

CITY P-CARD AUDIT
Volume 1 of 2

AUDIT REPORT #0326

September 2003



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MEMORANDUM

To: Mayor and Members of the City Commission
From: Sam M. McCall, City Auditor
Date: September 22, 2003
Subject: Audit Report on City P-Card-(#0326)
Assistance & Guidance on City P-Cards (#0327)

We have completed an audit of City P-Card activity (#0326). To facilitate the usefulness of this audit, we are issuing this report in two volumes. Volume 1 contains the executive summary, audit scope and objectives, background, methodology, audit results by control activity category, and applicable recommendations. Volume 2 is more detailed and describes for each audited department and office the control activities reviewed, assurances provided, risks identified, and applicable recommendations. Action plans have been developed for each sampled location where risks were identified. This report contains the responses from the City Manager, the City Attorney, and the City Treasurer-Clerk. We will periodically review the implementation of stated recommendations and action plans.

In addition, we are issuing an Assistance & Guidance on City P-Cards (#0327) which provides all City departments and offices a means to assess controls and processes for their City Purchase Card activities.

Overall, we commend management for their administration and operation of the City P-Card program. We thank applicable City staff for their cooperation, comments, and assistance during this audit. If you have any questions or need a more detailed briefing on this audit, please contact me.

Respectfully submitted,

Sam M. McCall
City Auditor

SMM/mbd
attachment

Copy: Members of the Audit Committee
Appointed Officials
Leadership Team
Paula G. Cook, Records Administrator

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Audit Report



Sam M. McCall, CPA, CIA, CGFM
City Auditor

“City P-Card Audit”

Report #0326

September 22, 2003

Executive Summary

P-Card activity has increased significantly.

There are now 780 cardholders that made 47,000 purchases for \$15 million in the last fiscal year.

City procurement card (P-Card) activity has more than quadrupled since the program’s inception in 1998. During the most recently completed fiscal year, cardholders completed almost 47,000 purchases for nearly \$15 million. Our audit of P-Card activity for a cross section of City cost centers (e.g., departments, offices, divisions) showed, for the most part, that transactions were proper and controls were in place. No instances of fraud or activities for personal gain were noted. However, we identified risks at several locations. Some of these risks increased the likelihood that unauthorized transactions could occur and not be timely detected. Recommendations have been provided to eliminate or reduce those risks.

The City has provided P-Cards to approximately 780 employees. These P-Cards are being used to acquire goods and services with associated costs generally less than \$10,000. The P-Card allows those acquisitions to be made more efficiently compared to more traditional procurement methods. Savings and efficiencies are realized because:

- checks do not have to be generated and processed,
- Fewer departments and staff are required to initiate and process a purchase, and
- goods and services can often be obtained quicker.

Every City department/office now uses P-Cards.

Administration of the City's P-Card program is decentralized. Controls over P-Cards are essential to ensure that purchases are authorized; for appropriate purposes; and in accordance with controlling rules, regulations, and guidelines.

Administration of the City's P-Card program is primarily decentralized. Transaction execution and review as well as other P-Card actions (e.g., request for new cards or to cancel existing cards) are initiated and administered at the department/office or division levels. Support for P-Card transactions is also maintained at those levels. The Department of Management and Administration (DMA) oversees the program and is responsible for the daily operations, including operating the related software programs and interacting with the administering bank (Bank of America). DMA also pays the monthly bank invoices and provides assistance as needed to City departments and offices.

There are certain inherent risks associated with a P-Card program. Specifically, employees with P-Cards are inherently able to complete a purchase transaction before supervision and oversight activities can occur. Accordingly, an entity with a P-Card program must ensure that adequate "detection" controls are in place that will timely identify (detect) instances where inappropriate purchases are made. In addition, "access" controls are needed to prevent unauthorized individuals from obtaining and using account information (i.e., card numbers and expiration dates) to make inappropriate purchases. Other controls are necessary for a successful P-Card program.

We audited a cross section of P-Card activity by selecting nine cost centers to review. No instances of fraud or purchases for personal gain were noted.

To determine whether the P-Card program is being properly and effectively administered, we audited a cross section of City P-Card activity by selecting nine representative cost centers (e.g., departments, offices, divisions) to review. For each of those selected cost centers, we obtained an understanding of the P-Card processes and tested samples of P-Card transactions. Similar procedures were performed in regard to administrative and oversight functions conducted by DMA. Based on the results of our audit procedures, we can provide certain assurances and comment on risks identified. Assurances represent instances where controls and procedures are in place and operating to ensure P-Card transactions are appropriate, proper, and valid. In contrast, risks are circumstances where such controls and procedures are not in place or not operating in a manner to provide the desired assurances.

Controls are in place that increase management's assurance that P-Card activity is proper. However, significant risks were identified that could negate those controls. Management is receptive to taking the necessary actions to mitigate those risks.

Separate presentations of the identified assurances and risks and related recommendations were made for each of the cost centers audited.

Our review showed that City departments and offices have established and implemented controls that, for the most part, provide increased assurance that P-Card transactions are proper and efficient. However, we identified risks that, if not adequately addressed, could negate the impact of those controls. We have discussed the identified risks with applicable management, and they are receptive to taking actions, where appropriate, that:

- control access to P-Card account information;
- ensure appropriate management and supervisory reviews of P-Card activity;
- ensure each cardholder's transactions are independently reviewed and approved;
- provide physical security over P-Card account numbers;
- ensure cardholders execute transactions properly and in compliance with controlling rules, regulations, and guidelines;
- document events such as public purpose served, supervisory reviews, payment of invoices, receipt of items, procurement method used, individual making the purchase, and compliance with controlling rules and regulations;
- provide for cardholder review of their monthly statements and reconciliations and analyses of P-card activity;
- establish or enhance existing written procedures and policies to adequately address all aspects of P-Card activities.

To facilitate the usefulness of this audit, a separate presentation of the assurances, risks, and related recommendations was prepared for each of the nine audited cost centers. Those separate presentations are included in **Volume 2** of this audit report.

We would like to acknowledge the full and complete cooperation and support of applicable City departments and offices during this audit.

Audit Report



Sam M. McCall, CPA, CIA, CGFM
City Auditor

“City P-Card Audit

Report #0326

September 22, 2003

Objectives

The objectives of this audit were to determine whether the City’s procurement card (P-Card) program was operating efficiently, effectively, and in accordance with good business practices. Determinations were made as to whether: (1) purchases made with City P-Cards were proper and documented to show the public purpose served and (2) adequate controls were in operation to reasonably ensure those purchases were in accordance with controlling rules, regulations, and guidelines. Inherent in those objectives was the identification of risks and recommendations to eliminate or mitigate those risks.

Scope

The scope of this audit included a review of P-Card activity within a representative cross section of City cost centers (e.g., departments, offices, and divisions). Nine separate City cost centers were reviewed as a result. P-Card program oversight and administrative activities within the Department of Management and Administration were also examined. Our audit addressed activity during the fourteen-month period October 5, 2001, through December 4, 2002.

A cross section of nine City cost centers was selected for audit.

The nine cost centers reviewed and their related P-Card activity during the stated fourteen-month audit period is shown in **Table 1**.

No.	Cost Center	No. of Trans.	\$ Amount
1.	City Attorney’s Office	447	\$80,085
2.	Fire Department	2,609	\$835,792
3.	Communications Department	610	\$257,776
4.	Electric Control Center	1,110	\$584,072
5.	Hopkins Power Plant	1,324	\$697,969
6.	Purdom Power Plant	1,357	\$1,335,219
7.	Treasurer-Clerk’s Office	975	\$241,062
8.	Procurement Services	601	\$449,395
9.	Taltran	3,620	\$1,030,682
TOTAL		12,653	\$5,512,052

The total activity for these nine cost centers represents 22.3 percent of the total number of transactions and 32.3 percent of the total dollar volume of transactions processed by the City during the fourteen-month audit period.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards and the Standards for the Professional Practice of Internal Auditing, as applicable.

Background

The City implemented the P-Card program in 1998 to achieve administrative efficiencies in the procurement process.

The objective of the P-Card program is to reduce the cost of procuring supplies and services with a cost of less than \$10,000 through administrative efficiencies. Savings are realized by not having to generate checks and because fewer employees (and departments) are needed to initiate and process transactions. Other efficiencies are realized in terms of time as goods and services can often be obtained more quickly when compared to traditional procurement methods.

The City's P-Card program was initiated in 1998. The Department of Management and Administration (DMA) oversees the program. However, individual departments and offices are responsible for the administration of P-Card activity within their areas. As the City is participating in the program through the State of Florida's existing contract, the Bank of America (bank) is the administering bank. Software used by the City to administer and account for P-Card activity is provided by the bank. That software is called "InfoSpan."

When a cardholder (employee provided a City P-Card in his/her name) purchases an item with a P-Card, the transaction is submitted to the bank by the vendor. The bank posts all such transactions daily to InfoSpan. Designated City staff then access those transactions for review and coding. The bank submits monthly invoices for transactions posted to InfoSpan. After verification procedures, those invoices are paid by DMA.

As shown in the following **chart**, the dollar volume of P-Card activity within the City has more than quadrupled since the program’s inception.

P-Card use within the City has increased substantially.

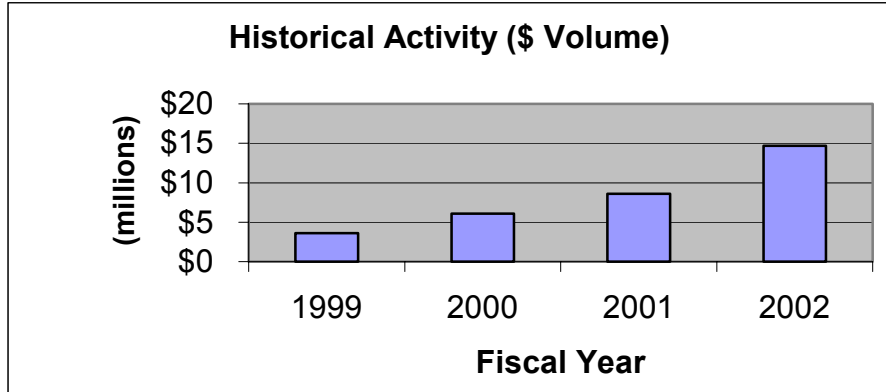


Table 2 below shows the historical activity in terms of the number of transactions and the average purchase.

Fiscal Year	1998-1999	1999-2000	2000-2001	2001-2002
No. of Transactions	16,219	26,890	34,595	46,670
Average Purchase	\$221	\$228	\$251	\$316

This steady increase in use of City P-Cards is indicative of the City’s acceptance of the program as an efficient alternative for making small purchases. As of December 4, 2002, there were 777 active cardholders within the City. During our 14-month audit period (October 5, 2001, through December 4, 2002) there were 56,550 P-Card transactions that totaled \$17,012,572. **Appendix 1** to this report shows activity by City department/office.

There are inherent risks within P-Card programs that should be addressed through implementation of proper controls.

Notwithstanding the positive attributes of a P-Card program, there are risks that should be addressed through proper control procedures. A primary risk is that employees with P-Cards are inherently able to complete a purchase transaction before supervision and oversight activities can occur. Accordingly, an entity with a P-Card program must ensure that adequate “detection”

controls are in place that will timely identify (detect) instances where inappropriate purchases are made. In addition, “access” controls are needed to prevent unauthorized individuals from obtaining and using account information (i.e., card numbers and expiration dates) to make inappropriate purchases.

For purposes of this audit, we identified necessary controls and then classified those controls into eight basic control activity categories established in the City’s “Internal Control Guidelines,” Administrative Policy and Procedure No. 630. **Table 3** on the following page specifies those controls.

TABLE 3		
NO.	CONTROL ACTIVITY CATEGORY	DESCRIPTION
1.	Access to and Accountability for Resources	Access to P-Card account numbers and expiration dates should be limited to authorized staff. For example, (1) software accessing P-Card activity/records should only be placed on computers of authorized administrative staff, (2) confidential and unique passwords should be required to access activity on such software, and (3) cardholders should be responsible for securing their P-Cards.
2.	Direct Activity Management	Management should play an active role in (1) determining which employees are provided P-Cards, (2) establishing transaction and spending limits for cardholders based on their anticipated purchasing needs as determined by their job assignments, and (3) reviewing P-Card activity for volume and reasonableness. Management should also ensure that procedures are performed to compensate for certain inherent risks.
3.	Segregation of Duties	Each P-Card transaction should be reviewed by an employee other than the employee making the purchase. Employees performing the review function should be in a supervisory role.
4.	Physical Controls	Cardholder account numbers and expiration dates are sensitive information that should be physically secured. Examples include (1) controlling and/or monitoring entry to locations where that information is maintained, (2) assigning custody of sensitive information to designated employees, and (3) locking filing cabinets containing such information when custodial staff are temporarily away from their workstations.
5.	Execution of Transactions and Events	P-Card transactions should be authorized and executed only by cardholders acting within the scope of their authority. Controlling rules, regulations, and guidelines should be followed. Processing of transactions should be timely and efficient. Controls to ensure proper execution include, for example, (1) review of transactions, (2) cardholder training, (3) prohibitions against sharing of P-cards, (4) trained back ups to staff responsible for processing transactions, (5) issuing P-Cards only to employees with purchasing needs, and (6) requiring proper support for all purchases.
6.	Recording of Transactions and Events	Documentation should be prepared and events recorded to provide accountability. For example, (1) transactions in InfoSpan should be properly and timely coded, (2) the public purpose of each purchase should be documented, (3) vendor invoices should be defaced to preclude inappropriate duplicate payments, and (4) receipt of purchased items should be documented.
7.	Information Processing	Information Processing includes a variety of controls to check accuracy, completeness, and propriety of activity. Examples include (1) cardholders' reviews of their monthly bank statements and (2) reconciliation of transactions recorded in InfoSpan and shown on monthly statements to support.
8.	Documentation	Adequate documentation should be prepared and retained. For example, (1) transaction support should be retained in accordance with City record retention requirements, (2) records should be retained for all requested P-Card actions, and (3) written procedures and guidelines should be prepared and issued to cardholders and applicable administrative staff.

The City is currently evaluating a new software accounting system to replace the bank's InfoSpan software. That new system (PeopleSoft Financials P-Card module) may provide the City certain advantages over InfoSpan. For example, with InfoSpan a department's/office's budget does not get updated for P-Card transactions until after the monthly closeout process. As the monthly closeout process may take two to three weeks, delays up to seven weeks may occur before the budget is updated for a P-Card transaction. Under the PeopleSoft module, the budget would be updated daily for P-Card transactions.

Audit Methodology

For each of the audited cost centers, an understanding of the P-Card process was obtained. Based on those understandings, assurances and risks were identified.

We conducted various procedures to address the stated audit objectives, including:

- interviewing staff responsible for administering and managing P-Card activities;
- observing methods, processes, and procedures;
- examining records and documents; and
- selecting and testing samples of P-Card purchases.

These procedures were performed at each of the nine cost centers selected for review. Similar procedures were performed in regard to administrative and oversight functions conducted by the Department of Management and Administration (DMA).

In regard to transaction testing, we selected both random and judgmental samples for each of the nine cost centers. The judgmental items were selected after data mining (analyzing) the transaction populations for large dollar items, tangible personal property purchases, internet purchases, food purchases, purchases from unusual vendors, etc. For all nine cost centers, 576 transactions totaling \$925,695 were selected and tested.

Based on understandings obtained through our procedures and testing, we can provide certain assurances and comment on risks identified. The "assurances" indicate that controls and procedures are in place and operating to provide reasonable assurance that P-

Card transactions are appropriate, proper, and valid. In contrast, “risks” represent instances where controls or processes were not in place or were not operating in a manner to provide such reasonable assurances. In some instances we determined that controls and processes were generally operating effectively, but improvements and enhancements were needed to increase the level of assurance.

For each of the nine cost centers and for DMA, we categorized the identified assurances and risks into the following eight “control activity category” classifications that are also shown in **Table 3**:

Identified assurances and risks were categorized and reported. Separate presentations were made for each of the audited cost centers.

- Access to and Accountability for Resources
- Direct Activity Management
- Segregation of Duties
- Physical Controls
- Execution of Transactions and Events
- Recording of Transactions and Events
- Information Processing
- Documentation

For DMA and each cost center, we prepared a separate presentation of the identified assurances and risks. Those presentations are included in **Volume 2** of this audit report. Included in those presentations are recommendations for actions to reduce the identified risks. In making these recommendations, we considered the potential costs of implementing offsetting controls and the likely loss that could occur without such controls.

The following section of this report summarizes the results of our audit by control activity category.

Access to and Accountability for Resources

Access to P-Card account numbers and expiration dates should be limited to authorized staff. Examples of controls and procedures within this category include (1) placing (loading) software accessing P-Card activity/records only on computers of administrative staff authorized to process P-Card transactions, (2) use of confidential and unique passwords to access activity on such software, (3) eliminating access to such software when individuals terminate employment with the City, (4) placing responsibility for securing P-

Access to P-Card account information was generally controlled. The only identified risks pertained to inappropriate routing of information and inappropriate system access capabilities.

Cards on the cardholders, and (5) controlling the routing of documents containing P-Card account information.

Our audit showed that access to cardholders' account numbers and expiration dates was generally properly and adequately controlled. This control was primarily accomplished through implementation of the procedures described in the above paragraph. The only significant risk identified in this category involved the following:

- Within the Fire Department, each cardholder completes a monthly log reflecting his/her individual P-Card purchases. Those logs along with attached support (vendor invoices, receipts, credit card charge slips, etc.) are turned in to designated managerial employees for review and approval. The approving managers sometimes returned the logs and support to the cardholders. As the managers document their review and approval by initialing the corner of the log, those circumstances would allow a cardholder to add purchases to the log after the manager approval but prior to submitting the log to administrative staff for coding. Those circumstances increase the risk of unauthorized and inappropriate purchases. *(Fire Department.)*

In addition to this risk, we noted that efforts by DMA should be enhanced to ensure that system permissions granting access to InfoSpan are properly limited. Out of 107 individuals with access as of the date of our fieldwork, we noted that (1) one was a former employee that had been terminated for two months and (2) one was an employee with system permissions greater than what was needed for the employee to perform the related job responsibility (i.e., the employee needed only inquiry permission but also had update/coding permission). *(DMA.)*

Recommendations were made to address these described risks. Corrective actions have been initiated by the Fire Department and DMA.

Direct Activity Management

Management activities should be enhanced to compensate for certain inherent risks and to ensure timely corrective actions are taken.

Direct activity management involves the assignment, review, and approval of staff's work. Supervisors should continuously review and approve the assigned work of their staffs. In regard to a P-Card program, this would include (1) determining which employees should be provided a P-Card, (2) establishing transaction and spending limits for cardholders, (3) reviewing P-Card purchases to ascertain the volume and reasonableness, (4) designating staff to oversee and monitor program operations, and (5) ensuring that procedures are in place to compensate for inherent risks.

Our audit showed that management activities were generally adequate. However, certain risks were identified as noted below.

- Management for five of the nine audited cost centers did not routinely obtain and review reports of P-Card activity available from the City's P-Card system (InfoSpan). The regular review of those reports provides management an overview of P-Card purchases and serves as another process to detect inappropriate purchases. Such reviews are especially important to compensate for P-Card administrative staff inherently having access to cardholder account information and cardholder monthly statements. Other procedures were not performed at these cost centers to adequately mitigate that risk. *(City Attorney's Office, Fire Department, Electric Operations Control Center, Treasurer-Clerk's Office, and Taltran.)*
- For three of the audited cost centers (i.e., other than the five noted above), management routinely obtained and reviewed available reports of P-Card purchases and/or reviewed cardholder monthly statements to ascertain the volume and reasonableness of the transactions. However, management did not ensure that each cardholder making purchases per the available InfoSpan reports had asserted to the propriety of those purchases by signing his/her monthly statement. Accordingly, those reviews did not adequately mitigate the risk of unauthorized purchases resulting from P-Card administrative staff inherently having access to cardholder account information and cardholder monthly statements. *(Hopkins Power Plant, Purdom Power Plant, and Procurement Services.)*

Recommendations were made to address these described risks. Corrective action plans have been developed.

One critical management function currently performed for the City P-Card program is the on-site reviews of P-Card operations by DMA. Those reviews are scheduled and performed at the City departments and offices. To date nine such reviews have been done. These reviews are generally comprehensive and the results are provided to department/office management. To strengthen these reviews, we recommend that DMA follow up on each review within a designated period to determine if corrective actions have been taken for identified issues. We also recommend that the scope of these reviews be increased to cover security over P-Card account information. (DMA.)

Segregation of Duties

The majority of P-Card transactions are independently reviewed by supervisory staff. Only one instance was noted where a cardholder's transactions were not being reviewed.

Key duties and responsibilities in executing, reviewing, and approving P-Card transactions should be segregated among individuals to reduce the risk of error or inappropriate purchases. No one employee should be in the position to make a P-Card purchase and approve payment of that purchase. Generally, P-Card transactions in each audited cost center were reviewed and approved by managerial staff independent of the employees making the purchases. However, at one of the nine audited cost centers, risks of inappropriate purchases were not adequately mitigated as transactions of one cardholder were not independently reviewed and approved. Specifically:

- Within the City Attorney's Office, transactions were reviewed and approved by the office's designated P-Card administrator. The administrator was also a cardholder. P-Card purchases made by the administrator were not independently reviewed and approved. (City Attorney's Office.)

As described in the following, another risk was identified due to the ability of DMA staff to perform certain incompatible functions.

The P-Card program manager in DMA is responsible for the daily operations and administration of the City's P-Card program. Due to the related responsibilities (e.g., coordinating with the bank to obtain P-Cards for new employees, canceling cards, changing transaction/spending limits, etc.), the program manager inherently has access to all cardholder account information. In connection with these duties, the manager (1) specifies the cardholder name to

be placed on new P-Cards, (2) specifies the address to which the monthly statements will be sent, and (3) establishes how and where resulting transactions will be reflected in InfoSpan. Without mitigating controls, the program manager is in a position to fraudulently obtain City P-Cards and make unauthorized purchases without timely detection. Some controls are in place to compensate for this risk. Specifically, (1) each department is to reconcile its charges as reflected in InfoSpan to transaction support and (2) Accounting Services independently reconciles monthly payments to the bank to total monthly charges reflected in InfoSpan. However, these controls do not compensate for the risk of inappropriate purchases not being detected due to new P-Cards being fraudulently set up in InfoSpan. (DMA.)

To offset this risk, we have recommended that each City department/office reconcile its summary charges for P-Card transactions within the City's accounting system to total charges reflected in InfoSpan. Those reconciliations should be done monthly. As noted under the control category "Information Processing," those reconciliations have generally not been done. Recommendations have been made for DMA to provide each City department/office information that will facilitate the performance of such reconciliations. (DMA.)

Recommendations were also made to address the other described risk. Corrective actions have been initiated and/or planned.

Physical Controls

Cardholder account numbers and expiration dates are sensitive information that, if obtained by a fraudulent party, can be used to make inappropriate purchases. Accordingly, records and documents containing that information should be physically secured. Our review showed that physical security was generally adequate as (1) entry to offices and areas where P-Card information is maintained is controlled or monitored in a manner that precludes unannounced or undetected visits, (2) custodial responsibility for P-Card information is assigned to designated staff, (3) most information is maintained in closed drawers and file cabinets, (4) monthly cardholder statements received in sealed envelopes are

Enhancements should be made to improve physical security over P-Card account information.

usually not opened until placed in the custody of designated P-Card administrative staff, and (5) P-Cards no longer needed (e.g., terminating employees) are timely destroyed by department/office staff.

However, physical security at eight of the nine audited cost centers should be enhanced to address identified risks. Specifically:

- At five cost centers, P-Card information containing account numbers and expiration dates was stored in unlocked cabinets or files within offices or areas that were not locked when the designated custodial staff were away for extended periods (e.g., for meetings and lunch and sometimes overnight). (*City Attorney's Office, Communications Department, Electric Operations Control Center, Purdom Power Plant, and Taltran.*)
- At one cost center, cardholder monthly statements received from the bank were opened by a receptionist and placed in an open in-box of the P-Card administrator. Any individual in that area had access to the contents placed in that in-box. (*City Attorney's Office.*)
- At four cost centers, secure locations were not provided for cardholders to place their P-Card records and monthly statements when submitting/returning those items to P-Card administrative staff. Those items were sometimes placed on desks of P-Card administrative staff when that staff was temporarily away from their workstations. In one department, cardholders and/or their supervisors sometimes placed P-Card support in an open in-box of the P-Card coder. As a result of these circumstances, any persons in those areas/offices had access to that information. (*Fire Department, Electric Operations Control Center, Procurement Services, and Taltran.*)
- The Treasurer-Clerk's Office provides copies of City records and documents to requesting parties (i.e., the public) pursuant to Section 119.03, Florida Statutes. In responding to such requests, the Treasurer-Clerk's Office has not required that P-Card account numbers and expiration dates be redacted (blocked out) from records copies and provided to the requesting parties. In response to our inquiry on this matter, the Treasurer-Clerk's

Office obtained from City Attorney staff clarification that P-Card account numbers and expiration dates could be redacted from documents produced in response to those public records requests. *(Treasurer-Clerk's Office)*

Recommendations were made to address these described risks. Corrective actions have been initiated and/or planned.

Execution of Transactions and Events

Transactions were generally properly executed. However, risks were identified that (1) limited accountability and support for transactions, (2) increased the chance of unauthorized or inappropriate transactions, and/or (3) increased the likelihood that transactions would not be executed in accordance with controlling requirements.

Transactions and events should be authorized and executed only by personnel acting within the scope of their authority. Furthermore, transactions should be processed in an efficient and appropriate manner. In regard to a P-Card program, this means that controls and procedures should be in place to (1) issue P-Cards only to appropriate staff, (2) independently review purchase transactions, (3) ensure purchases are within transaction and spending limits, (3) provide training to cardholders and administrative staff, (4) timely cancel P-cards no longer needed, (5) ensure sales taxes are not paid, (6) purchase items through the internet only through secured websites, (7) ensure timely and accurate coding of transactions, (8) preclude sharing of P-cards among employees, (9) obtain/maintain adequate support for purchases, and (10) ensure compliance with rules, regulations, and guidelines pertaining to expenditure of funds. In addition, controls and procedures should be in place to ensure that bank rebates for participation in the P-Card program are received and timely deposited.

Our audit showed that adequate controls and procedures were generally in place. However, the following risks were identified:

- P-Cards were sometimes shared among employees. This included instances where cardholders provided their card or account number and expiration date to other employees to make purchases. Sharing of P-Cards is a violation of City Policy #603 and should be discouraged as it limits the ability to determine responsibility for purchases. *(City Attorney's Office, Communications Department, Electric Operations Control Center, Treasurer-Clerk's Office, Procurement Services, and Taltran.)*
- Adequate support (e.g., vendor invoices showing items purchased and the associated quantities and costs) was not

always obtained for purchases. (*Fire Department, Purdom Power Plant, and Taltran.*)

- A secondary level of back up coders was established within the Electric Operations administrative division for the power plants and control center. Determinations were made that there was adequate staff serving as back ups at the plants and control center. As each back up coder inherently has access to the plants'/center's cardholder P-Card account numbers and expiration dates, the additional back up coders at the administrative division resulted in unnecessary exposure of that sensitive information. Subsequent to our discussions of this risk, management decided to remove the secondary level of back up coders within the Electric Operations administrative division. (*Electric Operations Control Center, Hopkins Power Plant, and Purdom Power Plant.*)
- Within the City Attorney's Office, a staff person was not designated and trained to serve as back up to the employee responsible for coding transactions in the P-Card accounting system. Because transactions must be coded prior to the end of each monthly processing cycle, back up coders should be designated to ensure continuity of operations in the event of unforeseen circumstances. Management has subsequently designated and trained a back up. (*City Attorney's Office.*)
- Three administrative employees within Electric Operations responsible for monitoring P-Card activity at the power plants and control center had system permissions allowing update (coding) capabilities within the City P-Card system. System permissions should be limited to what an employee needs to perform assigned job duties. As the role of those staff was limited to monitoring, a determination was made that their system permissions should be limited to inquiry capabilities only. Subsequent to our discussions of this risk, management requested the system permissions for these employees to be changed accordingly. (*Electric Operations Control Center, Hopkins Power Plant, and Purdom Power Plant.*)
- Three instances were noted where P-Cards for terminated employees were not timely cancelled. (*Communications*

Department, Hopkins Power Plant, and Treasurer-Clerk's Office.)

- Within the two power plants, standard procedures were not in place providing for notification to plant management whenever actual charges for P-Card purchases exceeded pre-approved estimated amounts by a significant margin. *(Hopkins Power Plant and Purdom Power Plant.)*
- One instance was noted where a purchase was made through an unsecured Internet website. *(Communications Department.)* In another instance, a cardholder's P-Card account number and expiration date were e-mailed to a vendor. E-mail is not considered a secure method for transmitting data. *(Electric Operations Control Center.)*
- Competitive procurement practices were not always used when required. For purchases exceeding \$1,000, City procurement policy requires that competitive quotes be obtained from at least three vendors. In addition, individual purchases should not be split for the purpose of circumventing the requirement to obtain competitive quotes. Instances were noted where required quotes were not obtained. *(Communications Department, Treasurer-Clerk's Office, Taltran.)* Instances were also noted where it appeared that purchases were split to circumvent the requirement to obtain quotes. *(Taltran.)*
- Tangible personal property was purchased but not tagged and recorded in the City's asset management system. Not taking those actions limits control and accountability over the purchased assets. *(Communications Department, Fire Department, Electric Operations Control Center, Purdom Power Plant, and Taltran.)*
- Two instances were noted where cardholder and supervisory reviews of purchases did not detect inadequate support for vendor charges. Overpayments occurred as a result. *(Electric Operations Control Center.)*
- In addition to the above, incidents were noted where sales taxes should not have been paid, vendor invoices were not paid timely, amounts invoiced/paid were not verified against

contractual rates, and food purchases were not in accordance with the City Manager's food guidelines. (*City Attorney's Office, Communications, Fire Department, Electric Operations Control Center, Hopkins and Purdom Power Plants, Procurement Services, and Taltran.*) We also noted that rebate checks received by DMA from the State of Florida were not always timely deposited. (Note – The administering bank provides rebates to the State who, in turn, determines and distributes equitable shares to each participating entity.) (*DMA.*)

Recommendations were made to address the described risks to include enhanced training by DMA for cardholders, administrative staff, and managers. Corrective actions have been taken, initiated, and/or planned by applicable departments and offices for the above risks.

Recording of Transactions and Events

Transactions and events should be recorded/documented on a timely basis and properly classified. For P-Card transactions, this means that transactions downloaded into the P-Card system from the bank should be timely and accurately coded. In addition, records should be prepared and maintained that (1) document all transactions and reviews of those transactions, (2) document the individual making a purchase, (3) demonstrate the City business (public purpose) served by a purchase, (4) demonstrate the procurement method (e.g., competitive quotes, single source vendor, emergency acquisition, purchased off existing contract/price agreement/etc.), and (5) demonstrate compliance with rules, regulations, and guidelines governing the purchase. To ensure accountability for purchased items, evidence of receipt should be documented. Also, to limit the risk of unauthorized duplicate payment for the same goods/services, payment should be clearly documented on vendor invoices.

Adequate records were generally prepared to document P-Card activity.

However, improved recording of activity and events is needed in certain cost centers to help ensure transactions are authorized, accurately recorded, and in accordance with controlling rules and regulations.

We determined that, generally, P-Card transactions and events were properly, accurately, and timely documented. However, certain risks were identified as described below.

- Documentation justifying the City business served by purchases was not always prepared and maintained. (In these instances adequate explanations were generally provided in response to our inquiries.) (*City Attorney's Office, Fire Department, Taltran.*)

- Supervisory review of transactions was not always documented. *(City Attorney's Office and Treasurer-Clerk's Office.)*
- Vendor invoices were not always defaced or marked in a manner to clearly document that payment was made by City P-Card. Not defacing or marking vendor invoices to reflect payment by City P-Card increases the risk of inappropriate duplicate payment. *(City Attorney's Office, Communications Department, Fire Department, Electric Operations Control Center, Hopkins Power Plant, Purdom Power Plant, Treasurer-Clerk's Office, Procurement Services, and Taltran.)*
- Records clearly documenting that the City in fact received purchased items were not always prepared and retained. *(City Attorney's Office, Communications Department, Fire Department, Electric Operations Control Center, Treasurer-Clerk's Office, Procurement Services, and Taltran.)*
- Purchases of tangible personal property and other capital assets were not always coded correctly within the accounting system. Incorrect coding results in those charges being misclassified within the City's accounting records, thereby impeding the ability of Accounting Services staff to monitor those property purchases. *(Communications Department, Fire Department, and Treasurer-Clerk's Office.)*
- Available records did not always clearly demonstrate how vendors were selected (e.g., competitive bid, single source vendor, existing City contract or price agreement, etc.). Such records are necessary to demonstrate that the acquisition was efficient and in accordance with controlling rules, regulations, and/or applicable contractual terms. *(Fire Department, Hopkins Power Plant, Purdom Power Plant, and Taltran.)*
- Standard forms or other records used to document P-Card purchases were not always completed in a manner that clearly identified the employee making the purchase. *(Electric Operations Control Center and Purdom Power Plant.)*
- Records prepared for food purchases did not always demonstrate compliance with the City Manager's food guidelines. For example, records did not: (1) document the specific items or

quantities purchased, (2) document the names or numbers of employees/persons the food was for, or (3) provide a clear explanation justifying the food was for an authorized purpose. *(Electric Operations Control Center, Hopkins Power Plant, Purdom Power Plant, and Procurement Services.)*

- DMA did not maintain permanent records explaining errors in InfoSpan and differences between InfoSpan and the bank's records. Examples include InfoSpan incorrectly showing multiple active cards for one cardholder and InfoSpan showing a cardholder history and/or status different than that shown by the bank's records. Without an explanation for these differences, repeated research could occur to answer questions pertaining to these items. *(DMA.)*

Recommendations were made to address these risks. Corrective actions have been taken, initiated, and/or planned by applicable departments and offices.

Information Processing

Information Processing includes a variety of controls to check accuracy, completeness, and authorization of activity and transactions. For a P-Card program, examples include (1) reviews by cardholders and supervisors of cardholder monthly statements, (2) administrative staff reconciling charges within the P-Card accounting system and reflected on cardholder monthly statements to support, (3) reconciling the monthly bank invoice to the total of monthly transactions reflected in the P-Card accounting system, (4) reconciling summary charges for P-Card transactions in the City's financial system to total charges reflected in the P-Card accounting system, (5) edit checks to ensure that charges are coded correctly, and (6) exception reports that show transactions processed in excess of cardholder spending limits or instances where a cardholder makes multiple transactions in a single day with the same vendor (i.e., potential splitting of purchases to circumvent competitive procurement requirements or cardholder transaction limits).

Most of the controls described above were determined to be in place and operating effectively. However, certain risks were identified as explained below.

Cardholders should review their monthly statements as a means of ensuring the validity and propriety of transactions. In addition, reconciliation and analytical activities should be enhanced.

- Monthly cardholder statements received from the bank were not being provided to cardholders for their review and approval. City Policy #603 requires those reviews. Cardholders' reviews of their monthly statements are an effective control for identifying instances where another individual (within or external to the City) inappropriately uses a cardholder's account to make unauthorized purchases. *(City Attorney's Office, Communications Department, Fire Department, and Treasurer-Clerk's Office.)*

We noted that Electric Operations and Taltran began requiring distribution of monthly cardholder statements to cardholders in October 2002. Our review showed that certain improvements and enhancements to that recently implemented process were needed within Electric Operations. As a result, recommendations were made to: (1) require dating of signatures, (2) track statements to ensure they are reviewed, signed, and returned for retention, and (3) require timely reviews by cardholder supervisors. *(Electric Operations Control Center, Hopkins Power Plant, and Purdom Power Plant.)*

- Departmental/office purchase activity recorded in the City's P-Card accounting system (InfoSpan) is not reconciled to summary amounts entered into the City's financial accounting system (PeopleSoft Financials). Those reconciliations are essential for ensuring that charges to a department's/office's budget are proper. The ability to efficiently conduct such reconciliations may be limited by the lack of readily available information on charges to departments/offices by cardholders in other City departments/offices. *(City Attorney's Office, Fire Department, Electric Operations Control Center, Hopkins Power Plant, Purdom Power Plant, Procurement Services, and Taltran.)*

In some departments/offices, manual reconciliations are done to ensure that charges to the departments'/offices' budgets are appropriate. However, the ability to efficiently conduct those reconciliations may also be limited by the lack of readily available information on charges to those departments/offices by cardholders in other City departments/offices. *(Communications Department and Treasurer-Clerk's Office.)*

- The City's P-Card system (InfoSpan) has applications that generate standard exception and activity reports for managerial purposes. These include reports that identify instances (1) where the bank and vendor allow a cardholder to exceed their transaction or spending limits and (2) where a cardholder uses a card multiple times in one day at a single vendor (useful to identify intentional splitting of purchases to circumvent transaction limits or competitive procurement requirements). We determined that due to a software problem ("bug"), department/office administrative staff and managers are no longer able to access these reports through the software loaded on their computer terminals. When available, these reports provide an efficient method for reviewing P-Card activity. We recommended that DMA work with the bank (owner of the software) to eliminate this bug. *(DMA.)*
- Accounting Services did not analyze P-Card transactions for the purpose of identifying tangible personal property acquisitions or other capital outlay items that should have been recorded in the City's asset management system. Subsequent to our discussions, the P-Card accounting software was placed on the computer of asset management staff in Accounting Services for the purpose of allowing these analyses. *(DMA.)*

Recommendations were made to address these risks. Corrective actions have been initiated and/or planned.

Documentation

Adequate documents and records should be designed, used, and retained. This means, among other things, that (1) supporting records should be retained in accordance with City record retention requirements, (2) records should be prepared and retained to document all requested P-Card actions, and (3) written operating procedures should be prepared to provide direction and guidance to staff. Such written procedures help ensure a consistent and appropriate methodology for making and processing P-Card purchases.

Forms and records used by City staff to document and account for P-Card activity were generally adequate. Applicable records were also generally retained. However, in regard to documentation controls, risks were identified. Specifically:

Written procedures providing direction and guidance to staff for P-Card activity should be completed or enhanced. In addition, record retention should be complete and not duplicative.

- Written procedures addressing the execution of P-Card purchases and processing related activity and records were either not established or did not address all applicable aspects of the process. *(City Attorney's Office, Fire Department, Electric Operations Control Center, Hopkins Power Plant, Purdom Power Plant, Treasurer-Clerk's Office, Procurement Services, and Taltran.)*
- Documentation (e.g., e-mails) of management's request for new P-Cards and changes to the status of existing cards (e.g., canceling cards or increasing transaction limits) was not always retained. Retention of that documentation is needed to demonstrate that timely and appropriate actions are taken, especially when a card is to be cancelled for a terminating employee. *(Communications Department, Fire Department, Hopkins Power Plant, Purdom Power Plant, Procurement Services, Taltran, and DMA.)*
- Record retention practices in the Treasurer-Clerk's Office were duplicative. One set of records for P-Card purchases is maintained on the City's electronic data imaging system and another set (original documents) is maintained in secured file cabinets. Maintaining two sets of the same records is not efficient. *(Treasurer-Clerk's Office.)*
- To ensure proper and consistent activity, enhancements are needed to the City's P-Card policy (Administrative Procedures Manual #603). Revisions to the policy should be made to:
 - address replacement cards,
 - require that managers obtain and review monthly InfoSpan reports to ensure the reasonableness and validity of P-Card activity,

- require the safeguarding of documentation containing P-Card account numbers and/or expiration dates and limit access to those records to authorized employees,
- provide for disposition of destroyed P-Cards by departments/offices subsequent to the cards destruction,
- specify that P-card account numbers and expiration dates should not be e-mailed,
- allow provision of P-Cards to temporary City employees when determined appropriate by management,
- require that departments adopt standard methods for documenting receipt of purchased items and for marking/defacing vendor invoices after payment,
- require documented supervisory approvals of cardholder monthly statements, and
- require that departments/offices reconcile charges in InfoSpan to summary entries recorded in the City's financial accounting system. (DMA.)

Recommendations were made to mitigate these risks. Corrective actions have been initiated and/or planned.

Recommendations

Specific recommendations were made to eliminate or reduce the identified risks.

*Those recommendations are presented in **Volume 2** of this report.*

As noted above, recommendations were made to reduce or eliminate the risks identified during our reviews. The costs of implementing or revising existing controls and procedures were considered relative to the expected benefits to be derived when making these recommendations. The specific recommendations for each of the audited cost centers are included as part of the separate presentations within **Volume 2** of this audit report. The focus of the individual recommendations was to (1) preclude unauthorized access to P-Card account information, (2) enhance the management oversight function, (3) ensure independent review of transactions, (4) improve physical security over P-Card information, (5) ensure the proper and efficient execution of P-Card transactions and related events, (6) ensure the proper recording of those transactions and events, (7) ensure the accuracy, completeness, and propriety of P-Card activity, and/or (8) ensure that appropriate documentation was

prepared and retained, including the provision of proper instruction/guidance to cardholders and administrative staff.

As noted in the background section of this report, the City is currently evaluating the PeopleSoft P-Card module as a possible replacement for InfoSpan. Some of the risks and related recommendations within this report relate to and/or address activity within InfoSpan. However, those risks would not be necessarily alleviated through implementation of a new system. In the event that InfoSpan is replaced, the risk aversion concepts embedded in our various recommendations should be applied to the new system.

Conclusion

For the most part, P-Cards were used only to make authorized and appropriate acquisitions of goods and services. However, significant risks were identified for which corrective actions are needed.

Our review of P-Card activity within selected cost centers showed that the City's P-Card program is generally operating efficiently, effectively, and in accordance with good business practices. For the most part, P-Cards were used by staff only to make authorized and appropriate acquisitions of goods and services. Adequate controls were generally in place. No instances of fraud were noted.

However, risks were identified at several cost centers that increase the likelihood of (1) unauthorized purchases occurring and not being timely detected and/or (2) goods and services not being procured efficiently and in accordance with controlling rules, regulations, and guidelines. These risks were discussed with City management and corrective actions have been identified and initiated. We would like to acknowledge the full and complete cooperation and support of staff of the various departments and offices in this review.

Response From Appointed Officials

City Manager:

I am pleased to see that the recent audit of the City's purchasing card program indicated that the program is operating efficiently, effectively and in accordance with good business practices. I am also pleased to see that there were no instances of employees using purchase cards for any personal or improper purchases. I appreciate the thoroughness of this review, as we strive to continuously improve our internal controls to ensure the proper expenditure of public funds. It's also important to note the use of purchase cards has increased efficiency in terms of paperwork processing and easier ability for departments to make vital purchases. In all cases where concerns were pointed out, staff is already in the process of addressing those concerns.

City Treasurer-Clerk:

I have reviewed the draft of the City P-Card Audit and the recommended Action Plan. I concur with the objectives relative to P-card activities in the Treasurer-Clerk's Office. I agree with your recommendation that certain policies/procedures be implemented or changed to reduce risks related to P-Card activities. I have attached a copy of the Action Plan with responsible employees and target dates provided for each recommended action. Many of these recommendations have been incorporated in the P-Card procedures being developed for the Office of the Treasurer-Clerk. Others are one-time tasks that will be completed by the specified target dates. I commend you and your staff for the professional and thorough manner in which the P-card audit was conducted.

City Attorney:

We appreciate the thoroughness and professionalism exhibited throughout the audit process. With the help of your objectivity and recommendations, we are able to appreciate the need to improve and tighten our control areas to assist in alleviating any potential risks. We also appreciate the recognition for the many positive aspects of how the purchase card use and administration has been handled in the City Attorney's Office. Many of the items noted for correction have already been implemented and the others will be implemented immediately or within the next couple of weeks.

Copies of this audit report #0326 (Project #0305) may be obtained from the City Auditor's web site (<http://talgov.com/citytlh/auditing/index/html>), or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (dooleym@talgov.com).

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Appendix 1 – P-Card Activity By City Department/Office

During the 14-month period October 5, 2001, through December 4, 2002

<i>DEPARTMENT/OFFICE</i>	<i>Number of Transactions</i>	<i>\$ Amount of Transactions</i>
Aviation	2,625	\$922,605
Blueprint 2000	61	\$10,394
City Attorney's Office (1)	447	\$80,086
City Auditor's Office	147	\$21,149
City Commission	308	\$20,703
City Manager's Office/Executive Services	388	\$35,646
City Treasurer-Clerk's Office (1)	975	\$241,063
Communications (1)	610	\$257,776
Customer Services	32	\$4,546
Department of Management and Administration (2)	2,621	\$1,426,764
Economic Development	361	\$78,431
Electric Operations (2)	6,525	\$3,347,350
Energy Services	375	\$119,876
Equity and Workforce Development	287	\$55,659
Fire Department (1)	2,609	\$835,793
Gas Operations	601	\$131,508
Growth Management	589	\$114,379
Human Resources	2,175	\$205,312
Neighborhood and Community Services	2,110	\$389,647
Organizational Support	769	\$149,474
Parks and Recreation	8,925	\$2,101,480
Planning Department	774	\$126,707
Police Department	3,136	\$1,279,097
Public Works	5,677	\$1,275,495
Solid Waste	801	\$159,216
Taltran (1)	3,620	\$1,030,682
Utility Business Services	1,849	\$362,887
Water Utilities	7,153	\$2,228,847
TOTAL	56,550	\$17,012,572

Note (1): Department/office selected for review.

Note (2): Division(s) within this department selected for review.