In addition to dollar limits, US Bank requires a separate spending control based on merchant classification. This control prevents Cardholders from using the card at certain merchants. US Bank requires the City to designate Approving Officials for each cardholder or group of cardholders. The Approving Official is responsible for managing and monitoring CAL-Card activity. Approving Officials receive monthly statements specifying the cards used and amounts transacted in addition to the monthly statements sent to Cardholders.

Procurement Card Program

Program Administration

Purchasing retains responsibility for administering the overall Procurement Card Program and making payments to US Bank. City departments with Procurement Cards are responsible for reviewing Cardholder transactions, approving monthly invoices for payment, and providing Finance with the appropriate documentation to process payment to US Bank.

City Procedures

The City maintains Procurement Card procedures and instructions for Approving Officials, which guide the City's Procurement Card Program. Procurement Card procedures provide guidance on the establishment of controls such as purchasing limits, purchasing restrictions, purchasing and invoice processing, monthly statement reviews, billing disputes, lost or stolen cards, and making changes to Cardholder information.

The Approving Official instructions provide guidance on Procurement Card authorizations, monthly statement procedures, disputing charges, departure of employees, requests for additional cards or changes, and lost or stolen Procurement Cards. The Approving Official instructions also provide restrictions on which type of merchants are allowed for use with each Procurement Card. The list below highlights some of the merchant category code options available to Approving Officials.

Exhibit 1 List Of Merchant Category Codes

Merchant Category Code	Category
A	Airlines
B	Vehicle Rental
C	Hotel, Motel
D	Courier Service
G	Mail Order Houses
H	Food/Dairy/Drug Stores
I	Restaurants
J	Discount/Department/Variety Stores/Miscellaneous
K	Misc. & Specialty Retail Stores
Q	Schools, Educational Services
R	Membership Organizations, Charitable & Social Organizations

Source: City Procurement Card Procedures.

*Purchasing
Restrictions*

City procedures specify a number of purchase restrictions on the use of City Procurement Cards. Those restrictions include:

- Maximum of \$2,500 per transaction (or lower if stipulated by Approving Official);
- Maximum of \$10,000 per 30-day period per card (or lower if stipulated by Approving Official);
- Total purchase with tax cannot exceed single purchase limit of card;
- Purchase must not be split to circumvent procurement policies;
- The least expensive item that meets basic needs should be sought;
- No cash advances allowed;
- No services (courier, office machine repair, film development, etc.) over \$1,000 (for any service, vendor must be incorporated);
- No purchases of items carried in General Services store unless out of stock;
- No purchases of communications equipment such as pagers, cell phones, walkie talkies, etc.;
- No rentals except small rentals not exceeding a week in duration;
- No items available through Citywide open purchase order (such as office supplies);
- No machinery that requires a maintenance agreement;
- No items from a vendor with an established open purchase order for the Cardholder's department;
- No purchase of flowers, shower gifts, birthday gifts, etc. for fellow employees; and
- No purchases at Super Kmart (per Council Resolution #67706).

*Responsibilities Of
Program Members*

Under the CAL-Card Program, the City designates Agency Program Coordinators, Billing Office, Dispute Officials, Approving Officials, and Cardholders.

- Agency Program Coordinators (APC) oversee the entire Cal-Card Program within the City, including the administration of new accounts, reporting, and payment

processes. The APC is responsible for developing procedures, providing training, and enforcing compliance to the City's procedures and the terms of the CAL-Card Master Service Agreement.

- Billing Office is responsible for authorizing timely payment to US Bank after verifying the accuracy of the invoices.
- Dispute Officials may be designated to review and follow-up on pending Cardholder disputes to ensure timely resolution. Often, the Agency Program Coordinator or Billing Office contact serves as the Dispute Official.
- Approving Officials are responsible for reviewing, approving monthly Cardholder Statements of Account to ensure each Cardholder complies with City Procedures, and that transactions are appropriate. The Approving Officials also reconcile each Cardholder statement of Account to the Approving Officials monthly summary report.
- Cardholder is an employee with a Procurement Card. The Cardholder reconciles and signs the monthly Statement of Account at the end of each billing cycle. They are responsible for keeping records of each transaction, and must complete the monthly reconciliation.

According to February 2006 information from US Bank, the City has two Agency Program Coordinators, 24 Billing Officials, and six Dispute Officials. Based on US Bank records, the City maintained 256¹ Approving Officials for 1,296 Cardholders with a total monthly spending capacity of \$8,300,000.

*Process For
Obtaining A
Procurement Card*

City procedures stipulate the process for obtaining a Procurement Card. The Approving Official designates an employee to have a procurement card. An employee completes a Request for Procurement Card form. The form does not require the employee to submit a reason for requesting the card. The Approving Official approves the request and determines the card limits and any merchant restrictions. The Approving Official submits the form to Purchasing, and the City's Agency

¹ See footnote 4 on page 7 for an explanation on the number of Approving Officials.

Program Coordinator processes the request through US Bank. The Approving Official receives the card and provides the card to the Cardholder.

Purchasing Process

The Cardholder uses the Procurement Card to purchase items such as supplies, materials, and equipment in accordance with City procedures. The Cardholder is supposed to ensure that any purchase including tax does not exceed the purchase limits. Additionally, the Cardholder must retain receipts which include an authorization code, amount, brief description of items purchased, name on Procurement Card, and vendor information. The City procedures do not require pre-approval of the purchases.

Invoicing Process

US Bank produces a monthly Statement of Account which it mails to Cardholders that had transactions during the cycle month. Additionally, US Bank provides Approving Officials with monthly summary lists of Cardholders with Statements of Account. The Cardholder is supposed to review the monthly statement to determine that the Statement of Account is accurate, submit receipts and logs of purchases, sign the monthly statement, and forward this cardholder packet to their Approving Official. A Cardholder can deduct from the statement total, any charges that they will dispute using US Bank's Statement of Questioned Items form.

The Approving Official reviews the Cardholder packet for accuracy, evaluates expenditures and documentation, and signs the statement authorizing processing. Additionally, the Approving Official should ensure all Cardholders with transactions submit a Cardholder packet. The Approving Official forwards the signed packet to the department's fiscal unit for processing.

According to Finance, the fiscal unit verifies that the packet includes the proper signatures and documentation, and inputs the information into the City's Financial Management System (FMS). The fiscal unit creates an edit list in the FMS listing the payments for Procurement Card transactions and forwards the packets to Finance for payment processing.

According to Finance, Accounts Payable staff review invoice packets to ensure that appropriate supporting documentation exists. Finance staff reviews the packets for any unusual transactions such as split transactions and processes payment to US Bank.

US Bank provides incentives for quick payments and late charges for payments made after 45 days. US Bank provides a credit of 0.62 percent of invoice totals for payments made within one to seven days of the statement date.

*Overview Of
Procurement Cards
Transactions*

Exhibit 2 highlights the number of Procurement Cards by City Entity, the number of transactions, expenditures, and average expenditure per transaction for the July 2004 to November 2005 timeframe.

**Exhibit 2 Breakdown Of Procurement Card Transactions For
The City By City Entity For July 2004 To November
2005²**

City Entity³	Number Of Cardholders	Number Of Approving Officials⁴	Number Of Transactions	Expenditure	Average Expenditure Per Transaction
Environmental Services	140	21	5,761	\$1,909,434	\$331
Parks, Recreation, and Neighborhood Services	324	78	9,504	\$1,473,162	\$155
General Services	111	7	6,035	\$1,412,610	\$234
Police	189	49	4,133	\$946,353	\$229
Fire	65	2	2,736	\$791,227	\$289
Transportation	98	34	2,444	\$728,822	\$298
Airport	83	23	1,724	\$540,366	\$313
Library	80	7	1,205	\$248,009	\$206
Information Technology	11	1	445	\$202,657	\$455
City Manager's Office/Office of Emergency Services	21	1	811	\$194,898	\$240
Planning, Building, and Code Enforcement	21	2	836	\$192,916	\$231
City Clerk/Council ⁵	25	1	765	\$158,463	\$207
Office of Economic Development	6	2	418	\$125,556	\$300
Public Works	13	1	382	\$122,030	\$319
Employee Services	32	8	383	\$112,943	\$295
Housing	13	1	323	\$82,335	\$255
Finance	24	4	238	\$68,310	\$287
Retirement	2	1	275	\$65,706	\$239
Office of Cultural Affairs	19	7	291	\$42,784	\$147
City Attorney	12	2	183	\$33,090	\$181
City Auditor	3	2	66	\$15,241	\$231
Independent Police Auditor	4	2	49	\$5,479	\$112
TOTAL	1,296	258	39,007	\$9,472,388	\$243

Source: As reported by US Bank electronic records.

² Number of Cardholders and Approving Officials represent a snapshot as of November 2005.

³ According to the Redevelopment Agency, they retain one credit card outside of the US bank program. We did not audit their records.

⁴ Two Approving Officials serve more than one City Entity. As a result, the City Entity does not maintain 258 Approving Officials, but rather 256. The database includes 72 cardholders across 16 City Entities with no listing of an Approving Official.

⁵ Mayor and City Council data included solely for the purpose of highlighting the scope. City Charter Section 805 restricts our ability to audit the Mayor and City Council.

As shown above, from July 2004 through November 2005 City Cardholders initiated 39,007 transactions valued at \$9,472,388 in expenditures. Exhibit 3 summarizes City Procurement Card transactions by expenditure category from July 2004 through November 2005.

Exhibit 3 Summary Of City Procurement Card Transactions By Expenditure Category From July 2004 Through November 2005

Expenditure Category	Number Of Transactions	Expenditure	Average Expenditure Per Transaction
Wholesale Trade	15,836	\$ 3,418,311	\$216
Other	6,822	\$ 1,572,726	\$231
Office Services	2,946	\$ 1,034,927	\$351
Business Expenses	2,027	\$ 635,998	\$314
Misc. Retail Supplies	1,722	\$ 566,386	\$329
Office Supplies	2,175	\$ 418,275	\$192
Building Services	871	\$ 391,951	\$450
Mail/Telephone	1,162	\$ 370,364	\$319
Vehicle Expense	1,492	\$ 238,840	\$160
Hotels	701	\$ 229,434	\$327
Eating/Drinking	1,303	\$ 209,348	\$161
Airline	715	\$ 156,668	\$219
Auto/RV Dealers	308	\$ 84,165	\$273
Medical	529	\$ 56,495	\$107
Other Travel	200	\$ 41,880	\$209
Rental Cars	151	\$ 28,710	\$190
Retail Services	47	\$ 17,913	\$381
TOTAL	39,007	\$ 9,472,388	\$243

Source: US Bank electronic records.

Scope And Methodology

Our audit objective was to identify the operational threats facing the Procurement Card Program (Program) and the administrative controls in place to prevent, eliminate, or minimize those threats. Specifically, we conducted a Risk Assessment and Vulnerability Assessment of the Program’s operational threats and corresponding controls. Based on our Risk and Vulnerability Assessments, we identified several threats for which the Program had no corresponding controls in place.

To a limited extent, we reviewed US Bank for City Procurement Card electronic transaction information posted from July 2004 through November 2005 to identify potentially improper, abusive, or fraudulent transactions. Specifically, we sorted the number of transactions by merchant category and searched for questionable transactions based on merchant

description and merchant name, such as Jewelry, Watches, Clocks—Tiffany & Company. We judgmentally selected a sample of these transactions to verify Cardholder compliance with policies and procedures. We did not attempt to project the extent of improper, abusive, or fraudulent transactions based on our review.

In developing our Risk Matrix, we identified the potential threats associated with the City’s Procurement Card Program. The Risk Matrix in Appendix B shows the relationship of the specific threats we identified to the controls in place to prevent, eliminate, or mitigate the associated threats.

We also conducted an overall Vulnerability Assessment for the Program. A Vulnerability Assessment shows the relationships among 1) a threat’s inherent risk, 2) the relative strength of the Program’s internal controls, and 3) the Program’s level of vulnerability for each threat and the extent of audit testing required.

We used US Bank electronic information as reported and did not conduct application or data tests on the information provided, as the information was not material to the findings of this report. We reviewed physical files of transactions identified during our review of electronic information.

We used the Government Accountability Office’s definitions of improper, abusive, and fraudulent transactions when classifying questionable purchases.

- Improper transactions are generally purchases intended for City use but are not permitted by law, regulation, or organizational policy.
- Abusive transactions are purchases of authorized goods or services, at terms that are excessive, are for a questionable government need, or both.
- Fraudulent transactions are defined as using the procurement card to acquire goods or services that are unauthorized and intended for personal use or gain.

Major Accomplishments Related To This Program

In Appendix E, the Finance Director informs us of the Procurement Card Program accomplishments.

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Finding I

The City's Procurement Card Program Has Weak Internal Controls Which Expose The City To Improper, Abusive, And Fraudulent Uses Of Procurement Cards

Our audit of the City's Procurement Card Program (Program) revealed several control weaknesses concerning the use, processing, and monitoring of Procurement Card transactions. These control weaknesses expose the City to improper, abusive, or fraudulent uses of procurement transactions. Our limited review of electronic bank information revealed questionable City Cardholder uses of Procurement Cards.

In our Risk and Vulnerability Assessments, we found that the Finance Department (Finance) had no controls or weak controls in place for more than half of the 32 threats we identified. During our limited data testing, we found examples of City Cardholders violating City Procurement Card policies by:

- Splitting purchases to circumvent purchasing limits;
- Purchasing meals in violation of the City Manager's budget freeze on food and meal expenditures;
- Inappropriately procuring services in excess of \$1,000 limitations;
- Making gifts to visiting VIPs using public funds;
- Purchasing from non-City vendors when the City had a Citywide open purchase order from a different vendor;
- Finance processing Procurement Card statements without appropriate Approving Official approval and/or Cardholder signatures;
- Making a personal purchase with a City Procurement Card; and
- Several Retirement Services Department Procurement Cardholders making travel-related transactions that appear to be improper.

In our opinion, Finance should strengthen controls to address the control weaknesses and vulnerabilities we identified, and develop a comprehensive Procurement Card Procedures Manual and use the Manual to advise and train staff who are

assigned Procurement Cards. Further, the City Council's Rules Committee should add an on-going audit of Procurement Cards. Additionally, we recommend that the Federated and Police and Fire Retirement Boards request that the City Council's Rules Committee add to the City Auditor's 2006-07 Audit Workplan, an audit of the Retirement Services Department's travel-related expenses. Finally, the City Administration should develop a policy to guide the purchasing and giving of gifts using public funds.

The City Has Significant Exposure Due To A Lack Of Adequate And Documented Internal Controls To Minimize Improper, Abusive, Or Fraudulent Cardholder Uses Of Procurement Cards

During the course of our audit, we conducted a Risk Assessment of the Procurement Card Program. The rationale for conducting a Risk Assessment is to identify potential threats facing the program or contract under audit and identify the controls or procedures the City has in place to prevent, eliminate or minimize the threats. By so doing, auditors can limit testing and focus on those areas most vulnerable to noncompliance and abuse. During our Risk Assessment, we identified 32 threats associated with the Procurement Card Program. We also identified a lack of corresponding and documented internal control procedures. Appendix B is the Risk Matrix we prepared to identify the Program's threats and corresponding controls. As shown in Appendix B, we assigned an "A" to those Program controls that were reported as actual controls. Any threat without an "A" indicates a complete absence of any control procedures to prevent, eliminate, or mitigate the associated threat.

Of the 32 threats we listed in Appendix B, we found that Finance had no controls or only weak controls in place for 16 of the threats. Specifically, for these 32 threats Finance had no controls in place for five (16 percent), and only weak controls in place for 11 (34 percent). The five threats we identified for which Finance had no mitigating controls are:

- Approving Officials have an unmanageable span of control (responsible for too many Cardholders) and cannot properly oversee Cardholders;
- Cardholder supervisors are not aware of the Cardholder expenditures;
- The City does not receive or control products with unique identifiers (i.e. serial numbers) that Cardholders purchased with Procurement Cards;

- City/department makes late payments for invoices and the City misses opportunities to maximize prompt payment incentives; and
- City departments obtain non-US Bank Procurement Cards or Credit Cards without Finance Department knowledge or approval.

We also found that the Procurement Card Program had only weak controls in place for 11 of the 32 threats we identified (34 percent). The 11 Procurement Card Program threats with only weak controls are:

- Cardholders receive Procurement Cards without credit limits or purchasing restrictions;
- The City/department does not comply with Procurement Card directives (policies, procedures, other guidance);
- Procurement Cards are used by a person other than the person shown on the Procurement Card;
- Cardholders split transactions to avoid purchase limits;
- Cardholders acquire goods and services that are unauthorized and intended for personal use or gain;
- Cardholders make purchases that are not permitted by law, regulation, or policy;
- Cardholders alter documents to legitimize purchases;
- Cardholders make purchases from sources where the City/department has established an open purchase order or the source is restricted;
- Cardholders collude with vendors to provide the City funds for goods and services not provided and the two share the profit;
- Approving Officials and Cardholders collude to misuse Procurement Cards; and
- Cardholders are unaware of the proper use and allowable activities for Procurement Cards.

In addition to the Risk Assessment, we also conducted a Vulnerability Assessment (Appendix C). As the Vulnerability Assessment illustrates, we rated the Procurement Card Program's vulnerability as "moderate to high" or "high" for 66 percent of the 32 threats we identified. In our opinion, the

significant Program weaknesses increase the risk and likelihood of improper, abusive, or fraudulent Cardholder uses of Procurement Cards.

Based Upon The City Auditor's Assessments, Finance Agreed To Implement Improvements To The Program's Internal Controls

During our Risk Assessment of the City Procurement Card Program, we found that Finance had inadequate and/or undocumented controls or procedures. We noted that a key control weakness was that Finance did not maintain a Procurement Card Manual for advising and training City staff on the proper uses and restrictions of Procurement Cards. Finance acknowledges the weaknesses and the need to improve controls. To that end, Finance is working proactively to draft a new Procurement Card policy to mitigate some of the threats to the Procurement Card Program. In our opinion, Finance should continue to develop controls to address the identified threats. Those threats include but are not limited to:

- Cardholders obtain Procurement Cards when they don't have a legitimate use for the card;
- Cardholders obtain Procurement Cards without appropriate supervisory approval or knowledge;
- Cardholders receive Procurement Cards without credit limits or purchasing restrictions;
- The City issues Procurement Cards to persons other than active employees;
- The City does not receive the Procurement Card after the employee leaves service or is transferred, and the card remains active;
- Cardholders acquire goods and services that are unauthorized and intended for personal use or gain;
- Cardholders make purchases from sources where the City/department has established an open purchase order or the source is restricted;
- Approving Officials and Cardholders collude to misuse Procurement Cards;
- Cardholders make purchases from vendors where they or the Approving Official have a conflict of interest;
- Cardholders are unaware of the proper use and allowable activities for Procurement Cards;
- Inappropriate transactions are not identified;

- Cardholder supervisors are not aware of expenditures made by Cardholders;
- Approving Officials have an unmanageable span of control and cannot properly oversee Cardholders;
- The City/department makes late payments for invoices and miss opportunities to maximize prompt payment incentives;
- The City is unaware of the total Citywide Procurement Card charges; and
- The City processes payment without appropriate signature approval.

Control Weaknesses Create An Environment Susceptible To Improper, Abusive, And/Or Fraudulent Procurement Card Purchases

Our limited review of US Bank electronic procurement information and Finance records revealed that Cardholders of Procurement Cards violated City Procurement Card policies by:

- Splitting purchases to circumvent purchasing limits;
- Purchasing meals in violation of the City Manager’s budget freeze on food and meal expenditures;
- Inappropriately procuring services in excess of \$1,000 without purchase orders and making technology purchases without prior approval;
- Making gifts to visiting VIPs using public funds;
- Purchasing from non-City vendors when the City has a Citywide open purchase order with a different vendor;
- Finance processing Procurement Card statements without appropriate Approving Official approval and/or Cardholder signatures;
- A City employee making a personal purchase with a City Procurement Card; and
- Several Retirement Services Department Procurement Card holders making travel-related transactions that appear to be improper.

Splitting Purchases To Circumvent Purchasing Limits

We identified that the SJPD split about \$10,500 for 27 digital cameras between five Procurement Cards. The City’s Procurement Card procedures limit single purchases to \$2,500 and require Cardholders to follow normal purchasing procedures for expenses above the single purchase limits. Our assessments indicate there is a moderate to high vulnerability of Cardholders splitting transactions to avoid purchase limits.

The five SJPD transactions included three Procurement Cards where one employee was both an Approving Official and Cardholder who was responsible for monitoring and overseeing the use of the two other cards used in the transactions. According to the President's Council on Integrity and Efficiency report, "A Practical Guide for Reviewing Government [Procurement] Card Programs," the monthly review of the Cardholders' statements by the Approving Official is the most important internal control. In these transactions, an Approving Official appears to have violated her duty to oversee Cardholders' compliance with City policies, rules, and regulations and may have involved other Cardholders in order to violate the single purchase limits. In our opinion, the apparent failure of the Approving Official control highlights the need to establish independent monitoring of Procurement Card transactions.

According to the Approving Official, the Local Law Enforcement Block Grant funded the expenditure. The Approving Official identified unspent grant funds that the SJPD would lose if it did not spend the funds. We should note the SJPD should have obtained a City purchase order.

Purchasing Meals In Violation Of The City Manager's Budget Freeze On Food And Meal Expenditures

We identified Cardholders using Procurement Cards for meal expenditures that violated the City Manager's meal expenditure restriction. In February 2003, the City Manager implemented an immediate freeze on all meal expenditures. The City Manager informed the City Council that he would consider exceptions in extremely limited cases. Our Vulnerability Assessment revealed a moderate to high vulnerability that Procurement Card Cardholders could make purchases that were not permitted by law, regulation, or policy. Between July 2004 and June 2005, we identified 862 procurement card purchases of meals totaling \$135,000.

In one case, a Cardholder spent over \$900 during a five-day period for lunches at restaurants such as Il Fornaio, The Grill on the Alley, McCormick and Schmick, and Arcadia. The SJPD provided the lunches to eight members involved in the Police Lieutenant Oral Board Process. Finance documentation for those transactions did not include a SJPD justification for an exception to the meal restriction. In our opinion, departments should document a justification for exception to ensure compliance with the City Manager's restriction.

Procurement Card procedures require Cardholders to retain a complete sales draft that includes a brief description of any items purchased and provide the receipt as evidence when reviewing the monthly statement. Finance files included receipts, but the receipts did not include details regarding the food items purchased. These expenses appear to violate the City Manager's restriction on meal expenditures.

*Inappropriately
Procuring Services
In Excess Of \$1,000
Without Purchase
Orders And
Technology
Purchases Without
Prior Approval*

We also identified that the SJPD used the services of Golden Harvest Restaurant on 27 days from November 2004 to May 2005. The total costs for these services exceeded \$24,000. Many expenses occurred several days apart that, in our opinion, indicated split transactions. Procurement Card procedures prohibit the use of Procurement Cards to obtain services greater than \$1,000. Additionally, this was during the City Manager's freeze on meal purchases.

We reviewed Finance files for five Golden Harvest transactions totaling \$3,800. The receipts in the files did not provide detailed descriptions to indicate what was purchased. These expenditures appear to violate the Procurement Card procedures for services limited to under \$1,000, the City Manager's meal expenditure restriction, and the City's restriction on split purchases.

During the period of our audit, the City Manager required prior approval for technology purchases from the Information Technology Department (ITD) and the City Manager's Budget Office. In some cases, the SJPD submitted requests for approval after the fact without indicating to the ITD that the SJPD had already purchased the requested equipment.

For example, in June 2004, the SJPD purchased over \$940 in computer-related equipment. The SJPD requested authorization to purchase the equipment in August 2004, two months after the fact. The SJPD's email request for these purchases did not state that it had already made the purchases. Email communication among the SJPD, the ITD, and the Budget Office indicated that neither the ITD nor the Budget Office knew that the SJPD had purchased the items prior to requesting and subsequently receiving authorization. Additionally, Finance files did not include any documentation of ITD or Budget Office approval for over \$400 in computer expenses.

*Making Gifts To
Visiting VIPs Using
Public Funds*

We found that the Airport Department (Airport) used a City Procurement Card to purchase protocol gifts for visiting VIPs. According to an Airport official, it is standard practice for the Airport to give protocol gifts to dignitaries and airline officials with whom the Airport conducts business. The Airport gave six \$95 Tiffany's key rings to Japanese airport officials and airline executives. On another occasion, the Airport gave three \$180 Mont Blanc pens as gifts to airline executives. Neither the City nor the Airport have a policy on gift giving using public funds. In our opinion, the City Administration should develop a policy to provide guidance on giving protocol gifts to visiting VIPs and dignitaries.

*Purchasing From
Non-City Vendors
When The City Has
A Citywide Open
Purchase Order
With A Different
Vendor*

The City has an open purchase order with Office Max. The City's Procurement Card procedures require Cardholders to use those vendors with whom the City or the Cardholder's department maintains an open purchase order. We found several examples where Cardholders used their Procurement Cards to buy from vendors other than those with whom the City has an open purchase order in violation of Procurement Card procedures. These purchases from non-open purchase order vendors were for items such as CDs and labels.

*Finance Processes
Procurement Card
Statements Without
Appropriate
Approving Official
Approval And/Or
Cardholder
Signatures*

We identified a number of transactions where Finance processed Procurement Card payments without appropriate Approving Official approval. City Procurement Card procedures require an Approving Official to review monthly statements for accuracy, evaluate the appropriateness of expenditures, ensure adequate documentation, and sign statements authorizing processing. We found numerous examples where Finance processed statements without the assigned Approving Official signature or with unreadable signatures.

For example, we found 18 statements for the SJPD in a single check run where Approving Official signatures were either unreadable or the Approving Official was not the assigned Approving Official. Finance processed payment of these statements without obtaining identifiable or appropriate signatures from the designated Approving Officials. These 18 statements represent about \$16,000 in transactions.

A City Employee Made A Personal Purchase With A City Procurement Card

We found that a City employee used his City Procurement Card to charge over \$400 worth of car expenses from a Hayward, CA tire and auto merchant. City Procurement procedures expressly prohibit the use of a City Procurement Card for personal purchases. Additionally, the Procurement Cards are specially marked to avoid confusion with personal credit cards.

According to Finance records, the employee reimbursed the full amount 53 days after he made the purchase. A further review of Finance records revealed that the employee did not provide any justification for the personal purchase. According to the employee, he used the City Procurement Card after the merchant was unable to process the transaction with his own personal credit card. In our opinion, the lack of employee training on the proper use of City Procurement Cards contributes to the increased risk of employees violating City Procurement procedures.

Several Retirement Services Department Procurement Cardholders Making Travel-Related Transactions That Appear To Be Improper

During our Procurement Card audit, we identified two questionable transactions related to Retirement Services Department (Retirement Services) travel. In the first transaction, a City Procurement Card was used to pay \$400 for point-to-point chauffeured limousine service for a Retirement Services employee. In the second transaction, a City Procurement Card was used to pay for a Retirement Board Member rental car for five days during a personal vacation after attending a Conference. We also found that a Retirement Service employee improperly delegated the use of a City Procurement Card to another employee. While following up on these transactions, we were made aware that Retirement Services obtained the services of an independent travel agent without benefit of a formal procurement process or contractual agreement and maintained a separate airline-issued credit card for procuring air travel services. Government Auditing Standards require that when information comes to the auditors' attention indicating that abuse may have occurred, auditors should extend the audit steps and procedure to, 1) determine whether the abuse occurred, and if so, 2) determine its effect on the audit results. Accordingly, we believe an expanded scope audit of the Retirement Services Department's travel expenditures is in order.

Finance Should Lead The Effort To Strengthen Controls To Minimize The Risk Of Fraud, Waste, And Abuse

We advised Finance that standard internal control practices require that procedures should be written, as simply as possible, and not overlap, conflict, or duplicate other procedures. Finance is developing new Procurement Card policies to address risks and vulnerabilities identified through the City Auditor’s Risk and Vulnerability Assessments. Finance took initial steps in addressing the program weaknesses by creating a revised draft policy (See Appendix D). We have reviewed Finance’s revised draft policy and provided Finance with some initial comments. We will continue to work with Finance to strengthen the controls for the Procurement Card Program.

The City does not offer Procurement Card training to Cardholders and Approving Officials. Additionally, Finance does not maintain a comprehensive procedures manual to guide or advise Cardholders, Approving Officials, and Finance staff participating in the Procurement Card Program. According to the Government Accountability Office’s *Purchase Card Audit Guide*, “management should identify the appropriate knowledge and skills needed in a purchase card program, require the needed training, and maintain documentation evidencing that required training is current for all” employees participating in the purchase card program. In our opinion, the lack of a comprehensive procedures manual and training exposes the City to improper, abusive, or fraudulent Cardholder uses of Procurement Cards.

According to the President’s Council on Integrity and Efficiency report, “A Practical Guide for Reviewing Government Procurement Card Programs,” the monthly review of the Cardholder’s statements by the Approving Official is the most important internal control. During our audit, we found breakdowns in this important control.

CONCLUSION

During the course of our audit, we found that the City’s Procurement Card Program had several control weaknesses and vulnerabilities that increase the risk of fraud, waste, and abuse. We identified the Program’s lack of adequate and documented internal controls procedures through our Risk Assessment process. The Finance Department agreed to address the identified weaknesses and vulnerabilities. In our opinion, Finance should 1) strengthen controls to address the identified weaknesses and vulnerabilities, 2) develop a procedures manual for the Procurement Card Program to guide employees, and

3) use the procedures manual to advise and train staff on the proper uses and restrictions of Procurement Cards. We also recommend that the City Council's Rules Committee add an on-going audit of the Procurement Card Program and that the Federated and Police and Fire Retirement Boards request that the City Council's Rules Committee add an audit of Retirement Services travel-related expenses to the City Auditor's Annual Audit Workplan. Finally, we recommend that the City Administration develop a policy to guide City officials when giving gifts to visiting VIPs and dignitaries.

RECOMMENDATIONS

Based upon our Risk Assessment of the Procurement Card Program and our limited review of Procurement Card transactions, we recommend that the Finance Department:

Recommendation #1 **1) Strengthen controls to address the identified weaknesses and vulnerabilities; 2) incorporate in the City's Policy Manual procedures for the Procurement Card Program which provide adequate guidance for employees; and 3) use the procedures to advise and train City staff on the proper uses and restrictions of Procurement Cards. (Priority 2)**

We recommend that the City Council's Rules Committee:

Recommendation #2 **Add an on-going audit of the Procurement Card Program to the City Auditor's Workplan. (Priority 3)**

We recommend that the City Administration:

Recommendation #3 **Develop a policy to guide City officials when giving gifts to visiting VIPs and dignitaries. (Priority 2)**

We recommend that the Federated and Police and Fire Retirement Boards:

Recommendation #4 **Request that the City Council's Rules Committee add to the City Auditor's 2006-07 Audit Workplan, an audit of the Retirement Services Department's travel-related expenses. (Priority 3)**

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Memorandum

TO: Gerald Silva

FROM: Scott P. Johnson

SUBJECT: RESPONSE TO THE AUDIT CITY'S DATE: September 11, 2006
PROCUREMENT CARD PROGRAM

Approved

Ray Winter

Date

9/11/06

The Administration has reviewed the Audit of the City's Procurement Card Program and is in general agreement with the recommendations identified in the report. This memorandum addresses each audit recommendation including recent measures the Administration has taken to improve the City's Procurement Card Program as well as certain subsections of the audit.

Recommendation #1: The Auditor's Office recommends that the Finance Department 1) strengthen controls to address the identified weaknesses and vulnerabilities; 2) incorporate in the City's Policy Manual procedures for the Procurement Card Program which provides adequate guidance for employees; 3) use the procedures manual to advise and train staff on the proper uses and restrictions of Procurement Cards. (Priority 2)

After transfer of Purchasing from General Services and the hiring of the City's Chief Purchasing Officer in April 2005, Finance reviewed the City's Procurement Card program, which resulted in the review of best practices in governmental procurement card programs and the development of the City's new Procurement Card Policy. The new policy comprehensively defines the roles and responsibilities of City Departments and Finance, outlines the prohibitions and restrictions of the Procurement Card transactions, includes a procedures section, and strengthens internal controls. These changes will set the foundation for proper utilization of Procurement Cards citywide. Finance expects to publish the policy by mid-September.

Recommendation #1 is based on several issues identified in the audit report. The following section in the Administration's response restates the issues identified and offers a response.

Issue #1 (page 14): The City has significant exposure due to a lack of adequate and documented internal controls to minimize improper, abusive, or fraudulent cardholders uses of procurement cards

As previously mentioned, the new Procurement Card policy will set the foundation for proper utilization of Procurement Cards citywide. Specifically, the new policy will address the majority of controls identified as weak in the audit, since the policy will include a procedures section for departments. Further, the policy will address the five threats that had no mitigating controls as

identified in the audit report. The table on the following page provides the appropriate details and Finance's response.

Threats which have no mitigating Control as Identified in the Audit Report	Finance Response
Approving Officials have an unmanageable span (responsible for too many cardholders) of control and cannot properly oversee cardholders	In the new policy, Approving Officials will be the assigned Supervisor, which will control the number of Cardholders an Approving Official will be responsible for
Cardholder supervisors are not aware of the Cardholder expenditures	In the new policy, Approving Officials have to be the assigned Supervisor
The City does not receive or control products with unique identifiers (i.e. serial numbers) that Cardholders purchased with Procurement Cards	In the new policy, by signing the Monthly Procurement Card statement, Cardholders certify that they have received the purchased equipment
City/departments make late payments for invoices and the City misses opportunities to maximize prompt payment incentives	The new policy will provide clear deadlines for payment processing and advise departments that the privilege to carry a Procurement Card will be revoked, if cardholders/departments fail to process payments within established timelines
City Departments obtain non-US Bank Procurement Cards or Credit Cards without Finance Department knowledge or approval	The new policy will describe that only the Director of Finance can apply for procurement, credit, debit, or gasoline cards

Issue #2 (page 18): Control weaknesses create an environment susceptible to improper, abusive, and/or fraudulent procurement card purchases

In addition to the Risk Assessment in the audit report, your office identified inappropriate procurement card transactions between July 2004 and November 2005. The Administration's response is summarized below to the issues identified in the report.

- *Splitting purchases to circumvent purchasing limits*

The Police Department split transactions among several card holders to be able to purchase digital cameras using grant funds before the grant expenditure deadline. Police chose to use procurement cards for this acquisition versus submitting a requisition to Purchasing, since, it believed, that there was not sufficient time to process the purchase request. Police acknowledges that through these actions, the department violated the existing Procurement Card policy. Affected staff was advised about the proper procedures.

- *Purchasing meals in violation of the City Manager's budget freeze on food and meal expenditures*

The audit identified food purchases on Procurement Card transactions without the proper approvals attached to the monthly statement. On July 21, 2006, the City Manager approved a citywide policy for food and beverage purchases. Affected staff was advised about the proper procedure for food purchases. Additionally, the new Procurement Card policy specifically highlights that appropriate approvals are attached to the monthly statement as part of the internal payment process.

During the period of the audit, however, the City Manager issued a memorandum on February 3, 2003 freezing all meal reimbursements, except under limited circumstances. The memorandum further defines limited circumstances as "meal reimbursements required by existing MOUs, reimbursements involving truly unavoidable situations, or expenses honoring previous commitments." Departments were advised to manage the direction without central approval requirement. For the food purchases described in the audit, Police followed past practices to ensure efficient use of staff time for interviewing panels and for continued professional training for officers. The food purchases were documented with receipts, agendas, and roster of attendees. In many cases because only an hour was available for lunches during training sessions and interview panels, downtown restaurants were the most convenient source for providing meals within this timeframe. The Police Department acknowledges that these meal purchases may have been outside the scope of the Manager authorization granted by the City Manager.

- *Inappropriately procuring services in excess of \$1,000 without purchase orders and technology purchases without prior approval*

From November 2004 to May 2005, the Police Department acknowledges procuring catering services in excess of \$1,000 per transaction. Staff was informed that services can only be procured with a value of less than \$1,000 including applicable fees and taxes to ensure compliance with the City's insurance and prevailing/living wage requirements. The department has tightened its procedures and properly communicated this policy to its staff.

Additionally, the Police Department acknowledges that some technology purchases were made without prior approval. The new policy will include a requirement that any applicable approvals, such as technology purchase approvals, need to be attached to the monthly statement before being submitted for payment processing. Staff was informed that appropriate approvals need to be in place prior to purchasing technology items.

- *Purchasing from non-city vendors when the City has a citywide Open Purchase Order with a different vendor*

Through the release of the new City policy, departments will be required to purchase all items available through citywide open purchase orders from these vendors to ensure continuous economies of scale.

- *Finance processed Procurement Card statements without appropriate Approving Official approval and/or cardholder signature*

Staff was advised of this oversight. Additionally, the new policy clearly defines the responsibilities for signature verification.

- *A City employee made a personal purchase with a City Procurement Card*

The Administration will follow-up on specific inappropriate purchases identified through the Audit. These will be handled as personnel matters by the Office of Employee Relations in collaboration with the applicable department and appropriate action will be taken.

Issue #3 (page 24): Several Retirement Services Procurement Cardholders making travel-related transactions that appear to be improper

In the audit, your office questioned the two transactions related to Retirement Services Department travel. Retirement Services believes that the use of a limousine car service was appropriate to provide safer means of getting a female staff member from the airport to her hotel late at night. The authorization for limousine service by the Director is not customary and only approved with major concern for a Retirement Services staff member. In the future, the department will examine carefully all safe modes of transportation and ensure that a safe mode of transportation is selected at a reasonable cost.

The audit raised concerns about travel costs for a former Retirement Board member who purchased a "package" that funded the cost of a conference, as well as a personal vacation at the conclusion of the conference. The Administration will follow-up on specific inappropriate purchases identified through the Audit. These will be handled as personnel matters by the Office of Employee Relations in collaboration with the applicable department and appropriate action will be taken.

In reference to the Retirement staff's use of a Universal Airline Travel Card (UATP), the UATP is in the possession of the travel agent so that Retirement Service can charge airline flights to that card. It would be inappropriate to have a City procurement card in the possession of a non-City employee.

Finally, in the past, Retirement Services attempted to contract with other travel agencies unsuccessfully, since the travel volume is too small for larger travel agencies. The Retirement Services' current travel agent has worked diligently to address the Retirement Board's travel needs at the best possible price.

Issue #4 (page 25): Finance should lead the effort to strengthen controls to minimize the risk of fraud, waste, and abuse

As discussed above, Finance reviewed the City's Procurement Card program and started to rewrite the program in its entirety based on best practices in governmental procurement card programs. The new policy comprehensively will describe the roles and responsibilities of City Departments and Finance, outline the prohibitions and restrictions of the Procurement Card transactions, include a procedures section, and strengthen internal controls. Finance expects to publish the policy by mid-September.

Recommendation #2: The Auditor's Office recommends that the City Council's Rules Committee add an on-going audit of the Procurement Card Program to the City Auditor's Workplan. (Priority 3)

Finance welcomes the continued participation of the City Auditor in the evaluation and improvement of the Procurement Card Program. As part of the continuous improvement in coordination between Purchasing and Accounts Payable, Finance intends to establish the capability within the department for post-processing monitoring and auditing of its transactions, procedures, and systems. These operational reviews will use techniques similar to those used by the City Auditor for this limited scope audit.

After allowing a reasonable time for the implementation of the updated policy and procedures discussed in our response to Recommendation #1, Finance suggests that the City Auditor conduct a full performance audit of the Procurement Card Program.

Recommendation #3: The Auditor's Office recommends that the City Administration develop a policy to guide City officials when giving gifts to visiting VIPs and dignitaries. (Priority 2)

As a result of the audit report, the Administration is in the process of developing a citywide Gift Policy, which will identify criteria and guidelines for giving gifts to visiting VIPs and dignitaries. The Administration expects to publish this new policy in October 2006.

Recommendation #4: The Auditor's Office recommends that the Federated and Police and Fire Retirement Boards request that the City Council's Rules Committee add to the City Auditor's 2006-07 Audit Workplan an audit of the Retirement Services Department's travel-related expenses. (Priority 3)

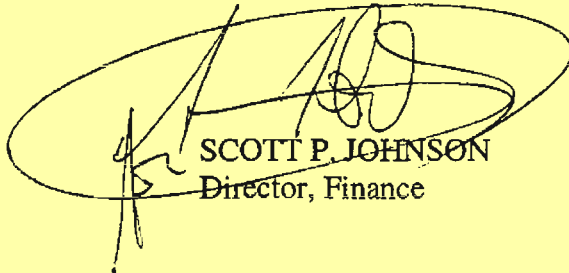
The Administration concurs with this recommendation.

CONCLUSION

The Administration recognizes the findings in the audit report and will address the issues raised through the publication of a comprehensive Procurement Card policy, which includes procedures for departments. The policy will address the majority of issues raised through the audit's Risk Assessment. Further, the Administration will develop a citywide policy for giving gifts to VIPs and dignitaries.

Finance appreciates the close working relationship with your staff throughout this audit and the assistance provided by your staff in the development of the new Procurement Card policy.

For questions regarding this memorandum, please contact Walter C. Rossmann, Chief Purchasing Officer, at (408) 535-7051.


SCOTT P. JOHNSON
Director, Finance



APPENDIX A

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The City of San Jose's City Policy Manual (6.1.2) defines the classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class ¹	Description	Implementation Category	Implementation Action ³
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring. ²	Priority	Immediate
2	A potential for incurring significant fiscal or equivalent fiscal or equivalent non-fiscal losses exists. ²	Priority	Within 60 days
3	Operation or administrative process will be improved.	General	60 days to one year

¹ The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number. **(CAM 196.4)**

² For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$25,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$50,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens.
(CAM 196.4)

³ The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.
(CAM 196.4)

APPENDIX C

	Threat/Control	Threat's Inherent Risk	Internal Control Rating	Vulnerability Assessment
A.	Obtaining a Procurement Card			
T-1	Cardholders obtain Procurement Cards when they don't have a legitimate use for the card	HIGH		
C-1	Agency Program Coordinator has the only access to update US Bank Records for card issuance, restrictions, purchase limit setting, and canceling Procurement Cards.		Adequate	Moderate to High
C-5	City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	High
C-6	Approving Official requests future cardholder complete the Request for Procurement Card form. Approving Official reviews and authorizes Request for Procurement Card form, establishes single purchase and 30-day limits, and adds additional Merchant Activity Code Restrictions.		Adequate	Moderate to High
C-7	Approving Official makes written request to Purchasing to authorize a new cardholder or to make changes to cardholder accounts.		Adequate	Moderate to High
C-8	Procurement Card mailed to Approving Official and cardholder must sign for receipt of card.		Adequate	Moderate to High
C-19	Cardholder reports changes to name, address, and organization (i.e. dept) to their Approving Official who will forward the information to Purchasing.		Adequate	Moderate to High
T-2	Cardholders obtain Procurement Cards without appropriate supervisory approval or knowledge	HIGH		
C-1	Agency Program Coordinator has the only access to update US Bank Records for card issuance, restrictions, purchase limit setting, and canceling Procurement Cards.		Adequate	Moderate to High
C-6	Approving Official requests future cardholder complete the Request for Procurement Card form. Approving Official reviews and authorizes Request for Procurement Card form, establishes single purchase and 30-day limits, and adds additional Merchant Activity Code Restrictions.		Adequate	Moderate to High
C-7	Approving Official makes written request to Purchasing to authorize a new cardholder or to make changes to cardholder accounts.		Adequate	Moderate to High
C-8	Procurement Card mailed to Approving Official and cardholder must sign for receipt of card.		Adequate	Moderate to High
C-19	Cardholder reports changes to name, address, and organization (i.e. dept) to their Approving Official who will forward the information to Purchasing.		Adequate	Moderate to High
T-3	Cardholders receive Procurement Cards without credit limits or purchasing restrictions	HIGH		
C-1	Agency Program Coordinator has the only access to update US Bank Records for card issuance, restrictions, purchase limit setting, and canceling Procurement Cards.		Adequate	Moderate to High
C-2	City limits overall single purchase limits to \$2,500 and 30-day limits to \$10,000.		Weak	High
C-3	US Bank enforces single purchase, 30-day, and Approving Official Limits on Procurement Cards.		Weak	High
C-5	City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	High
C-6	Approving Official requests future cardholder complete the Request for Procurement Card form. Approving Official reviews and authorizes Request for Procurement Card form, establishes single purchase and 30-day limits, and adds additional Merchant Activity Code Restrictions.		Adequate	Moderate to High
T-4	City issues Procurement Card to persons other than active employees	HIGH		
C-1	Agency Program Coordinator has the only access to update US Bank Records for card issuance, restrictions, purchase limit setting, and canceling Procurement Cards.		Adequate	Moderate to High
C-5	City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	High
C-6	Approving Official requests future cardholder complete the Request for Procurement Card form. Approving Official reviews and authorizes Request for Procurement Card form, establishes single purchase and 30-day limits, and adds additional Merchant Activity Code Restrictions.		Adequate	Moderate to High
C-7	Approving Official makes written request to Purchasing to authorize a new cardholder or to make changes to cardholder accounts.		Adequate	Moderate to High
C-8	Procurement Card mailed to Approving Official and cardholder must sign for receipt of card.		Adequate	Moderate to High
T-5	City does not receive Procurement Card after employee leaves service or is transferred and the card remains active	HIGH		
C-1	Agency Program Coordinator has the only access to update US Bank Records for card issuance, restrictions, purchase limit setting, and canceling Procurement Cards.		Adequate	Moderate to High
C-16	Approving Official collects all cardholder statements, reviewing them, resolving questions on purchases, signing the statement and forwarding all statements with attachments to department fiscal section within 10 working days of statement receipt from Bank.		Weak	High
C-19	Cardholder reports changes to name, address, and organization (i.e. dept) to their Approving Official who will forward the information to Purchasing.		Adequate	Moderate to High
C-20	Cardholder returns Procurement Card to Approving Official.		Adequate	Moderate to High
T-6	Bank issues Procurement Card without proper authorization	HIGH		
C-1	Agency Program Coordinator has the only access to update US Bank Records for card issuance, restrictions, purchase limit setting, and canceling Procurement Cards.		Adequate	Moderate to High
C-7	Approving Official makes written request to Purchasing to authorize a new cardholder or to make changes to cardholder accounts.		Adequate	Moderate to High

APPENDIX C

		Threat/Control	Threat's Inherent Risk	Internal Control Rating	Vulnerability Assessment
B.		Procurement Card Use			
T-7		City/Department does not comply with Procurement Card directives (policies, procedures, other guidance)	MODERATE		
C-5		City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	Moderate to High
C-21		Accounting staff review Procurement Card statements for Sales and Use tax, approving official signature, travel policy, technology purchasing restrictions and unusual expenditures such as split transactions or prohibited items.		Adequate	Moderate
T-8		Procurement Card limits and restrictions are not matched to apparent need (i.e. financial exposure)	MODERATE		
C-2		City limits overall single purchase limits to \$2,500 and 30-day limits to \$10,000.		Weak	Moderate to High
C-4		US Bank embosses specific cardholder names on each Procurement Card.		Adequate	Moderate
C-6		Approving Official requests future cardholder complete the Request for Procurement Card form. Approving Official reviews and authorizes Request for Procurement Card form, establishes single purchase and 30-day limits, and adds additional Merchant Activity Code Restrictions.		Adequate	Moderate
C-7		Approving Official makes written request to Purchasing to authorize a new cardholder or to make changes to cardholder accounts.		Adequate	Moderate
C-21		Accounting staff review Procurement Card statements for Sales and Use tax, approving official signature, travel policy, technology purchasing restrictions and unusual expenditures such as split transactions or prohibited items.		Adequate	Moderate
T-9		Procurement Cards used by person other than person shown on the Procurement Card	LOW		
C-5		City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	Low to Moderate
C-8		Procurement Card mailed to Approving Official and cardholder must sign for receipt of card.		Adequate	Low
T-10		Cardholders split transactions to avoid purchase limits	MODERATE		
C-2		City limits overall single purchase limits to \$2,500 and 30-day limits to \$10,000.		Weak	Moderate to High
C-3		US Bank enforces single purchase, 30-day, and Approving Official Limits on Procurement Cards.		Weak	Moderate to High
C-5		City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	Moderate to High
C-6		Approving Official requests future cardholder complete the Request for Procurement Card form. Approving Official reviews and authorizes Request for Procurement Card form, establishes single purchase and 30-day limits, and adds additional Merchant Activity Code Restrictions.		Adequate	Moderate
C-7		Approving Official makes written request to Purchasing to authorize a new cardholder or to make changes to cardholder accounts.		Adequate	Moderate
C-15		Bank sends monthly summary statement to Approving Official listing all cardholders that have used the Procurement Card in the last billing period.		Adequate	Moderate
C-16		Approving Official collects all cardholder statements, reviewing them, resolving questions on purchases, signing the statement and forwarding all statements with attachments to department fiscal section within 10 working days of statement receipt from Bank.		Weak	Moderate to High
C-21		Accounting staff review Procurement Card statements for Sales and Use tax, approving official signature, travel policy, technology purchasing restrictions and unusual expenditures such as split transactions or prohibited items.		Adequate	Moderate
T-11		Cardholders acquire goods and services that are unauthorized and intended for personal use or gain	HIGH		
C-5		City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	High
C-15		Bank sends monthly summary statement to Approving Official listing all cardholders that have used the Procurement Card in the last billing period.		Adequate	Moderate to High
C-16		Approving Official collects all cardholder statements, reviewing them, resolving questions on purchases, signing the statement and forwarding all statements with attachments to department fiscal section within 10 working days of statement receipt from Bank.		Weak	High
C-21		Accounting staff review Procurement Card statements for Sales and Use tax, approving official signature, travel policy, technology purchasing restrictions and unusual expenditures such as split transactions or prohibited items.		Adequate	Moderate to High
T-12		Cardholders make purchases that are not permitted by law, regulation, or policy	MODERATE		
C-5		City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	Moderate to High
C-15		Bank sends monthly summary statement to Approving Official listing all cardholders that have used the Procurement Card in the last billing period.		Adequate	Moderate
C-16		Approving Official collects all cardholder statements, reviewing them, resolving questions on purchases, signing the statement and forwarding all statements with attachments to department fiscal section within 10 working days of statement receipt from Bank.		Weak	Moderate to High
C-21		Accounting staff review Procurement Card statements for Sales and Use tax, approving official signature, travel policy, technology purchasing restrictions and unusual expenditures such as split transactions or prohibited items.		Adequate	Moderate
T-13		Cardholders make purchases of authorized goods or services at terms (e.g. price and quantity) that are excessive and/or are for a questionable need	MODERATE		
C-5		City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	Moderate to High
C-9		Approving Official authorizes cardholder to make telephone or mail order purchases.		Weak	Moderate to High
C-10		Telephone Orders: Cardholder maintains log called the Record of Telephone Procurement Card order forms for all telephone purchases made during billing cycle. Cardholder submits the Record of Telephone Procurement Card form with monthly statement in lieu of packing slip/receipt.		Adequate	Moderate
C-11		Mail Orders: Cardholder submits copy of order form and sales receipt, if available, to the monthly statement.		Adequate	Moderate

APPENDIX C

	Threat/Control	Threat's Inherent Risk	Internal Control Rating	Vulnerability Assessment
C-14	Cardholder submits transaction receipts with monthly cardholder statements.		Adequate	Moderate
C-15	Bank sends monthly summary statement to Approving Official listing all cardholders that have used the Procurement Card in the last billing period.		Adequate	Moderate
C-16	Approving Official collects all cardholder statements, reviewing them, resolving questions on purchases, signing the statement and forwarding all statements with attachments to department fiscal section within 10 working days of statement receipt from Bank.		Weak	Moderate to High
T-14	Cardholders alter documents to legitimize purchases	HIGH		
C-5	City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	High
C-14	Cardholder submits transaction receipts with monthly cardholder statements.		Adequate	Moderate to High
C-15	Bank sends monthly summary statement to Approving Official listing all cardholders that have used the Procurement Card in the last billing period.		Adequate	Moderate to High
C-16	Approving Official collects all cardholder statements, reviewing them, resolving questions on purchases, signing the statement and forwarding all statements with attachments to department fiscal section within 10 working days of statement receipt from Bank.		Weak	High
T-15	Cardholders make purchases from sources where City/department has established open purchase order or source is restricted	MODERATE		
C-5	City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	Moderate to High
C-16	Approving Official collects all cardholder statements, reviewing them, resolving questions on purchases, signing the statement and forwarding all statements with attachments to department fiscal section within 10 working days of statement receipt from Bank.		Weak	Moderate to High
T-16	Cardholders collude with vendors to provide City funds for goods and services not provided and the two share the profit	HIGH		
C-5	City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	High
C-16	Approving Official collects all cardholder statements, reviewing them, resolving questions on purchases, signing the statement and forwarding all statements with attachments to department fiscal section within 10 working days of statement receipt from Bank.		Weak	High
T-17	Approving Officials and Cardholders collude to misuse Procurement Cards	HIGH		
C-5	City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	High
C-21	Accounting staff review Procurement Card statements for Sales and Use tax, approving official signature, travel policy, technology purchasing restrictions and unusual expenditures such as split transactions or prohibited items.		Adequate	Moderate to High
T-18	Cardholders make purchases from vendors where they or the approving official have a conflict of interest	HIGH		
C-22	City Policy 1.2.1 Code of Ethics.		Adequate	Moderate to High
T-19	Cardholders are unaware of the proper use and allowable activities for Procurement Cards	MODERATE		
C-5	City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	Moderate to High
C-16	Approving Official collects all cardholder statements, reviewing them, resolving questions on purchases, signing the statement and forwarding all statements with attachments to department fiscal section within 10 working days of statement receipt from Bank.		Weak	Moderate to High
C.	Monitoring			
T-20	Inappropriate transactions are not identified	HIGH		
C-15	Bank sends monthly summary statement to Approving Official listing all cardholders that have used the Procurement Card in the last billing period.		Adequate	Moderate to High
C-16	Approving Official collects all cardholder statements, reviewing them, resolving questions on purchases, signing the statement and forwarding all statements with attachments to department fiscal section within 10 working days of statement receipt from Bank.		Weak	High
C-21	Accounting staff review Procurement Card statements for Sales and Use tax, approving official signature, travel policy, technology purchasing restrictions and unusual expenditures such as split transactions or prohibited items.		Adequate	Moderate to High
T-21	Approving Officials have an unmanageable span of control (responsible for too many cardholders) and cannot properly oversee cardholders	MODERATE		
T-22	Cardholder supervisors are not aware of expenditures made by cardholders	HIGH		
T-23	City does not receive or control products with unique identifiers (i.e. serial numbers) purchased with Procurement Cards.	MODERATE		

APPENDIX C

	Threat/Control	Threat's Inherent Risk	Internal Control Rating	Vulnerability Assessment
D.	Invoice Payment			
T-24	Cardholders are not aware of expenditures shown on their Procurement Card	MODERATE		
C-12	Bank sends monthly statements to cardholder.		Adequate	Moderate
C-13	Cardholder reviews monthly statements for accuracy, adds appropriate visible codes by transaction (if appropriate), attaches sales receipts or copies of telephone logs for mail/telephone orders, signs statement and forwards to Approving Official within five working days of receipt.		Weak	Moderate to High
C-14	Cardholder submits transaction receipts with monthly cardholder statements.		Adequate	Moderate
T-25	Monthly statements are not accurate, expenditures are not legitimate, and expenditures are not supported by adequate documentation	MODERATE		
C-15	Bank sends monthly summary statement to Approving Official listing all cardholders that have used the Procurement Card in the last billing period		Adequate	Moderate
C-16	Approving Official collects all cardholder statements, reviewing them, resolving questions on purchases, signing the statement and forwarding all statements with attachments to department fiscal section within 10 working days of statement receipt from Bank.		Weak	Moderate to High
C-21	Accounting staff review Procurement Card statements for Sales and Use tax, approving official signature, travel policy, technology purchasing restrictions and unusual expenditures such as split transactions or prohibited items.		Adequate	Moderate
T-26	City/Departments make late payments for Invoices and miss opportunities to maximize prompt payment incentive	HIGH		
T-27	City's payment for all Procurement Cards do not match the amounts stated in bank invoices	HIGH		
C-21	Accounting staff review Procurement Card statements for Sales and Use tax, approving official signature, travel policy, technology purchasing restrictions and unusual expenditures such as split transactions or prohibited items.		Adequate	Moderate to High
T-28	City Departments obtain non-US Bank Procurement Cards or Credit Cards without Finance Department knowledge or approval	HIGH		
T-29	City processes payment without adequate documentation	MODERATE		
C-5	City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	Moderate to High
C-14	Cardholder submits transaction receipts with monthly cardholder statements.		Adequate	Moderate
C-15	Bank sends monthly summary statement to Approving Official listing all cardholders that have used the Procurement Card in the last billing period.		Adequate	Moderate
C-16	Approving Official collects all cardholder statements, reviewing them, resolving questions on purchases, signing the statement and forwarding all statements with attachments to department fiscal section within 10 working days of statement receipt from Bank.		Weak	Moderate to High
C-21	Accounting staff review Procurement Card statements for Sales and Use tax, approving official signature, travel policy, technology purchasing restrictions and unusual expenditures such as split transactions or prohibited items.		Adequate	Moderate
T-30	City processes payment without appropriate signature approval	HIGH		
C-21	Accounting staff review Procurement Card statements for Sales and Use tax, approving official signature, travel policy, technology purchasing restrictions and unusual expenditures such as split transactions or prohibited items.		Adequate	Moderate to High
E.	Disputing Charges>Returns			
T-31	City does not receive credit for disputed charges	MODERATE		
C-5	City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	Moderate to High
C-17	Cardholder submits a Cardholders Statement of Questioned Item form and faxes it to bank within five working days to dispute charges. Additionally, cardholder includes CSQI form with monthly statement.		Adequate	Moderate
C-18	Cardholder attaches Credit Voucher to the statement on which the credit appears.		Adequate	Moderate
C-21	Accounting staff review Procurement Card statements for Sales and Use tax, approving official signature, travel policy, technology purchasing restrictions and unusual expenditures such as split transactions or prohibited items.		Adequate	Moderate
T-32	City does not receive credits for returns	LOW		
C-5	City maintains and enforces a Policy on obtaining, using, monitoring, and disputing Procurement Card charges.		Weak	Low to Moderate
C-17	Cardholder submits a Cardholders Statement of Questioned Item form and faxes it to bank within five working days to dispute charges. Additionally, cardholder includes CSQI form with monthly statement.		Adequate	Low
C-18	Cardholder attaches Credit Voucher to the statement on which the credit appears.		Adequate	Low
C-21	Accounting staff review Procurement Card statements for Sales and Use tax, approving official signature, travel policy, technology purchasing restrictions and unusual expenditures such as split transactions or prohibited items.		Adequate	Low

City Procurement Cards**Section XXX****PURPOSE**

The purpose of this policy is to establish a framework for the citywide Procurement Card program including the participation in the program and the appropriate use of Procurement Cards. The citywide Procurement Card program is established to streamline small dollar purchases and reduce the acquisition period.

For the purpose of this policy, a Procurement Card is a City-issued credit card from a financial institution. The Procurement Card shall be used as a first purchase option for small purchases unless the items are available in a City Warehouse or through established contracts such as citywide Open Purchase Orders or departmental Open Purchase Orders. All forms referenced in this policy are available on Finance's Intranet's site.

SCOPE

This policy applies to all employees who are issued a City of San José Procurement Card and all departments who authorize employees to use City Procurement Cards.

DEFINITIONS

Approving Official: Appointed by the respective Department Director and responsible for approving the appropriateness of purchases on monthly credit card statements.

Chief Purchasing Officer: Responsible for the Procurement Card policy and program as delegated by the Director of Finance.

Citywide Procurement Card Administrator: Appointed by Director of Finance per recommendation from the Chief Purchasing Officer and serves as the primary contact for the financial institution issuing procurement cards and administers the citywide program.

Department Director: Responsible and accountable (1) for adherence to this policy for Department employees participating in this program including Department Procurement Card Coordinator, Approving Officials, and Cardholders; (2) for adherence to this policy; (3) for appropriate internal controls; (4) and that an unexpended and unencumbered appropriation is available for Procurement Card Transactions.

Department Procurement Card Coordinator: Appointed by the Department Director and typically shall be the Fiscal Officer or Administrative Manager overseeing the Department's administrative staff. This position (1) serves as the primary department contact for the Citywide Procurement Card Administrator, (2) ensures that department Cardholders and Approving Officials are trained in the citywide procurement program and follow this policy and rules and regulations of the program, and (3) ensures appropriate internal controls.

City Procurement Cards**Section XXX**

Qualified Procurement and Contract Specialists: For purposes of Purchasing's function within the City's Emergency Operations Center, Purchasing staff authorized and trained to work in the City's Emergency Operations Center.

POLICY**I. General Information**

The City Procurement Card is to be used for **OFFICIAL** City business and **MAY NOT BE USED FOR PERSONAL PURCHASES UNDER ANY CIRCUMSTANCES**. Failure to follow this policy including any outlined processes and guidelines for Procurement Card purchases contained in this policy may lead to the suspension or termination of a procurement card, result in disciplinary action, and result in payment for unauthorized charges.

The City Procurement Card is specially designed to avoid confusion with an employee's personal credit cards. The Procurement Card that is issued will have the employee's name and the City of San José seal embossed on the card. Authorization to use the Procurement Card is restricted to the individual employee and may not be delegated. No other City employee including members of the employee's staff or the employee's Approving Official and no member of the employee's family or anyone else may use a City issued Procurement Card.

The issuance of a Procurement Card in an employee's name shall not be reflected in an employee's credit report. Credit agencies shall not request any personal information from an employee who is issued a Procurement Card nor shall the employee furnish any personal information in response to questions about a City issued Procurement Card.

Use of a City Procurement Card is a privilege and the Director of Finance may suspend or revoke cards at any time according to his assessment of the best interests of the City such as, but not limited to, lack of timely review and approval of card invoices by Cardholders and departments and violations of this policy.

II. Procurement Card Usage

Procurement Cards may be used to purchase goods within the transaction limits set by the Director of Finance from vendors accepting the Procurement Card.

For this program, the maximum daily transaction limit is \$2,500 with a monthly transaction limit of \$10,000. In general, the Department Director will determine the limits of each Cardholder to coincide the daily and monthly transaction limits of this program. If a Department Director determines a need for a higher daily or monthly transaction limit, the Department Director shall submit a request for increased transaction limit authority for a select Cardholders to the City's Chief Purchasing Officer outlining the reasons and business objectives for the requested limits on the appropriate form. The Chief Purchasing Officer may approve or

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deny the request including but not limited to the identified need, history of violation of the Cardholder, overall departmental compliance with this policy, and the maximum daily transaction limit as prescribed by the City's competitive bidding requirement in the Municipal Code.

Procurement Cards may be used to purchase services which do not exceed \$1,000, including applicable taxes, since the City has to ensure that proper insurance and prevailing wage requirements are followed.

Goods may not be purchased from online retailers which do not collect sales tax for payment to the California State Board of Equalization.

An issued Procurement Card may not be re-assigned to another employee. Effective the date of this policy, the Procurement Card is only issued to Cardholders who certify that they have read and understood and will comply with this policy. Within two months, effective the original publication date of this policy, existing Cardholders are required to certify that they have read and understood and will comply with this policy. All Approving Officials, and Department Procurement Card Coordinators are required to certify that they have read and understood and will comply with this policy prior to assuming these duties. As required by the Citywide Procurement Card Administrator, Cardholders, Approving Officials, or Department Procurement Card Coordinators, shall attend a refresher training. Finance will offer trainings periodically.

The Chief Purchasing Officer is responsible for disseminating any changes to this policy and related forms to the Department Procurement Card Coordinators, who are responsible for informing the department's Approving Officials and Cardholders of the changes.

Emergency Exception

Emergency Operation Center: Emergency Procurement Cards are under lock and key at the City's Emergency Operation Center (EOC) and may only be utilized in accordance with appropriate EOC activation levels. In cases of declared emergencies, the City's Chief Purchasing Officer may authorize Emergency Procurement Cards held by designated individuals to be temporarily re-assigned to qualified Procurement or Contract Specialists or other designated staff. These cards will carry the maximum daily and monthly transaction limits as authorized by the financial institution.

Specific Public Safety Event: During Public Safety events (e.g. hostage/barricade; MERGE (Mobile Emergency Response Group and Equipment) event; special events police coverage, etc.), where sworn personnel are held over or unable to leave the site, the Police Captain or Police Lieutenant on duty for the event is authorized to temporarily re-assign his/her Procurement Card to make emergency purchases such as food, water, barricades, or other necessary supplies. The Police Captain or Lieutenant shall include the Police case number and date and time of the event on all related receipts to be included with the monthly statement of account.

III. Annual Review

Department Directors are responsible for reviewing the utilization of Procurement Cards on an annual basis for the purpose of identifying Procurement Cards that may no longer be needed or that may be under utilized.

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Annually, in the month of August, the Department Procurement Card Coordinator shall review the operational requirements and utilization of Procurement Cards for all Cardholders in the department and provide a summary of that review, in writing and approved by the Department Director, to the City's Procurement Card Administrator detailing the deletions and additions of Cardholders and Approving Officials. With the submission of the annual report, Department Directors certify that their department is in full compliance with the policy and that the department has adequate controls to ensure the proper use of procurement cards. The Director of Finance will summarize this information for submission of an annual report to the City Manager.

IV. Restrictions and Regulations**Assignment Restrictions**

1. The Citywide Procurement Card Administrator shall be an employee of the Finance Department/Purchasing Division and cannot be an Approving Official or Cardholder.
2. An Approving Official cannot approve his/her own Procurement Card transactions.
3. A Department Procurement Card Coordinator cannot be a Procurement Cardholder.
4. Procurement Cards can only be assigned to probationary or permanent City employees and not to contract or temporary employees.

Operational Necessity for Issuance of Procurement Cards to Department Employees

The Department Director shall evaluate the operational necessity for issuance of Procurement Cards to Department Employees based on the duties and responsibilities of employees and the operational requirement and shall limit, if operationally feasible, the request for issuance of Procurement Cards to supervisory, managerial, or administrative staff. The operational necessity shall be documented on the application for Procurement Cards.

Purchasing Regulations

Through the Procurement Card program, Finance Department decentralizes small dollar purchases to streamline the acquisition cycle, while continuing to take advantage of economies of scale through centralized procurement of goods and services. Use of the Procurement Card is not intended to replace effective procurement planning which allows for volume discounts. Similar to other procurement methods, certain conditions must be met when using the Procurement Card:

1. The Procurement Card may be used for travel related expenses in accordance with approved travel expenditures and with existing procedures for Travel.

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2. In accordance with the Council Policy titled Environmentally Preferable Purchasing Policy (see Purchasing's Intranet site), the Cardholder is required to select Environmentally Preferable products and services.
3. The Procurement Card should be used in lieu of petty cash, emergency purchase orders or purchase requisitions when the dollar amount for a single item or group of items is under \$2,500, \$1,000 for services, or when the City's Chief Purchasing Officer approved higher transaction limits for selected Cardholders.
4. Each single purchase may be comprised of multiple items, but the total including tax cannot exceed the single daily transaction limit of the Procurement Card.
5. If a purchase will exceed the Procurement Card transaction limits, standard City purchasing procedures must be followed.
6. Procurement Cardholders shall purchase the least expensive item that meets performance specifications.
7. Purchases shall not be split to circumvent Procurement Card transaction limits.
8. Purchases of fixed assets, which are pieces of equipment with a purchase price, including tax, of \$5,000 need to be recorded in the City's fixed asset system.
9. Monthly Statements of Account and supporting documentation shall not be altered by employees to legitimize any procurement card transaction.
10. Purchases shall comply with any other City policies or regulations.

Purchasing Restrictions

The Procurement Card can be used to purchase supplies, materials, and equipment and services that do not exceed the single transaction limits as set forth in this policy or when the City's Chief Purchasing Officer approved higher transaction limits for selected Cardholders. The Procurement Card shall **not** be used for the following:

1. For non-City business.
2. Cash advances.
3. Purchases from vendors when the Cardholder or Approving Official has a Conflict of Interest as defined by City policies.
4. Goods or Services from vendors who do not collect State of California Sales Tax.
5. Services which exceed \$1,000.
6. Stock items carried in the City's Central Warehouse unless Warehouse staff confirms that they are out of stock.
7. Items available from Citywide Open Purchase Orders such as office supplies (for a complete and up-to-date list of Citywide Open Purchase Orders, please visit Finance's Intranet site) unless the items are bought from the Citywide Open Purchase Order vendor.
8. Items available through a Department Open Purchase Order.
9. Purchase of communications equipment such as pagers, cell phones, walkie-talkies, etc.
10. Rentals except for small pieces of equipment not exceeding a week in duration.
11. Machinery that requires a maintenance agreement.
12. Purchase of flowers, shower gifts, birthday gifts, etc., for fellow employees.
13. Purchases at Super Kmart per Resolution # 67706 supporting the boycott of Super Kmart.

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14. Purchase of table grapes per Resolution # 60916 discouraging the purchase of table grapes for any City facility.
15. Purchases of alcoholic beverages may be expended or reimbursed for very limited economic development functions and events only with the prior approval of the City Manager. A Department or Office Director requesting an expenditure or reimbursement for the purchase of alcoholic beverages for a City sponsored event shall send a memorandum to the City Manager, prior to the purchase of any alcoholic beverages, explaining why the purchase of said beverages is appropriate and necessary for a specific event. Payment for expenditures or reimbursement for the purchase of alcoholic beverages will not be made without prior written approval from the City Manager. Notwithstanding these exceptions, all City employees must comply with the Substance Abuse Program & Policy (City Policy Manual Section 1.4.2 or as included in the applicable MOA) and the Alcohol Use at City Facilities Policy (City Policy Manual Section 1.4.4).
16. Restrictions applied by Approving Official.
17. Additional restrictions as directed by the Council, the City Manager, and/or Department Director.

V. Responsibilities

Cardholder Responsibilities

Subject to the provisions in this policy, Cardholders are authorized by their Approving Official to make purchases using the Procurement Card once the “Request for Procurement Card” has been submitted to and approved by the Finance Department and the Procurement Card was received.

Responsibilities of a Procurement Cardholder include, but are not limited to:

1. Acknowledging receipt and understanding of the Procurement Card Policy and Procurement Card by completing the Procurement Card Program Cardholder Agreement Form.
2. Directing questions about the proper use of the Procurement Card to the respective Approving Official, or Department Procurement Card Coordinator.
3. Never using the Procurement Card for transactions other than for Official City purchases.
4. Never splitting purchases to avoid Procurement Card transaction limits.
5. Never purchasing items or services not for City use, inappropriate items or services, or items or services which violate any City policy.
6. Never purchasing goods or services from vendors with which Cardholder has a potential conflict of interest as defined by City policies.
7. Never assigning or loaning the Procurement Card to other employees unless specifically authorized by the City’s Chief Purchasing Officer or this policy.
8. Never loaning the Procurement Card to family members, friends or any other person.
9. Ensuring that the Procurement Card is secure from theft and misuse.
10. Ensuring that changes to a Cardholder’s name, address, and organization are reported to the respective Approving Official who will forward the information to the Citywide Procurement Card Administrator via the Department Procurement Card Coordinator.
11. Returning the Procurement Card upon request from Approving Official, Department Procurement Card Coordinator, Department Director or designee, or Citywide Procurement Card Administrator.

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12. Cutting card in half and presenting the Procurement Card to the respective Approving Official when the Cardholder leaves the Department or City permanently or the Procurement Card was cancelled.
13. Notifying the financial institution, which issued the Procurement Card, the Approving Official, Department Procurement Card Coordinator, or Citywide Procurement Card Administrator immediately that the Procurement Card is lost or was stolen.
14. Verifying that the amount on the sales draft/receipt corresponds to the items purchased, including applicable tax (Sales Tax, Transient Occupancy Tax), before signing the sales draft/receipt.
15. Ensuring that the merchant provides an itemized receipt, which includes a description of the goods and/or services purchased, the quantity purchased, the price per item, amount of sales tax, total amount, shipping charges (if applicable), date of request or purchase, name of authorized person placing the order (for phone, internet, or fax purchases), and signature of Cardholder (on credit card receipt only).
16. Keeping records of the invoice or packing slip, and credit card slip for each Procurement Card transaction until submitting these documents with the monthly statement of account reconciliation to the Approving Official.
17. Ensuring that all documentation supporting each transaction, including dispute of charges, in accordance with any City policy, regulation, or restriction is attached to the Statement of Account from the financial institution.
18. Records appropriate visible codes on the monthly statement of account for each transaction.

Approving Official Responsibilities

The department Approving Official(s) shall be appointed by the Department Director to authorize and approve Procurement Card purchases for designated Cardholder(s) by submission of the “Approving Official Change Request Form” to the Citywide Procurement Card Administrator. Any employee can only serve as an Approving Official for up to 10 Cardholders. On a temporary basis, another department’s Approving Official can approve Monthly Statement of Accounts for Department’s Cardholders.

The responsibilities of an Approving Official include, but are not limited to:

1. Certifying that s/he has read and understood and will comply with this policy prior to assuming these duties.
2. Requesting a Procurement Card and appropriate Merchant Category Code assignments based on business need.
3. Ensuring that changes to a Cardholder’s name, address, and organization are reported to the respective Approving Official.
4. Directing questions about the proper use of the Procurement Card to the Department Procurement Card Coordinator.
5. Ensuring compliance with this policy through training and advising of Procurement Cardholders.
6. Ensuring that Cardholders’ Procurement Card Monthly Statement of Account includes the invoice or packing slip, credit card slip, and appropriate approvals.
7. Reviewing the Cardholder’s transactions to ensure that Cardholder did not split purchases to avoid the transaction limits or purchased items or services not for City use, inappropriate items or services, or items or services which violate any City policy.

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8. Ensuring that each procurement card transaction is assigned a visible code on the Monthly Statement of Account.
9. Approving all transactions of Cardholders' Statement of Account for fulfilling an appropriate business objective.
10. Following appropriate disciplinary measures for violations of this policy.
11. Reporting of violations of this policy to the Department Procurement Card Coordinator.
12. Ensuring destruction of Procurement Cards of Cardholders who left the Department permanently or whose card was cancelled.

Department Procurement Card Coordinator Responsibilities

The Department Procurement Card Coordinator shall be appointed by the respective Department Director to administer the Procurement Card program for his/her Department by submitting the *Department Coordinator Change Request* form (attached) to the Citywide Procurement Card Administrator. The Department Procurement Card Coordinator shall be a member of the department's administrative or fiscal section and preferably the Department's Administrative Manager or Fiscal Officer. Tasks of the Department Procurement Card Coordinator may be delegated to staff under supervision of the Department Procurement Card Coordinator.

The responsibilities of the Department Procurement Card Coordinator include, but are not limited to:

1. Ensuring that for each Monthly Statement of Account, the respective Cardholder and Approving Official signed off on the statement.
2. Certifying that s/he has read and understood and will comply with this policy prior to assuming these duties.
3. Ensuring compliance with this policy through training and advising of Department Approving Officials and Procurement Cardholders.
4. Ensuring department maintains adequate internal controls to assure compliance with this policy.
5. Coordinating Department Procurement Card Activity such as applications for Procurement Cards, changes of accounts, or cancellation of Procurement Cards.
6. Reviewing applicable online Procurement Card reports such as delinquent payments and credits.
7. Reporting of violations of this policy to the Chief Purchasing Officer via the Department Director.
8. Retaining and filing all documentation for the departmental Procurement Card transactions in accordance with the citywide retention schedule for Procurement Card transactions.
9. Submitting appropriate edit lists for payment of Monthly Statements of Account to Accounts Payable.

Citywide Procurement Card Administrator Responsibilities

The Finance Director, per recommendation from the Chief Purchasing Officer shall appoint, in writing, a Purchasing staff member to serve as Citywide Procurement Card Administrator. The Citywide Procurement Card Administrator shall be responsible for the following duties:

1. Maintaining and reviewing citywide Procurement Card Policy and respective Finance Intranet Site.
2. Establishing and updating Procurement Card Accounts, including suspension and cancellation of Procurement Cards.

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3. Administering Dollar Limits and Merchant Category Code assignments.
4. Planning, designing, and delivering a citywide training for the Procurement Card program.
5. Providing Customer Assistance.
6. Reviewing Monthly and Quarterly Reports.
7. Recommending suspension and cancellation of Procurement Cards to the Chief Purchasing Officer.
8. Recommending streamlining of citywide procurements.
9. Coordinating review of Procurement Card transactions and ensuring compliance with this policy in conjunction with Finance Accounts Payable staff.
10. Reporting violations of this policy to the Office of Employee Relations.
11. Disseminating annual review process after approval by Chief Purchasing Officer.
12. Preparing Annual Review Summary Report for the Director of Finance.

Accounts Payable Responsibilities

Finance Accounts Payable shall be responsible for the following duties:

1. Reviewing periodically procurement card transactions for compliance with this policy.
2. Verify appropriate signatures on edit lists attached to the Monthly Statement of Account.
3. Reviewing Monthly Statement of Accounts for bid splitting and asset capitalization at time of payment processing.
4. Reporting violations of this policy to the Chief Purchasing Officer.
5. Issuing payments during the payment cycle requested by Department after receiving on approved Monthly Statement of Account.

PROCEDURES

I. Obtaining a City Procurement Card

- | | |
|---|---|
| Approving
Official | <ol style="list-style-type: none"> 1. Determines if any of their immediate employees require the use of a City Procurement Card to effectively and efficiently perform their duties. 2. Completes and approves the form "Request for City Procurement Card" and submits for approval. |
| Department
Procurement Card
Coordinator | <ol style="list-style-type: none"> 3. Reviews request form and recommends approval or denial of the request to the Department Director. |
| Department
Director | <ol style="list-style-type: none"> 4. Approves or denies the request for a Procurement Card. 5. Forwards the denial of the request to the Approving Official or the approved request to the Chief Purchasing Officer. |
| Chief Purchasing
Officer | <ol style="list-style-type: none"> 6. Approves or denies the request for a Procurement Card. |

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|---|---|
| City's Procurement Card Administrator | <ol style="list-style-type: none"> 7. Informs the Department Procurement Card Coordinator regarding the denial of the request or requests the issuance of a Procurement Card from the Financial Institution. 8. Verifies the correct information printed on the Procurement Card, after receipt of Procurement Card. 9. Ensures that Cardholder and Approving Official comply with the certification requirements of this policy prior to issuance of a Procurement card. 10. Forwards Procurement Card to Department Procurement Card Coordinator. |
| Cardholder | <ol style="list-style-type: none"> 11. Certifies that s/he read and understood this policy. |
| Department Procurement Card Coordinator | <ol style="list-style-type: none"> 12. Records receipt and issuance of Procurement Card to the Cardholder and ensures receipt of a completed and signed Procurement Card Program Cardholder Agreement form from the Cardholder. |

II. Procurement Card Transactions

- | | |
|------------|--|
| Cardholder | <ol style="list-style-type: none"> 1. Identifies need for the procurement of goods or services in accordance with this policy and obtains necessary approvals. 2. Proceeds with purchase transaction in accordance with this policy. 3. Retains and groups respective original receipts, mail orders, sales drafts, invoices, or credit card slip, and appropriate approvals. |
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III. Statement Reconciliation and Payment

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| Cardholder | <ol style="list-style-type: none"> 1. Reviews monthly Statement of Account issued by the financial institution for each billing cycle for accuracy as compared to the procurement card transaction information. 2. Indicates the appropriate visible code by each transaction, if appropriate. 3. Submits <i>Missing Receipt</i> form (attached) and/or <i>Cardholders Statement of Questioned Item</i> form (attached), if applicable and subtracts the value of all disputed purchases from the statement total. 4. Submits the monthly Statement of Account with all applicable documentation to Approving Official for approval within five working days of receipt of the monthly Statement of Account. |
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| Approving
Official | <ol style="list-style-type: none"> 5. Ensures that Cardholder(s) submit the Monthly Statement of Account for review within five working days of receipt of the composite Monthly Statement of Account. 6. Reviews the submitted Monthly Statements of Account and supporting documentation. 7. Ensures that all transactions were completed in accordance with the policy. 8. Resolves questions on purchases with Cardholders. 9. Certifies with his/her signature that purchases fulfilled an appropriate business objective. 10. Ensures that all purchases have a corresponding visible code. 11. Signs the statements and forwards to the Department Procurement Card Coordinator within ten working days of receipt of the Composite Monthly Statement of Account. |
| Department
Procurement Card
Coordinator | <ol style="list-style-type: none"> 12. Retains a copy of all documentation for the departmental Procurement Card transactions. 13. Ensures that authorized personnel signed the monthly Statement of Account. 14. Ensures appropriate data entry into the City's Financial Management System for payment of the Monthly Statements of Accounts. 15. Ensures that a copy of all departmental Monthly Statements of Account are forwarded to Accounts Payable within fifteen working days of receipt of the Composite Monthly Statements of Account. |
| Accounts Payable | <ol style="list-style-type: none"> 16. Issues payment during the payment cycle requested by Department after receiving on approved Monthly Statement of Account. 17. Retains all original documentation in accordance with the citywide retention policy for Procurement Card transactions. 18. Reviews periodically Procurement Card transactions with this policy. 19. Reports violations of this policy to the Chief Purchasing Officer. |

IV. Unsatisfactory Goods or Services and Dispute of Charges

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| Cardholder | <ol style="list-style-type: none"> 1. Returns defective items to merchant for replacement or to receive a credit for the purchase of goods or services. 2. Completes and submits the form "Cardholder Statement of Questioned Item" with the Monthly Statement of Account, if the merchant refuses to provide a replacement or grant a credit for unsatisfactory goods or services received. 3. Keeps track of disputed charges and reports monthly on the status of disputed charges to the Approving Official. |
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| Approving
Official | 4. Reviews the “Cardholder Statement of Questioned Item” and faxes it to the financial institution. |
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V. Appointment of or Changes to Approving Officials and Department Procurement Card Coordinator

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| Department
Director | <ol style="list-style-type: none"> 1. Submits appropriate request form to appoint or request changes to Approving Officials (see Finance Intranet for forms) or the Department Procurement Card Coordinator (see Finance Intranet for forms) to Citywide Procurement Card Administrator. 2. Submits new “Procurement Card Request” forms to request the assignment of Procurement Cardholders to a new Approving Official. |
| Citywide
Procurement Card
Administrator | 3. Reviews the request and recommends denial or approval to the Chief Purchasing Officer. |
| Chief Purchasing
Officer | 4. Approves or denies request and informs Department Director. |

VI. Inappropriate Procurement Card Transactions

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| Approving
Official | <ol style="list-style-type: none"> 1. Reviews and questions the appropriateness of procurement card transaction. 2. Informs Department Procurement Card Coordinator of questioned transactions. 3. Initiates appropriate disciplinary measures. |
| Cardholder | 4. Returns questioned item(s) and provides Approving Official with proof of return or reimburses the City for the full amount, if s/he cannot substantiate that the purchase was necessary or for official use. |
| Department
Procurement Card
Coordinator | 5. Informs Chief Purchasing Officer via Memorandum approved by Department Director about the inappropriate procurement card transaction and the appropriate remedies to reduce the possibility of recurrence of the outlined issues. |
| Chief Purchasing
Officer | <ol style="list-style-type: none"> 6. Reviews submitted memorandum and determines suspension or revocation of the Procurement Card. 7. Informs Office of Employee Relations of inappropriate transactions. |

City Procurement Cards

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Merchant Category Commodities

**Merchant
Category
Code**

Merchant Category Code Name and Description

A	AIRLINES
B	VEHICLE RENTAL
C	HOTEL, MOTEL
D	COURIER SERVICE
G	MAIL ORDER HOUSES – Catalog Stores
H	FOOD/DAIRY/DRUG STORES Grocery Stores, Supermarkets, Dairy Products Stores, Candy, Nut & Confectionery Stores, Bakeries, Pharmacies
I	RESTAURANTS
J	DISCOUNT/DEPARTMENT/VARIETY STORES; MISC. General Mdse., Wholesale Clubs, Discount Stores, Department Stores, Variety Stores
K	MISC. & SPECIALTY RETAIL STORES Lumber/Hardware, Lawn, Garden, Clothing, Home Furnishing & Equipment, Household Appliances, Misc./Records, Government Services, Electronic Sales, Computer Software Stores, Sporting Goods Stores, Book Stores, Stationery, Office & School Supply stores, Hobby, Toy & Game Stores, Gift & Novelty Stores, Artists Supply & Craft Shops, Florists, Pet Stores, Tent & Awning Shops, Camera & Photographic.
L	CONTRACTORS
O	MISC. BUSINESS SERVICES
Q	SCHOOLS, EDUCATIONAL SERVICES (Registrations) Correspondence Schools, Business & Secretarial Colleges, Universities, Junior College & Professional Schools.
R	MEMBERSHIP ORGANIZATIONS, CHARITABLE & SOCIAL ORGANIZATIONS.

APPENDIX E



Memorandum

TO: Gerald Silva

FROM: Scott P. Johnson

SUBJECT: ACCOMPLISHMENTS TO DATE
PROCUREMENT CARD AUDIT

DATE: September 11, 2006

Approved

Handwritten signature of Kay Wimer in black ink.

Date

9/11/06

This memorandum serves as a summary of Finance's efforts to develop a comprehensive Procurement Card Policy, which will establish a framework for the citywide Procurement Card program including the participation in the program and the appropriate use of Procurement Cards. The citywide Procurement Card program will streamline small dollar purchases and reduce the acquisition period for City departments.

After transfer of Purchasing from General Services and the hiring of the City's Chief Purchasing Officer in April 2005, Finance reviewed the City's Procurement Card program, which resulted in the review of best practices in governmental procurement card programs and the development of the City's Procurement Card Policy. The new policy comprehensively describes the roles and responsibilities of City Departments and Finance, outlines the prohibitions and restrictions of the Procurement Card transactions, includes a procedures manual, and strengthens internal controls. These changes set the foundation for proper utilization of Procurement Cards citywide. Finance expects to publish the policy by mid-September.

The transfer of Purchasing to Finance also brought about a close coordination to ensure compliance with the Procurement Card Policy, including prompt payment, between Purchasing and Accounts Payable.

For questions regarding this memorandum, please contact Walter C. Rossmann, Chief Purchasing Officer at (408) 535-7051.

Handwritten signature of Scott P. Johnson in black ink, enclosed in a hand-drawn oval.

SCOTT P. JOHNSON
Director, Finance