CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Auditor

Report to the City Council
City of San José

CITY PROCUREMENT CARDS: BETTER OVERSIGHT AND STREAMLINED PROCESSES WOULD IMPROVE PROTECTION OF PUBLIC RESOURCES

Report 14-07
September 2014

September 18, 2014

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

City Procurement Cards: Better Oversight and Streamlined Processes Would Improve Protection of Public Resources

The City of San José has a procurement card (charge card) program intended to streamline the acquisition of small dollar value goods and services. In a one-year period, roughly 900 cardholders made 41,000 purchases totaling $12.8 million. The program is overseen by the Finance department, but oversight for transactions is decentralized to all City departments.
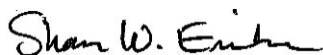
Finding 1: Procurement Card Transactions Generally Adhered to Policy, Though Violations Were Found. Between April 1, 2013 and April 1, 2014, City employees made 41,000 purchases totaling $12.8 million using City-issued procurement cards (p-cards). The transactions we sampled generally adhered to City policy with a few exceptions. Some of these exceptions were relatively minor. The most serious violations included: still active p-cards of terminated employees; sharing of charge cards with other employees; a large number of technology product purchases, including tablets, made without Information Technology Department approval; a cardholder making a large personal purchase; and a cardholder making purchases that appear to violate the Code of Ethics. We recommend that the Finance Department enforce the City's p-card policy by following up on violations; providing clearer guidance to cardholders regarding how to expend City funds prudently and responsibly; updating the City's p-card policy to change approval processes, increase communications around p-card use, and clarify consequences for non-compliance. In addition, the administration should implement previous audit recommendations to annotate receipts and attach travel statements.

Finding 2: The City Should Take Advantage of Online Transaction Management Tools. To ensure that p-card purchases meet the requirements of the procurement card policy, the City requires documentation and annotations by cardholders; and review by approving officials, department coordinators, and Finance Department staff. This process provides strong control over inappropriate purchases; however it is all completely paper-based. We found that U.S. Bank has an online program that can be used in place of nearly all the steps currently done on paper. Moving these steps online would streamline the process and save staff time while maintaining management controls over purchases. We also estimate that if the City were to reduce payment times to one month using the faster online approval system, it could receive $18,000 per year of timely payment incentives. We

recommend the City post transaction data online to improve transparency. We recommend using the U.S. Bank online tools to ensure cardholders authorize transactions prior to departures from the City and to update the Finance Department's list of designated approving officials.

This report includes seven recommendations. We will present this report at the September 25, 2014 meeting of the Public Safety, Finance, and Strategic Support Committee. For their time and insight during this process, we would like to thank the management and staff from the Finance Department, the Office of Employee Relations, the City Manager's Office, as well as staff from other City departments. The Administration has reviewed the information in this report and their response is shown on the yellow pages.

Respectfully submitted,

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This report is also available online at www.sanjoseca.gov/audits/

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Introduction

The mission of the City Auditor's Office is to independently assess and report on City operations and services. The audit function is an essential element of San José's public accountability and our audits provide the City Council, City management, and the general public with independent and objective information regarding the economy, efficiency, and effectiveness of City operations and services.

In accordance with the City Auditor's Fiscal Year (FY) 2013-14 Work Plan, we have completed an audit of the City's procurement card usage. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the "Audit Objective, Scope, and Methodology" section of this report.

The Office of the City Auditor thanks the management and staff from the Finance Department, the Office of Employee Relations, the Office of Economic Development, the City Manager's Office, the City Clerk's Office, the City Attorney's Office, and the departments of the Airport; Environmental Services; Fire; Human Resources; Information Technology; Library; Parks, Recreation and Neighborhood Services; Police; Public Works; Retirement; and Transportation.

Background

City staff members routinely purchase supplies and materials using City charge cards, also known as procurement cards (p-cards). Typical procurement card purchases include office supplies, tools, low-cost equipment, and travel expenses.

The City of San José's p-card program is administered by the Finance Department with decentralized reviews of purchases by approving officials and department coordinators in City departments. The City Procurement Cards policy from the City's Administrative Policy Manual 5.1.2 states:

> *The Citywide Procurement Card program is established to streamline small dollar purchases and reduce the acquisition period[…] [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 or departmental Open Purchase Orders.*

The policy clearly states that the City p-cards are "to be used for **OFFICIAL** City business and **MAY NOT BE USED FOR PERSONAL PURCHASES UNDER ANY CIRCUMSTANCES**."

Roles and Responsibilities

The City's Procurement Card Policy[1] spells out rules for p-card usage and outlines the roles and responsibilities of all parties involved in the p-card program.

Cardholders make purchases on the p-cards and retain the receipts to provide as documentation and justification of the purchase. At the end of each monthly cycle, cardholders are responsible for gathering their receipts, indicating the appropriate budgeting visible code for each transaction, signing the paper p-card statement, and turning their packet over to their approving official. Approving officials are required by policy to be direct supervisors of the cardholders.[2]

The approving official reviews the transactions and documentation to ensure that all transactions are for approved City business and that no transaction violated any City policy. Approving officials then sign the p-card statements and give all their packets to the department procurement card coordinator.

The department coordinator is responsible for reviewing the packets for appropriate signatures and for preparing edit lists in the financial management system (FMS) for payment of the statements. Department coordinators also note the need to accrue Sales Tax and record fixed assets in the edit list. The department coordinators then forward all statements and applicable documentation to Accounts Payable.

Accounts Payable periodically reviews statements for policy compliance and issues payments as requested by the department, accruing the sales tax as necessary. All original documentation is kept according to the Citywide retention policy.

The Citywide procurement card administrator maintains and updates the p-card accounts, including dollar limits and card cancellations. The p-card administrator periodically checks for policy violations in conjunction with Accounts Payable staff. In addition, the p-card administrator coordinates the annual review process.

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[1] City of San José Administrative Policy Manual Section 5.1.2

[2] For the City Council and their staff, the City Clerk serves as the approving official. The current policy states that Council Appointees shall have their fiscal officers serve as approving officials. This is discussed in Finding 1.

The Procurement Card Policy stipulates that an annual review of p-card usage occur every August. Department directors are responsible for reviewing the use of p-cards to identify any p-cards that may not be needed. With the submission of the written summary of the p-card usage review, 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 then summarizes the information for the City Manager.

P-Card Spending

As of June 3, 2014, there were 910 authorized cardholders across the City. Between April 1, 2013 and April 1, 2014, the City paid $12.8 million across 41,000 p-card transactions occurring in every City department.

Exhibit 1: Number and Dollar Value of P-Card Transactions by Department

Department	Number of Cardholders*	Number of Transactions	Total Spending
Environmental Services Department	73	4,638	$ 2,403,510
Parks, Recreation & Neighborhood Services	201	9,877	$ 2,288,905
Public Works	114	5,862	$ 1,941,603
Police Department	167	4,515	$ 1,349,484
Transportation	83	2,618	$ 996,156
Fire Department	42	2,530	$ 935,954
Library	77	2,676	$ 636,174
Mineta San José International Airport	44	1,625	$ 572,016
Planning, Building & Code Enforcement	15	988	$ 294,579
Office of Economic Development	23	1,265	$ 229,499
Information Technology	8	275	$ 184,069
City Manager's Office	9	649	$ 173,859
Finance Department	9	371	$ 114,582
City Clerk's Office	8	354	$ 94,591
Retirement Services	5	312	$ 94,041
Human Resources	9	305	$ 90,768
City Attorney's Office	11	297	$ 70,010
Housing Department	4	303	$ 60,877
Council District 7	1	206	$ 45,952
Mayor's Office	4	120	$ 38,249
Council District 1	5	143	$ 36,729
Council District 8	3	168	$ 31,081
Council District 4	3	212	$ 30,021
Council District 10	6	154	$ 26,298
Council District 6	2	133	$ 21,632
Council District 2	5	132	$ 19,847
Council District 9	2	109	$ 19,252
Council District 3	2	121	$ 9,587
City Auditor's Office	2	42	$ 9,560
Council District 5	1	62	$ 9,513
Independent Police Auditor	1	34	$ 7,832
Grand Total	**939**	**41,096**	**$ 12,836,230**

*Data includes all cardholders with transactions between April 1, 2013 and April 1, 2014.

Source: U.S. Bank online p-card transaction data (April 1, 2013 through April 1, 2014)

The transactions made on the City's p-cards range in value and merchant type, and departments have markedly different spending patterns. The total dollar value spent on p-cards has increased over the past four years. Between April 2009 and April 2010, the City spent $11.6 million on p-card transactions, compared to $12.8 million between April 2013 and April 2014.

U.S. Bank Agreement

The City's p-card program is part of the State of California's CAL-Card program. The State entered into a Master Services Agreement with U.S. Bank in the 1990s and has continued the program since that time. Under the terms of agreement, state agencies and local jurisdictions can participate in the program to use U.S. Bank p-card services. U.S. Bank then provides VISA p-cards to City employees.

The agreement with U.S. Bank allows for the City to place controls on the p-cards, beyond limits typically used for personal credit cards. Chiefly, the State and the City have blocked certain types of merchants (such as casinos) to control p-card usage. The City also has single purchase limits as well as monthly purchase limits to reduce the risk of fraudulent transactions. Typically, cardholders have a single purchase limit of $2,500 per transaction[3] and a monthly purchase limit of $10,000.

Other City Policies

P-card transactions are subject to a variety of City policies in addition to the City's procurement card policy. Together, these policies aim to provide guidance and set controls to ensure appropriate spending of City funds. For most City departments, the relevant policies are:

- Food and Beverage Policy (City Policy Manual 5.1.5)

- Procurement of Supplies, Materials, and Equipment (City Policy Manual 5.1.7)

- Procurement of Non-Professional Services (City Policy Manual 5.1.8)

- Procurement of Information Technology (City Policy Manual 5.1.9) and technology approval process (as outlined on the Information Technology intranet site)

- Bottled Water Purchases (City Policy Manual 5.1.11 and Council Policy 1-19)

- Prohibition of City Funding for Purchase of Expanded Polystyrene (City Policy Manual 5.1.13)

- Code of Ethics (City Policy Manual 1.2.1 and Council Policy 0-15)

- Environmentally Preferable Procurement (Council Policy 4-6)

The offices of the City Council are subject to slightly different policies for their expenditures. The primary policy guiding the expenditures of City Council funds is the City Council Expenditure and Reimbursement Policy (Council Policy 0-38).

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[3] Purchases of goods are limited to $2,500 in any single purchase and purchases of services are limited to $1,000.

Audit Objective, Scope, and Methodology

This audit is one in a series of periodic audits of the City's p-card program. The purpose of this audit was to evaluate internal controls by testing compliance with the City's procurement card policy, reviewing the transactions for reasonableness, and identifying ways to streamline the p-card process.

We sampled and reviewed transactions in all City departments and offices. We sampled data in two ways. First, we reviewed all p-card transactions for the statement month ending March 24, 2014. We compared the data on the U.S. Bank online database with hard-copy p-card transactions to evaluate the reliability of data. We reviewed statements to identify the reason for purchases (if given), evaluate the documentation provided, check for the appropriate signatures, and verify compliance with relevant City policies.

Second, we compiled all transaction data from U.S. Bank online for the period from April 1, 2013 through April 1, 2014. We identified potentially questionable transactions using:

- Merchant or merchant type

- Dollar value of purchase

- Date/day of purchase (holiday or weekends)

- Number of transactions (split or irregular)

We tested a total of 3,500 transactions for compliance with the p-card policy and other City policies including:

- Food and Beverage Policy (City Policy Manual 5.1.5)

- Procurement of Supplies, Materials, and Equipment (City Policy Manual 5.1.7)

- Procurement of Non-Professional Services (City Policy Manual 5.1.8)

- Procurement of Information Technology (City Policy Manual 5.1.9)

- Bottled Water Purchases (City Policy Manual 5.1.11 and Council Policy 1-19)

- Code of Ethics (City Policy Manual 1.2.1 and Council Policy 0-15)

- Environmentally Preferable Procurement (Council Policy 4-6)

- City Council Expenditure and Reimbursement Policy (Council Policy 0-38)

Any exceptions or questionable transactions were noted and reviewed with department staff and the Office of Employee Relations as appropriate.

To ensure all cards of former employees had been cancelled, we compared a list of terminated employees from the City's PeopleSoft database to the U.S. Bank list of current account holders.

In addition, we interviewed U.S. Bank representatives to understand the U.S. Bank agreement and the provisions available to the City.   We collected information from King County, WA; Stanford University; Santa Clara County; Sunnyvale, CA; the State of South Carolina Comptroller General; and the U.S. Department of Health and Human Services to compare procurement practices and policies.

As part of the audit, we interviewed staff from the Finance Department, the Office of Economic Development, the City Manager's Office, the City Clerk's Office, and the departments of the Airport; Environmental Services; Fire; Human Resources; Information Technology; Library; Parks, Recreation and Neighborhood Services; Police; Public Works; and Retirement.

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Finding 1   Procurement Card Transactions Generally Adhered to Policy, Though Violations Were Found

Summary

Between April 1, 2013 and April 1, 2014, City employees made 41,000 purchases totaling $12.8 million using City-issued procurement cards. The transactions we sampled generally adhered to City policy with a few exceptions. The most serious violations included: still active p-cards of terminated employees; sharing of charge cards with other employees; a large number of technology product purchases, including tablets, made without Information Technology Department approval; a cardholder making a large personal purchase; and a cardholder making purchases that appear to violate the Code of Ethics. We recommend that the Finance Department enforce the City's p-card policy by following up on violations; providing clearer guidance to cardholders regarding how to expend City funds prudently and responsibly; updating the City's p-card policy to change approval processes, increase communications around p-card use, and clarify consequences for non-compliance. In addition, the administration should implement previous audit recommendations to annotate receipts and attach travel statements.

Review of P-Card Transactions Showed Some Policy Violations

Generally, we found that p-card statements had been submitted and were kept in records by the Finance department, and receipts were included to provide documentation of purchases. However, there were some policy violations in p-card transactions between April 2013 and April 2014. These violations ranged from minor mistakes to larger, more serious issues.

Minor Violations

P-card Statements Had Incorrect Signatures to Approve Transactions

As described earlier, each cardholder is assigned an approving official whose responsibility is to authorize the cardholder's p-card transactions. The policy requires that approving officials are direct supervisors of cardholders.

However, we found numerous instances in which the person who signed the p-card statement was not the correct approving official, as designated by the policy. In the majority of cases, the person who eventually signed the p-card statement as the approving official was a more senior employee than the cardholder, but not their direct supervisor as the p-card policy requires. In four cases, the person who approved the p-card statement was a peer of the cardholder. In the cases of

some department directors, their approving official was a member of their staff. This is problematic because if there are questionable transactions on the statement, it is not clear that a peer or a director's staff member would feel they had the authority to raise concerns with the cardholder.

Cardholders Conducted Multiple Transactions to Circumvent Purchase Limits

The p-card policy states that one responsibility of a cardholder is: "Never splitting purchases to avoid Procurement Card transaction limits." Purchase limits are a critical tool to reduce the risk of fraudulent transactions. Circumventing limits eliminates this control, exposing the City to risk.

We found 84 instances in which cardholders made multiple purchases at the same merchant on the same day the total of which exceeded their single purchase limit. It is not clear that every one of these transactions was intentionally split by the cardholder to circumvent the single purchase limits set on their card. However, in one example of a split transaction, one cardholder included in her p-card documentation an email correspondence with a merchant in which the cardholder requested two invoices because the total of the purchase exceeded her single purchase limit.

In eight of the 84 cases, cardholders had their p-cards rejected by the merchant because the amount was over their purchase limit and subsequently conducted multiple transactions. In these instances, it appears likely that cardholders knowingly circumvented their single purchase limits in violation of the p-card policy.

Cardholders Did Not Provide Reasons Why Open Purchase Orders Were Not Used

Both the City and individual departments have open purchase orders with merchants to purchase goods at discounted rates. The p-card policy states that cardholders should use p-cards to purchase items only when those items are **not** available through open purchase orders.[4] We found several instances in which cardholders did not use open purchase orders that were available. In many cases, we saw evidence that department staff reviewing p-card statements alerted cardholders of the open purchase order and instructed them to correct their mistake going forward. There may be legitimate reasons for why a cardholder must make a purchase at a vendor that does not have an open purchase order with the City. These reasons should be clearly annotated on the purchase receipt.

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[4] In the 2010 audit of procurement cards, this office recommended that Finance review p-card transactions to find highly used merchants with which the City could initiate new open purchase orders. Also, in some cases, the open purchase order directs the purchaser specifically to use the p-card to make the purchase, as is the case with Office Max.

P-Card Transaction Documentation Included Non-Itemized Receipts

The City's p-card policy states that the cardholder is responsible for: "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…" We found many instances in which the receipts provided as documentation of purchase were not itemized. Many of these receipts were for restaurant purchases for which it seems very likely that an itemized receipt was available. For example, one cardholder went to restaurants for lunch on four consecutive days. For no meal did she provide an itemized receipt. The receipts did include explanations of the purpose of the lunch meeting and the attendees, but without the itemization it is impossible to verify the cost of each individual's meal or to demonstrate that no alcohol was purchased.

Exhibit 2: Example of a Non-Itemized Receipt
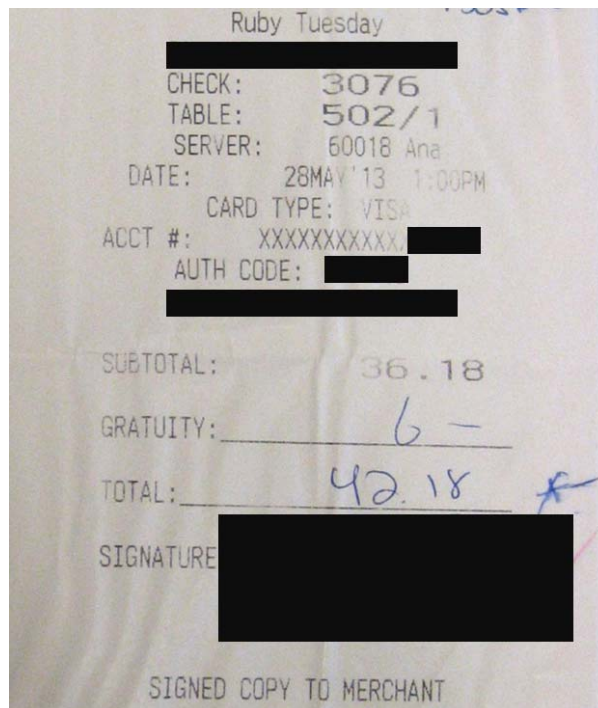
Source: Procurement Card documentation from the Finance Department

Some Departments Regularly Did Not Follow the City's Food and Beverage Policy

City policy provides guidance on food and beverage purchases. According to Food and Beverage Expenditure Policy (City Policy Manual 5.1.5), *"**In limited circumstances** [emphasis added], Departments may provide food and non-alcoholic beverages with City funds."* We found that every department except for the City Auditor's Office made food and beverage purchases during the review period for a variety of reasons. P-card purchases from merchants that typically sell food (restaurants and eating places, fast food restaurants, and grocery stores) totaled

about $345,000 in the 12 months from April 1, 2013 to April 1, 2014. While this is not overall a major part of the total spend on procurement cards, it can be a significant number of transactions for some departments. The majority of City departments and offices made more than 10 percent of their p-card purchases for food, and several departments and offices reached over 20 percent.

The City's Food and Beverage policy outlines allowable purchases including:

- Long trainings;

- Non-regularly scheduled meetings held during the lunch hour;

- Long City Council meetings;

- Recognition events, including receptions and hospitality;

- Minimal food and beverage purchases (such as bagels and coffee) for meetings and trainings, as approved by the Department Director or City Manager; and

- Employee recognition.[5]

During our review, we found that food had been purchased for regularly scheduled meetings of City staff during business hours at their normal place of business. We found one department in particular frequently purchased food for business meetings taking place at City Hall. This department made many meal purchases including purchases for a standing monthly meeting of about 30 staffers that always included lunch from a local restaurant and for another standing biweekly meeting of seven City Hall employees. These purchases do not fit the definition of "minimal food and beverage purchases" as described by the policy since full meals were provided to the City staff nor do they fit the definition of being "non-regularly scheduled." We referred this matter to the City Administration.

Major Violations

Several Former City Employees Have Not Had P-Cards Deactivated

The p-card policy clearly describes the process for deactivating a p-card when an employee leaves the City. The cardholder is responsible for cutting the p-card in half and presenting it to their approving official when they leave the department or the City. The approving official is then responsible for ensuring the card is destroyed and reporting the cancellation to the department coordinator and the Citywide procurement card administrator.

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[5] We also found some other types of food purchases that are not contemplated in the policy including purchases to meet programmatic needs (such as feeding afterschool program attendees), when traveling on City business, and when workload requires working in excess of normal business hours.

We found four instances in which this process was not followed, resulting in *active* p-cards for employees after they had left the City. We found one instance in which a charge was made on a p-card of a former employee for a recurring City expense. While this expense appeared legitimate, and we did not find any instances in which these p-cards were used for unauthorized transactions, having p-cards active for non-City employees exposes the City to risk of inappropriate use. The Finance Department canceled these p-cards upon notification from this office.

Card Information Was Shared for Use by Non-Cardholders

We found several instances in which a cardholder emailed card information to other employees to allow them to use the p-card. The p-card policy states that one of the responsibilities of a cardholder is: "Never assigning or loaning the Procurement Card to other employees unless specifically authorized by the Director of Finance, Chief Purchasing Officer, or this policy." In this case, we found no evidence that such authorization was given when the cardholder circulated the card information to other employees on several occasions. After being notified, Finance suspended the card.

Technology Purchases Were Made Without IT Approval

We found a large number of p-card purchases of IT products, including tablets, which were made without IT approval. According to the technology approval process directed by the City Manager (as outlined on the Information Technology intranet site), all items not purchased through an open purchase order or on a list of common items require IT approval. The purchases of tablets were not through an open purchase order nor on the list of pre-approved common items, so IT approval was required.

In one case, one department used its p-card to purchase many high-end tablets with the intention of going paperless. When we brought this to IT staff's attention, they stated that these purchases would not have been approved because IT does not support that brand of tablets.

A Cardholder Made a Personal Expenditure on a P-Card

Nearly every p-card transaction we reviewed clearly appeared to be for City business, pursuant to the p-card policy statement: "The City Procurement card is to be used for **OFFICIAL** City business and **MAY NOT BE USED FOR PERSONAL PURCHASES UNDER ANY CIRCUMSTANCES**." However, we found one instance in which an employee used the City p-card to rent a brand new BMW for a two and a half week period for his personal use after having totaled his personal car. According to the department, the cardholder stated that he did not have his personal credit card at the time of the rental and intended to switch the cards to charge the rental to his personal credit card. The switch never took place, but the cardholder proceeded to include the

receipt for the rental car with a payment visible code for FMS along with his p-card statement. As a result, over $550 was charged to the City's p-card for the cardholder's personal use of the rental car. This purchase was not caught during the department's approval process. Once notified by our office of the policy violation, the department advised the cardholder of the City's policies and will require the cardholder reimburse the City for the expense. After being notified, the Finance Department suspended the card. We have also referred this matter to the Office of Employee Relations.

Cardholders Were Making Regular Purchases at a Company Owned By a Superior

We found a situation in which, over several years, cardholders were making increasingly regular purchases at a company that is owned by a more senior employee in the same department. In total, this included 65 transactions totaling over $47,000 from December 2011 through June 2014. Of these, 44 transactions totaling over $38,000 were made by just one cardholder since June 2013.[6] This cardholder works in the same department in a position of lower rank than the company-owning employee.

In the past, the owner of the company was a p-card approving official. We found that in February 2013, the company owner's subordinate staff member made p-card purchases at the company and the company owner signed the p-card statement as the approving official.

In our opinion, this is presents a serious conflict of interest as described in the City's Code of Ethics. The Code of Ethics states:

> *City employees and officials are expected to avoid any conflicts of interest. Further, employees should avoid the appearance of conflicts of interest in order to ensure that City decisions are made in an independent and impartial manner.*
>
> *All City officials, officers and employees are prohibited from making, participation in making, or attempting in any way to use his or her official position to influence a City decision in which the employee knows or has reason to know he or she has a financial interest as defined by law. For example, City employees and officials shall not make personal investments nor maintain any direct or indirect interest in enterprises, activities, or entities which they have or have reason to believe may be involved in decisions or recommendations to be made by them or persons under their supervision, or which may create a conflict between their private interests or may impair their independence of judgment in the accomplishment of their official duties.*

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[6] These 44 transactions were made by the same cardholder who used the p-card to rent the car for his personal use, as described above.

It also appears that this is a violation of the Outside Employment Policy (City Policy Manual 1.2.3) on the part of the company owner. The policy states:

> *A conflict of interest occurs where an employee could make or participate in a decision that may foreseeably have a material effect on his or her personal financial interests. If an employee's outside work activity puts him or her in a position where his decisions as a City employee could foreseeably have a material effect on his personal financial interests, a conflict of interest is created, and the application for an outside work permit is to be denied.*

We have referred this matter to the Office of Employee Relations. After being notified, the Finance Department suspended the card.

The City's Policy Must be Enforced

Though the rules set out in the City's p-card policy are clear, and the policy provides clear responsibilities and outlines discipline for instances in which the policy is not followed, we found inconsistencies across departments in how vigilant department coordinators were in enforcing the p-card policy. Due to the decentralized nature of the p-card review process, it is important that all p-card parties are fully involved in the oversight of p-card transactions. Holding a p-card is a privilege, not a right, and that privilege is contingent upon responsible compliance with City policy.

Cardholders Made Purchases that May Not Have Been Prudent Uses of City Funds

The Procurement Card Policy requires that "Procurement Cardholders shall purchase the least expensive item that meets performance specifications and applicable policies." Based on our review of p-card transactions, there appear to be different interpretations regarding this regulation. Examples included:

- Potentially unnecessary delivery charges for food, sometimes totaling up to $20. In at least two instances, a $10 delivery charge was added to small purchases from the coffee cart on the first floor of City Hall to a department within City Hall.

- Purchases at high-end retailers when a similar product would be available for a lower price at another store.

- City staff occasionally provide meals to visitors when conducting City business. Some meals exceeded the per-diem rates, which seems imprudent. For example, a group of 28 delegates and City staff had a $2,800 meal at an expensive downtown restaurant. The meal included $48 dinners[7] and $700 spent on alcohol, including twelve $55 bottles of wine.

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[7] The U.S. General Services Administration per diem rate for dinner was $29 per person.

- One cardholder purchased ten $225 tickets for a VIP table at an awards dinner at which a City staff member was being honored. According to the department, the recipients of the tickets were not City employees.

- As described earlier, numerous purchases of high-end tablets (that were not supported by the City's IT department) when it appears that less expensive tablets would have met the City need.

- The purchases of a $180 toaster oven and a $1,450 freezer for employee use when numerous less expensive appliances were available.

We have discussed these purchases with the Administration.

Business Meals

We found some cardholders occasionally use their p-cards for lunch with other City staff in restaurants. The reason for conducting these meetings off-site during lunch, rather than on-site at any other time, was not clear for any example we found. These off-site business meals often took place as meals at high-end restaurants in San José which exceeded the local per diem rates.[8]

The City's Food and Beverage Policy does not speak directly to the issue of business meals. Other jurisdictions, including the federal government, have clearer restrictions around the purchase of food and beverages than San José that would prohibit business meals. For example, King County limits meals incurred while not on travel status to staff retreats lasting more than four hours in one day, not to exceed more than once per quarter, and as part of a conference or training. It also limits the total cost of meals to the federal per diem rate for meals. Santa Clara County, in a non-travel Business Meal Policy dated December 2012, specifically states "UNDER NO CONDITION WILL MEAL REIMBURSEMENTS BE ALLOWED FOR: Meals with staff members during regular business hours."

Reasonableness Test

While the Procurement Card Policy described previously outlines a cardholder's responsibility, clearer explanations would guide cardholders to use City funds wisely and responsibly. For example, the Stanford University Expense Guide for Business Meals begins by describing that the university receives donations and support from government funds, and thus it has a responsibility for being "a good steward of the public trust." It goes on to describe the "Reasonableness Test" that persons should employ before spending the university's funds, including the following questions:

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[8] The U.S. General Services Administration per diem rate for lunch in San José was $13 per person for Fiscal Year 2013-14.

- Is the expenditure in line with the guidance provided in this document?
    - *If not, is there a good explanation as to why the expenditure is appropriate?*
    - *Has it been adequately documented?*

- Could the amount spent be comfortably defended under public scrutiny?
    - *Would you be free from worry if the expense was selected for audit?*
    - *Would you be comfortable reading about it in the newspaper?*
    - *Would you be comfortable explaining to a donor that you used his/her money this way?*

These questions force a person to think critically about the appropriateness of their purchase. Adding questions like these, adapted to fit the municipal setting, would reinforce the importance of spending the City's funds responsibly.

Implementing Prior Audit Recommendations and Updating Key City Policies Would Improve P-Card Program

Many Cardholders Did Not Annotate Their Receipts

The Office of the City Auditor has published three previous reports regarding the City's p-card program. Most recently, in September 2010 this office published the report entitled "City Procurement Cards: Policies Can Be Improved."

One of the recommendations from that report was to require cardholders to write simple descriptive annotations on receipts or statements that describe the intended use of the purchases. This recommendation is partly implemented. The Finance Department has yet to finalize policy changes to include this requirement in the p-card policy. And although the Finance Department notified City staff that annotations on statements were required on a go-forward basis, during this audit we found that many cardholders still were not providing an annotation on their receipts or statements to indicate the intended use of the purchase. As the 2010 report noted: "In our opinion, providing simple explanations on the purpose and intended use of purchases would ensure approving officials and other reviewers know what they are approving." We still hold that descriptive annotations are an important part of ensuring appropriate review, and should be included with every p-card statement.

Some Cardholders Did Not Attach Travel Statements

In addition to reports on p-card usage, the Office of the City Auditor routinely audits travel expenditures. The most recent audit, published December 2013, recommended that the administration require in the p-card policy that p-card

approvers attach travel coordinator-approved Travel Statements as supporting documentation for travel-related procurement card expenditures. This recommendation has yet to be fully implemented.

During this review, we found that although many cardholders attached the statement of travel with their p-card statement, travel statements were not included in many cases. Including these travel statements in all p-card statements containing travel-related expenses is important to ensure coordination between p-card coordinators and travel coordinators.

Current City Policies Should Be Updated

While many of the problems we found during our current review were violations of existing City policies, there were some instances in which existing City p-card policy could provide better guidance. For these cases, we recommend updating the p-card policy.

The P-Card Policy Should Require Documentation of IT Approval for Purchases of Technology Products

As previously noted, we found many purchases of technology products on p-cards. Similar to travel expenditures, p-card purchases of IT products require more than just the approving official and department staff approval. Specifically, purchases of technology products must follow both the Procurement of Information Technology policy (City Policy Manual 5.1.9) and the technology approval process as directed by the City Manager and outlined on the IT intranet site.

Because technology purchases require IT approval, we recommend cardholders attach documentation of the IT approval for all relevant technology purchases. According to IT, this approval requires an email from the cardholder to the IT Help Desk, and the response from IT approving the purchase. Finance should update the p-card policy to include this requirement with violations to be referred to the Director of Finance and the Chief Information Officer.

Finance Should Change Approval Process for City Council Appointees

Under the current p-card program, City Council Appointees have their p-card statements approved by a member of their own staff. This creates a situation in which an employee is performing a check on their superior's purchases, which is problematic because it is not clear that the staff member would feel they had the authority to raise concerns with the cardholder about a transaction. The Finance Department should re-examine how Council Appointees' p-card transactions are approved and consider making the Director of Finance the approving official for Council appointees, with violations that cannot be resolved by the Director of Finance referred to the Mayor and/or City Council.

Finance Should Regularly Communicate with P-Card Coordinators

Every year, the Finance Department requires that cardholders and approving officials sign to certify that they have read the City's Procurement Card Policy. However, we continue to find violations during our regular audits of the p-card program.

Periodic reminders from the Finance Department about p-card policy requirements and consequences for violations would demonstrate to department staff that the City expects compliance with p-card policies. For example, reminders to p-card coordinators could include the consequences of ignoring the need for IT approval of technology purchases and the Food and Beverage policy prohibition on catering regularly scheduled staff meetings.

Because of the high rate of cardholder and approving official turnover, we recommend targeting these communications to department coordinators.

The Current Procedure for Escalating Discipline Should Be Clarified

Another tool for increasing p-card policy compliance is to specify clearly the consequences for policy violations. The current policy spells out a set of steps that should be taken when a violation occurs. Approving officials are instructed to notify department coordinators and initiate appropriate disciplinary measures. Department coordinators are to notify the Finance Department via a written memorandum approved by the Department Director that includes the appropriate remedies to reduce reoccurrences of the violation. Finance is to review the memorandum, inform the Office of Employee Relations (OER), and determine whether to suspend or revoke the card.

Despite the unambiguity of this process, it is not always followed. We often did not find memorandums notifying the Finance Department of violations that would indicate that department directors were referring violations appropriately. In addition, the Finance Department informed us that violations are referred to OER only when a personal purchase has occurred and not for other types of violations. The policy does not allow for this discretion. In our opinion, the policy should match practice. Because consequences for policy violations are a critical part of ensuring policy compliance, we recommend the administration provide clearer guidance on how violations should be escalated.

Recommendation #1: We recommend that the Finance Department revise the Procurement Card Policy to:

a) **Emphasize the responsibility cardholders have to make prudent purchases;**

b) **Include questions that guide cardholders to evaluate the reasonableness of their purchases;**

c) **For purchases that require IT approval, require documentation of that approval be attached to p-card statements;**

d) **Change the approval process for Council appointees to require review by the Finance Department and referral to the Mayor's Office or City Council in cases of potential policy violations;**

e) **Clarify the department coordinator's responsibility to notify Finance of all violations and that Finance only need refer personal purchases to OER; and**

f) **Establish a process to have frequent contact via email with department coordinators to remind them of important policies and procedures.**

Recommendation #2: The Finance Department should revise the Food and Beverage policy to either disallow business meals or limit business meals to local per diem rates.

Finding 2   The City Should Take Advantage of Online Transaction Management Tools

Summary

To ensure that p-card purchases meet the requirements of the procurement card policy, the City requires documentation and annotations by cardholders; and review by approving officials, department coordinators, and Finance Department staff. This process provides strong control over inappropriate purchases; however it is all completely paper-based. We found that U.S. Bank has an online program that can be used in place of nearly all the steps currently done on paper. Moving these steps online would streamline the process and save staff time while maintaining management controls over purchases. We also estimate that if the City were to reduce payment times to one month using the faster online approval system, it could receive $18,000 per year of timely payment incentives. We recommend the City post transaction data online to improve transparency. We recommend using the U.S. Bank online tools to ensure cardholders authorize transactions prior to departures from the City and to update the Finance Department's list of designated approving officials.

City Procedures Require That Every Transaction Made With P-Cards Be Reviewed and Verified Through a Detailed, Manual Process

The City policy has a thorough but laborious process for documenting p-card transactions. It begins when cardholders retain paper copies of receipts from every p-card transactions. Cardholders wait to receive a paper account statement at the end of each bill cycle at which point they gather saved receipts to provide a paper receipt for every listed transaction. They write on the receipts or on a cover sheet of their design the charge codes to be used for the transaction, and in some cases an annotation describing the purpose of the purchase.[9]

When cardholders have completed this packet, they send it to their approving official who reviews the packet of information to look for errors. Once the approving official is satisfied with the packet's accuracy and compliance with policy, they sign the packet and send it to the department's p-card coordinator. The department coordinator, often along with accounting assistants, reviews the packet again looking for errors, misuse and incomplete information. Once the department coordinator is satisfied, they manually reenter all the charge codes for each transaction into a file that can be uploaded into the City's financial

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[9] Our 2010 audit of procurement cards recommended requiring annotations describing the purpose of p-card transactions. This requirement has been incorporated into an updated draft of the p-card policy but has not been officially required yet. Some departments have already adopted this requirement and others have not.

management system. When this is complete the department coordinator sends the entire package – all cardholder statements, paper receipts, and printed charge code file – through interoffice mail to the Finance Department's Accounts Payable group. Accounts Payable reviews the packages for completeness and the charge codes for accuracy before uploading the file into the financial management system, printing a check to mail to U.S. Bank, and filing the paperwork in storage at City Hall. The whole process typically takes around two months to complete.

Not only does this process take a lot of time, but it also relies heavily on human oversight to ensure that each transaction is appropriately verified and that financial charge codes are accurate. Charge codes are typically handwritten on card statements as the following picture shows.

Exhibit 3: Example of Handwritten Card Statement

Source: Procurement Card documentation from the Finance Department

It is also hard to ensure that every transaction is approved with all appropriate information included. It takes effort for coordinators to ensure that they have everything from all cardholders and that the correct approving official signed off.

U.S. Bank's Online System Can Replicate Nearly Every Step in the Reconciliation Process

We found that the City's contract with U.S. Bank includes, at no extra charge, online transaction management for almost all the steps described above. For example, transactions can be annotated by cardholders online through U.S. Bank's online banking tool, Access Online. This improves transparency, since these annotations are kept electronically for review and could be included in the transaction data posted online, as recommended in Finding 1. In addition, financial charge codes can be entered online and frequently used charge codes can be saved as drop down options.

Once cardholders are finished with their transaction management, the transaction shows up as "pending" in the appropriate approving official's Access Online portal. Approving officials could also set up automatic email reminders to notify them when they have pending transactions or statements awaiting their review to easily manage and keep track of all p-card purchases. The approving official can then approve the transaction online and send it on to the departmental p-card coordinator. P-card coordinators could run department-wide reports to show pending and approved transactions.

Exhibit 4: Example of Transaction Approval Screen

(1) Approving officials can select specific transactions to either (2) approve or pull back.

Source: U.S. Bank Access Online

Using the online process, the department coordinator can automatically run a report that can be uploaded into the City's financial management system for Finance's approval and payment.

For many cardholders these system updates would reduce time for transaction management as charge codes could be saved for quick entry and would aid in workload management as cardholders could prepare their transactions for approval at any point during the business cycle. It would also increase clarity around approvals. Employees who are not designated as a cardholder's approving official could not sign a statement that they shouldn't as they would not have access to that cardholder's online transactions. The designated approving officials also could easily review approved and still pending transactions to ensure they have approved everything, and p-card coordinators could automate the creation of FMS reports.

While using Access Online will require staff to learn a new process and may present difficulties for staff without consistent computer access, the benefits it provides would make the transition worthwhile. In addition to electronic tracking of approvals and improved record keeping, using Access Online could speed up the approval process to qualify the City for U.S. Bank timely payment incentives. The agreement with U.S. Bank offers incentives for each day that payments are made ahead of the due date (45 days after the cycle close). This due date is rarely met. For example, we found that one department took about two months to make payments. We estimate that if the City were to halve that payment time to one month across all departments using the faster online approval system, it could receive $18,000 per year of timely payment incentives.

We spoke with staff at the County of Santa Clara, which transitioned from a paper transaction approval process to the Access Online processes in 2010. They stated that they are very happy with the online transaction management; it has saved a lot of time for their staff. They said there were some people who were reluctant to transition to the new system but the transition has proven worthwhile. They also said that for employees without computer access, those cardholders still annotate and write charge codes on their statements by hand. They give this information to an account clerk in their department who has administrative access to their accounts to enter this information into Access Online. This process works well for them.

Printed Account Activity Reports

The Access Online reporting option allows cardholders to print a copy of their account activity that includes the online approvals from their approving officials, transaction detail, typed visible codes, and the explanation of the purchase. The City could require cardholders to sign a printed statement to verify that they made all the charges. To ensure that the approving official did not delegate responsibility for online approval to another employee, the City could require approving officials to sign the paper statements as well.

Scanned Receipts May Be More Practical Than Paper Receipts

U.S. Bank does not currently have a good way to link picture files of paper receipts to transactions in their system. They recommend that organizations continue to keep copies of receipts outside of their system if the organization wants that level of detail on transactions.

For departments that would like to eliminate paper receipts, scanned copies of the receipts would save paper and better maintain the records. We found that the tape employees use to tape paper receipts to copy paper in their p-card statements erases the underlying ink within just a few days' time, making the receipt impossible to read. A scanned copy would not have this same problem.

Exhibit 5: Example of Taped Receipt with Illegible Merchant Name, Purchased Items, and Date of Payment

Source: Procurement Card documentation from the Finance Department

We also found Access Online provides individual line item detail for purchases from some companies, including Office Max which is used extensively by City staff. With these companies, paper receipts may be redundant since the transaction was conducted online anyway. To save time, the City may want to consider not requiring receipts for p-card purchases from a select list of vendors

starting with Office Max. Office Max purchases constitute 11 percent of all p-card transactions and 9 percent of the total dollar value purchased.

Recommendation #3: To improve transparency, accountability, and legibility, the Finance Department should create a pilot program that:

a) **Begins the transition to online approvals, payment code entries, annotations and general finance coding (office supplies, travel, etc.);**

b) **Considers requiring monthly statements of activity be signed by cardholders and approving officials to ensure that all transactions are authorized;**

c) **Allows individual departments to collect, store, and submit receipts in PDF; and**

d) **States that sufficient documentation of p-card purchases includes line item transaction detail stored in Access Online for a list of approved vendors (e.g. Office Max).**

Depending on the Success of the Pilot Program, the City Should Use Online Transaction Data to Increase Transparency

If the City chooses to use U.S. Bank to record more p-card transaction details as described above, it would be possible to provide purchase information, reasons for purchases, and funding sources on a public data portal. This would allow for public scrutiny of the p-card transactions and provide more information to City residents about how their public funds are spent. Data could be presented either by cardholder or by department in cases where data may present a security risk for employees, such as in the Police Department. Transaction data is already available electronically via U.S. Bank.

Transparency of public information can make employees more accountable for their actions. The knowledge that p-card data is publicly available can force cardholders to think critically about the reasonableness and appropriateness of their purchases. Transparency can be a deterrent to inappropriate p-card usage.

The Comptroller General for the State of South Carolina began posting reports of procurement card spending in January of 2010 as part of a plan to increase fiscal transparency. These reports detail transactions by cardholder and include merchant name, date of purchase, and transaction amount. The purpose for making each purchase is also available by searching monthly spending reports by agency. By having data online, cardholders are aware that their transactions can be scrutinized and the public can learn how the government is using public funds.

> **Recommendation #4:** Depending on the success of the pilot program, the Finance Department should consider posting procurement card transaction data on the City's internet site to increase transparency and encourage compliance with City policies.

Cardholders Should Use U.S. Bank Access Online to Approve P-Card Statements Before Leaving the City

Cardholders are required to sign their p-card statements to attest that the transactions they made were legitimate. We found six cases in which the cardholder did not sign their own p-card statement. In several cases, department staff informed us that this was because the cardholders had either left the City or transferred positions before the statement arrived. In some cases, the cardholders may have been on leave when the p-card statement was due.

While this is understandable under the current p-card process, Access Online provides a solution to this problem. Instead of waiting for the paper statement, which may come after the employee has left the City or is on leave, cardholders can prepare and authorize their activity by downloading their statements from the Access Online prior to leaving the City, transferring positions, or going on leave.

> **Recommendation #5:** To ensure all transactions are authorized, we recommend the Finance Department update the procurement card policy to require cardholders to print and sign a copy of their procurement card activity from the U.S. Bank website prior to leaving their City position or taking a leave of absence.

Finance Should Update the List of Approving Officials

During our review, Finance informed us that when an approving official changes for a cardholder, it is the department's responsibility to inform Finance of the change. Finance then records the change on their master list on the U.S. Bank website. There is no request for updated approving official information during the annual review of the p-card program.

We found that in many cases, the list that Finance has of approving officials was not accurate. In one instance, the approving official for two cardholders that Finance had on their list was an employee who left the City six years ago. In reality, the cardholders' direct supervisor was fulfilling the obligations of the approving official and approving the p-card statements as required by the policy. The department staff was not aware that the former employee was still listed as the cardholders' approving official in Finance's records.

Having the correct list of approving officials is important to allow the Finance Department to review p-card statements for policy compliance. It is especially important before moving to an online approval system to ensure that every approving official is able to access their assigned cardholder's transaction lists.

Using an online approval system will force departments to continually update Finance when approving officials change because newly assigned approving officials will have to request access to view cardholders' transactions. This will ensure that Finance's list of approving officials is current and accurate.

> **Recommendation #6: We recommend that the Finance Department update the list of approving officials and include a request for approving official updates as part of the annual review process.**

P-Card Purchases Were Not Always Appropriately Coded in FMS

In addition to the above streamlining we identified in this Finding, we also noted that some departments have been incorrectly coding p-card purchases in the City's financial management system. In order for departmental management and Budget office staff to properly manage department budgets, each purchase must be coded as what it truly is. Examples include: office supplies, travel, and capital expenditures. However, we found some departments were labeling all p-card purchases as one type of expenditure—for example, every purchase was identified as an office supply. This eliminates the possibility of budgeting accurately and as such, we recommend that City administration ensure that department p-card coordinators accurately code p-card purchases.

> **Recommendation #7: The City Administration should ensure that p-card expenditures accurately categorize expenditures by type of budgetary purposes.**

Conclusion

The City's procurement card usage generally adhered to policy with some exceptions, including a few serious violations of City policies. We recommend improving oversight, increasing communication between Finance and departments, and providing clearer guidance regarding reasonableness of purchases. The current p-card process is manual and time consuming. Moving parts of the approval process online would save time and possibly create savings through incentive payments.

RECOMMENDATIONS

Recommendation #1: We recommend that the Finance Department revise the Procurement Card Policy to:

a) Emphasize the responsibility cardholders have to make prudent purchases;

b) Include questions that guide cardholders to evaluate the reasonableness of their purchases;

c) For purchases that require IT approval, require documentation of that approval be attached to p-card statements;

d) Change the approval process for Council appointees to require review by the Finance Department and referral to the Mayor's Office or City Council in cases of potential policy violations;

e) Clarify the department coordinator's responsibility to notify Finance of all violations and that Finance should only refer personal purchases to OER; and

f) Establish a process to have frequent contact via email with department coordinators to remind them of important policies and procedures.

Recommendation #2: The Finance Department should revise the Food and Beverage policy to either disallow business meals or limit business meals to local per diem rates.

Recommendation #3: To improve transparency, accountability, and legibility, the Finance Department should create a pilot program that:

a) Begins the transition to online approvals, payment code entries, annotations and general finance coding (office supplies, travel, etc.);

b) Considers requiring monthly statements of activity be signed by cardholders and approving officials to ensure that all transactions are authorized;

c) Allows individual departments to collect, store, and submit receipts in PDF; and

d) States that sufficient documentation of p-card purchases includes line item transaction detail stored in Access Online for a list of approved vendors (e.g. Office Max).

Recommendation #4: Depending on the success of the pilot program, the Finance Department should consider posting procurement card transaction data on the City's internet site to increase transparency and encourage compliance with City policies.

Recommendation #5: To ensure all transactions are authorized, we recommend the Finance Department update the procurement card policy to require cardholders to print and sign a copy of their procurement card activity from the U.S. Bank website prior to leaving their City position or taking a leave of absence.

Recommendation #6: We recommend that the Finance Department update the list of approving officials and include a request for approving official updates as part of the annual review process.

Recommendation #7: The City Administration should ensure that p-card expenditures accurately categorize expenditures by type of budgetary purposes.

TO: Sharon W. Erickson
City Auditor

FROM: Julia H. Cooper

SUBJECT: RESPONSE TO THE AUDIT "CITY PROCUREMENT CARDS: BETTER OVERSIGHT AND STREAMLINED PROCESSES WOULD IMPROVE PROTECTION OF PUBLIC RESOURCES"

DATE: September 16, 2014

Approved _____

Date 9/17/14

The Administration has reviewed the Audit *"City Procurement Cards: Better Oversight and Streamlined Processes Would Improve Protection of Public Resources"* and is in general agreement with the recommendations identified in the report. The Administration is pleased that during the one-year period audited, encompassing over 41,000 transactions and $12 million in spending, the City Auditor acknowledges that there was "general adherence" to the Procurement Card Policy from over 900 cardholders participating in the program. The City Auditor's Office reviewed approximately 3,500 individual P-Card transactions and only a small number were considered to be major violations. However, although a small number, the Administration takes seriously the Audit's finding that the review of transactions showed some policy violations. Action has been taken or is being taken on the specific instances cited in the Audit.

The Administration recognizes that most of the audit recommendations that staff has implemented since the last audit of the program in 2010 have improved overall program transparency and compliance. These program improvements include a new cardholder on-line quiz, annual cardholder re-certification, introduction of a re-certification on-line quiz, annual cardholder re-certification, requiring annotations on receipts, and providing more cardholder participation and usage information to Department Directors to increase their awareness and enable them to make decisions regarding program participation, have improved overall program transparency and compliance. Notwithstanding these efforts, there will always be a need for continuous program oversight and continuous process improvements designed to improve program awareness and compliance.

This memorandum will address each audit recommendation and discusses several of the measures that the Administration has taken to continually improve the program.

BACKGROUND

The P-Card Program (the "Program") is designed to facilitate and expedite small dollar purchases of supplies, materials, and equipment and limited services. The average P-Card purchase is approximately $300. In many instances, the staff time to process a traditional purchase order would exceed the value of a P-Card purchase. The Program has allowed Finance Purchasing staff to spend limited resources on larger and more complex procurements where the risk is greater and opportunities for purchasing value-add are significantly greater.

Annually, the City spends about $150,000,000 for the purchase of supplies, material, and equipment, non-professional services and information technology. Through the use of various competitive solicitation processes, the City purchases these supplies and services by using purchase orders, agreements, and the P-Card depending on the value and complexity of the purchase. Approximately 1,900 purchase orders and 50 contracts are processed annually by the Finance Department. By comparison, there are approximately 40,000 transactions totaling $12 million annually on the P-Card program. The P-Card program represents approximately 8% of the City's total spend for supplies material and equipment, and 95% of the transactions.

Finally, it should be noted that over the past several years, P-Card usage has increased as a result of conscious business decisions to expand the Program. This expansion included the purchase of items formally stocked in the City's Central Warehouse which was closed in 2013 as a cost saving measure, and payments for office supplies must now be made using a P-Card under the City's master agreement with OfficeMax in order to realize payment rebates.

RECOMMENDATIONS AND ADMINISTRATION'S RESPONSE

Recommendation #1: The City Auditor's Office recommends that the Finance Department revise the Procurement Card Policy to:
a) Emphasize the responsibility cardholders have to make prudent purchases;
b) Include questions that guide cardholders to evaluate the reasonableness of their purchases;
c) For purchases that require IT approval, require documentation of that approval be attached to P-Card statements;
d) Change the approval process for Council appointees to require review by the Finance Department and referral to the Mayor's Office or City Council in cases of potential policy violations;
e) Clarify the department coordinator's responsibility to notify Finance of all violations and that Finance should only refer personal purchases to OER; and
f) Establish a process to have frequent contact via email with department coordinators to remind them of important policies and procedures.

Administration Response:

The Administration agrees with Recommendations 1a, 1b, 1c, and 1f.

Recommendation 1d: The Administration partially agrees with this recommendation. We agree that the approval process for P-Cards used by Council Appointees should be reviewed to ensure that the appropriate person serves as the Approving Official for employees who report directly to the City Council. However, we do not recommend that the Finance Department be placed in the position of "Approving Official" for the City Manager or other Council Appointees. Once the City Council has determined who will serve as the Approval Official for Council Appointees, the Finance Department can serve as a resource for P-Card policy questions.

Recommendation 1e: The Administration partially agrees with this recommendation. Policy violations can be relatively minor such as a cardholder forgetting to include an annotation on a receipt for a legitimate transaction. Finance is not staffed to receive or act upon all violations, and encourages that these minor violations be addressed at the Department level. Major violations should be reported to Finance and/or the Office of Employee Relations as appropriate for follow-up. Finance will work with the Departments to define significant violations and re-engineer the review and approval processes accordingly. The resulting process change may not result a revision to the P-Card Policy.

Recommendation #2: The Finance Department should revise the Food and Beverage policy to either disallow business meals or limit business meals to local per diem rates.

Administration Response:

The Administration disagrees with disallowing legitimate business meals, but agrees with the need to ensure such expenses are reasonable and in compliance with applicable policies. For example, some business meals involve conducting business to promote the economic development of the City. However, in instances where meals are being purchased for regularly scheduled staff meetings, this would not be in compliance with the Food and Beverage Policy. The Administration will ensure that there is follow up on policy violations. For meals involving City staff that are being purchased for legitimate business purposes, the Administration will evaluate using per diem guidelines to assist staff in determining the reasonableness of the purchase. In addition, the Administration will develop guidelines to assist departments in evaluating the legitimacy of including the meal as an eligible expense under the Food and Beverage Policy.

Recommendation #3: To improve transparency, accountability, and legibility, the Finance Department should create a pilot program that:
a) Begins the transition to online approvals, payment code entries, annotations and general finance coding (office supplies, travel, etc.);
b) Considers requiring monthly statements of activity be signed by cardholders and approving officials to ensure that all transactions are authorized;
c) Allows individual departments to collect, store, and submit receipts in PDF; and
d) States that sufficient documentation of P-Card purchases includes line item transaction detail stored in Access Online for a list of approved vendors (e.g. Office Max).

Administration Response:

The Administration agrees that the recommended pilot program may increase efficiencies with approvals, invoice settlement, and legibility. However, the pilot program may not necessarily improve transparency and accountability since it is not clear that many of the violations identified in this audit will be rectified through automation. Finance is currently resource constrained and there are currently several high priority projects including procurement and implementation of several new technology initiatives. These projects include CIS billing system, Business Tax billing system, and a new HR/Payroll/Budget system. Staff recommends revisiting and prioritizing this recommendation in as resources allow. In order to implement this recommendation in the near future, staffing would need to be added and dedicated to this initiative to consider an earlier pilot.

Recommendation #4: Depending on the success of the pilot program, the Finance Department should consider posting procurement card transaction data on the City's internet site to increase transparency and encourage compliance with City policies.

Administration Response:

The Administration agrees with reviewing this recommendation pursuant to the successful completion of a pilot program as addressed in recommendation #3 above. In addition, the Administration recommends that posting procurement card transactions on the internet be evaluated by the City Council as part of a comprehensive City-wide policy and resource allocation decision related to the ability and preparedness of posting all financial transactions on the internet for public review.

> **Recommendation #5**: To ensure all transactions are authorized, we recommend the Finance Department update the procurement card policy to require cardholders to print and sign a copy of their procurement card activity from the U.S. Bank website prior to leaving their City position or taking a leave of absence.

The Administration agrees with this recommendation. It should also be noted that the employee exit documentation for employees leaving the City currently include the P-Card as part of the exit checklist.

> **Recommendation #6**: We recommend that the Finance Department update the list of approving officials and include a request for approving official updates as part of the annual review process.

Administration Response:

The Administration agrees with this recommendation. Finance staff has already updated the approving officials list for Department Directors, and is in the process of updating several documents and processes to fully address this recommendation.

> **Recommendation #7**: The City Administration should ensure that P-Card expenditures accurately categorize expenditures by type of budgetary purposes.

Administration Response:

The Administration agrees with this recommendation. However, "ensure" implies 100% compliance in order to satisfy the recommendation. Therefore, we respectfully suggest addressing this recommendation through policy updates, and staff will further explore this as part of the process improvements under recommendation #3.

CONCLUSION

This Audit has demonstrated that the audit recommendations that have been implemented since the last audit in 2010 have improved overall program transparency and compliance. The recommendations made by the Auditor in this audit of the Program have identified that continued improvement can be made and that implementation of technology enhancements to the Program could streamline the review and approval process. As noted in the Administration's response, several of the recommendations cannot be implemented without additional resources. However,

pending additional resources, the Finance Department will continue to work with departments on the effective and appropriate use of procurement cards.

The Administration would like to thank the City Auditor's Office for conducting this audit.

/s/
JULIA H. COOPER
Director of Finance

For questions regarding this memorandum, please contact Julia Cooper at 408-535-7011.