

Follow-up of the P-Card Program Audit
10-07-107F
Executive Summary

INTRODUCTION

The Office of Internal Audit and Investigations performed a follow-up of Audit No. 07-107, Purchasing Card (P-Card) Program. The purpose of our follow-up is to report on the progress made by the Chief Administrative Officer (CAO), Council Services, and Department of Finance and Administrative Services (DFAS) management in addressing our findings and recommendations.

RESULTS

The status of the recommendations is identified by the following legend:

 Fully Implemented
  Resolve
  Partially Implemented
  Not Implemented

#	Recommendation				
1	DFAS should monitor purchases for transactions that do not comply with Policies and Procedures (P&P).			√	
2	DFAS should revise P&P to include specific instructions on the reconciliation of P-Card purchases for point of purchase, documentation retention requirements and reconciliation of purchases to a specific Bank of America (BOA) statement and the General Ledger (G/L).	√			
3	The CAO should ensure that all P-Cards issued are in compliance with P&P. P&P should be revised to accommodate exceptions.	√			
4a	The CAO should ensure departments submit the Maintenance Form for cancellation or replacement of a P-Card. Justification should be submitted for replacement of a P-Card due to loss or theft.			√	
4b	DFAS should: <ul style="list-style-type: none"> • Monitor P-Card cancellation and replacement and verify the Maintenance Form and justification (if applicable) are on file. • Revise the Form to specifically indicate it is to be approved by the department director, in accordance with P&P. • The Form should also include a section to indicate if the P-Card was lost, stolen or damaged and require additional justification in writing when requesting a replacement card. 			√	
5	The CAO should ensure departments promptly notify the P-Card administrator when gross receipts tax has been paid so a non-taxable certificate can be issued.			√	
6	DFAS should update P&Ps to include specific instruction and guidelines for reviewing, granting, and documenting P-Card purchase overrides.	√			

Follow-up of the P-Card Program Audit
10-07-107F
Executive Summary

#	Recommendation				
7	DFAS should develop and implement a schedule to regularly review and update P&Ps. The latest version should be distributed to City employees and made available to all users.	√			
8	DFAS should regularly schedule P-Card coordinator training and implement a system to document attendance.		√		
9	DFAS should reconcile monthly automatic P-Card payments to the P-Card statement, and clarify discrepancies with the BOA.	√			
10	DFAS should perform an annual card use analysis and consider requiring low use cardholders to justify the need to retain their P-Card.	√			
11	DFAS should review and update the performance measure relating to the P-Card program. The measure should address how the program is performing and what value is added to the City by its use.		√		
12	DFAS should: <ul style="list-style-type: none"> • Determine who is responsible for receiving, reviewing and recording the annual P-Card rebate from the BOA. • Review the annual rebates for accuracy and record it consistently. 	√			
13a	The CAO should ensure departments review P-Card transactions to identify patterns of recurring purchases that could potentially be set up as a contract.	√			
13b	Council Services (Council) should review P-Card transactions to identify patterns of recurring purchases that could potentially be set up as a contract.	√			



City of Albuquerque

Office of Internal Audit and Investigations

FOLLOW-UP OF THE PURCHASING CARD PROGRAM AUDIT, REPORT #10-07-107F

November 5, 2010

SUMMARY

The Department of Finance and Administrative Services (DFAS) has fully implemented or resolved eight of the recommendations noted in the initial audit. Two recommendations have been partially implemented.

The Chief Administrative Officer (CAO) has fully implemented two recommendations, and partially implemented two.

Council Services (Council) has fully implemented one recommendation.

INTRODUCTION

The Office of Internal Audit and Investigations performed a follow-up of Audit No. 07-107, Purchasing Card (P-Card) Program. The purpose of our follow-up is to report on the progress made by the CAO, Council, and DFAS management in addressing our findings and recommendations.

Our follow-up procedures consist of interviews of City personnel and review and verification of applicable documentation to assess the status of our audit recommendations. Our follow-up is substantially less in scope than an audit. Our

objective is to ensure management has taken meaningful and effective corrective action in regards to our findings and recommendations.

We limited our scope to actions taken to address our audit recommendations from the date of our final report, September 20, 2007 through September 14, 2010.

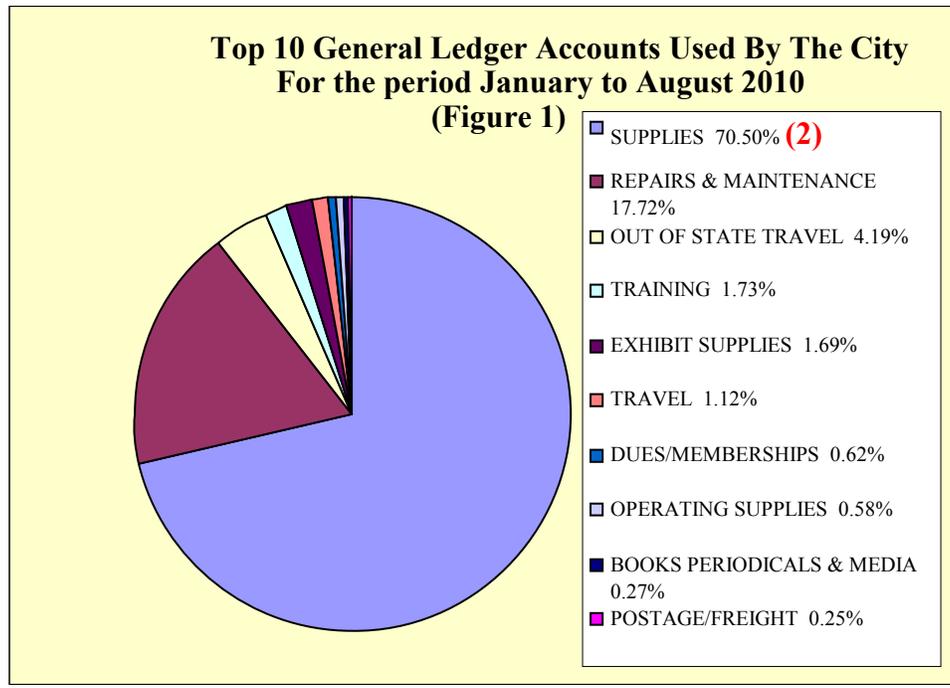
The Bank of America (BOA) WORKS application was implemented in August 2007, and replaced its predecessor BOA EAGLS. WORKS is an electronic payment provider.

During January through August 2010, over 6,700 P-Card transactions totaling approximately \$1.4 million were conducted. This is an average of \$209 per transaction. As of September 28, 2010, there were 387 active P-Cards.

The following table and figures on pages 2 through 3 show P-Card statistics for the time period January through August 2010. See Table 1 for the top 10 vendors where the P-Card was used. See Figures 1 and 2 for the top 10 general ledger accounts and activities in which P-Card transactions were coded.

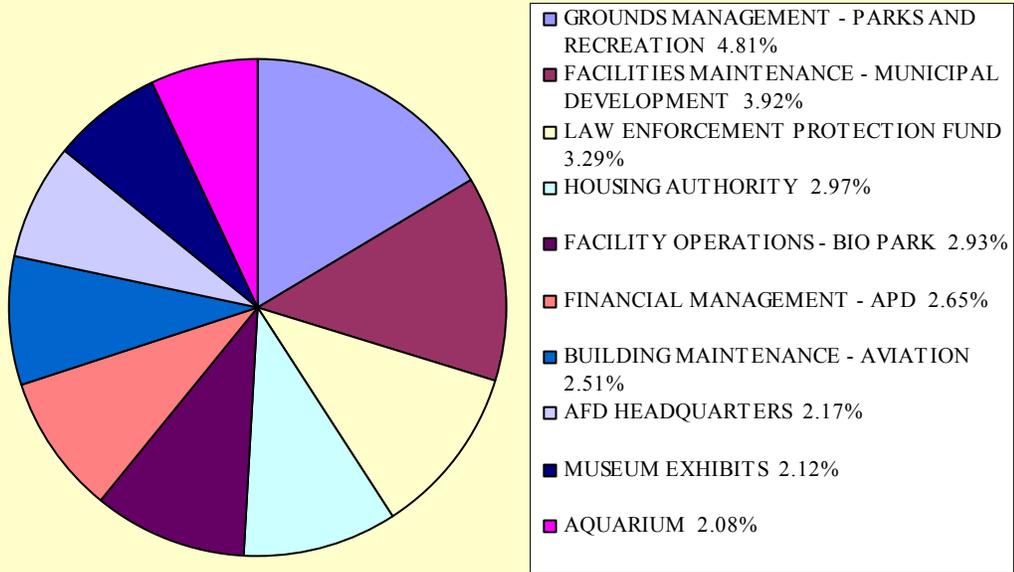
Top 10 Vendors Used By The City For the period January to August 2010 (Table 1)		
Vendor Name	Amount Spent	Percentage (1)
The Home Depot #3502	\$ 28,505	2.10%
Lowes #02539	25,784	1.90%
The Home Depot #3507	25,577	1.88%
Albuquerque Power Equipment	16,378	1.20%
WW Grainger	14,251	1.05%
Office Max	14,125	1.04%
Frank's Supply Company	12,807	0.94%
Computer Corner	12,729	0.94%
Wal-Mart Supercenter	11,268	0.83%
Bob Garrecht Supply	10,945	0.80%

(1) – Based on total P-Card transactions for the time period January to August 2010

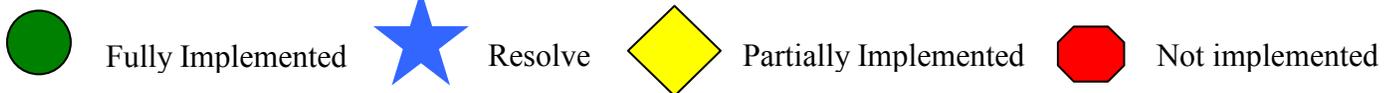


(2) – Supplies is the default general ledger account for P-card transactions

**Top 10 Activities Used By The City
For the period of January to August 2010
(Figure 2)**



The status of the recommendations is identified by the symbols in the following legend:



Recommendation #1: DFAS should monitor purchases for transactions that do not comply with Policies and Procedures (P&P).

Response: DFAS agreed with the recommendation, and stated:

- The Purchasing Division had recently created and filled a new job position that would oversee this purchasing program.
- The implementation of the new purchasing review function was pending transition to the new reporting and monitoring web based tool for the P-Card program, WORKS. This transition was scheduled for late Fall 2007.
- Merchant Category Codes (MCC) allowable groups would be studied and addressed to coincide with the City policies as they may relate to small purchases and methods of payment.
- Enough historical data was available from the P-Card program to make changes as to how retailers and other merchant providers were established within the MCC groups.

 Partially Implemented

Action Taken: The DFAS Accounting P-Card administrator monitored P-Card transactions for compliance with P&P from July 2008 through December 2009. In December 2009, DFAS Purchasing Division management transferred the monitoring process to the DFAS Purchasing P-Card administrator. P-Card transactions have not been monitored during calendar year 2010 due to the following:

- Purchasing P-Card administrator had other responsibilities, such as administrating two purchasing systems and overseeing high level procurement.
- Purchasing P-Card administrator terminated employment with the City in June 2010. This position was not filled until the end of July 2010.

DFAS is in the process of training the new Purchasing P-Card administrator so he can regularly monitor P-Card transactions.

OIAI reviewed 6,871 P-Card transactions which occurred during January through August 2010 using data mining software and identified:

- 475 transactions with non allowable MCC groups
- 21 PayPal transactions
- 11 potential split purchase transactions

These transactions with non allowable MCC groups should have been declined while the purchase was in process. DFAS determined that when the WORKS application was implemented that both the custom and standard MCC groups were activated. The 475 transactions were not declined since they were allowed under the standard MCC groups. DFAS has deactivated the standard MCC groups as of September 9, 2010.

A notification was sent to all P-Card contacts on May 26, 2010 stating that PayPal was not allowed for P-Card purchases.

The P-Card P&P states that splitting a transaction into two or more transactions to get below the single transaction limit is prohibited. Exceptions to this policy will be noted and could result in the loss of the employee's card as well as appropriate disciplinary action.

Recommendation: DFAS should regularly monitor P-Card transactions.

Recommendation #2: DFAS should revise P&P to include specific instructions on the reconciliation of P-Card purchases for point of purchase, documentation retention requirements and reconciliation of purchases to a specific BOA statement and the General Ledger (G/L).

Response: DFAS agreed with the recommendation, and stated:

- A revision to the P&P manual was scheduled to coincide with the movement to the new web based application, WORKS.
- This new application would have new features which required a change in process and would result in enhanced monitoring and documentation capabilities.
- DFAS Accounting was developing the BOA statement and G/L reconciliation process. This function would be assigned to the Program Coordinator (a Principal Accountant within the division) and would be implemented when the transition to the WORKS program occurred.



Fully Implemented

Action Taken: The P-Card P&P manual was revised in July 2008 and includes specific instructions on the:

- Reconciliation of P-Card purchases for point of purchase
- Documentation retention requirements
- Reconciliation of purchases to the weekly statement and G/L.

OIAI selected a sample of five of 80 P-Card coordinators and determined that each coordinator had verified:

- Transactions on the weekly activity statement agreed with the retained receipts, sales slips, credit card slips, and/or invoices and Purchasing log
- Amount of each transaction
- Goods had been received
- Transactions were coded to the correct G/L account.

The P-Card coordinators are also retaining documentation as required by the P&P.

Recommendation #3: The CAO should ensure that all P-Cards issued are in compliance with P&P. P&P should be revised to accommodate exceptions.

Response: The CAO agreed that the P&P for the issuance, use and review of P-Cards should be updated.



Fully Implemented

Action Taken: P-Card P&P were revised in July 2008. The CAO stated that all P-Cards are issued in compliance with P-Card P&P.

Recommendation #4a: The CAO should ensure departments submit the Maintenance Form for cancellation or replacement of a P-Card. Justification should be submitted for replacement of a P-Card due to loss or theft.

Response: The CAO agreed that departments should submit the proper form for cancellation or replacement of a P-Card and would periodically remind directors of that requirement.



Partially Implemented

Action Taken: The CAO stated that the proper form for cancellation or replacement of a P-Card is being used. See Action Taken for Recommendation 4b for results of test work.

Recommendation: The CAO should ensure departments submit the Maintenance Form for cancellation or replacement of a P-Card. Justification should be submitted for replacement of a P-Card due to loss or theft.

Recommendation #4b: DFAS should:

- Monitor P-Card cancellation and replacement and verify the Maintenance Form and justification (if applicable) are on file.
- Revise the Form to specifically indicate it is to be approved by the department director, in accordance with P&P.
- The Form should also include a section to indicate if the P-Card was lost, stolen or damaged and require additional justification in writing when requesting a replacement card.

Response: DFAS agreed with the recommendation and stated:

- The Accounting and Purchasing Divisions would work together to complete a revision to the current P&P as they moved toward implementation of the WORKS application.
- This revision would address modifications to all P-Card forms currently in use.



Partially Implemented

Action Taken: DFAS is not monitoring P-Card cancellation and replacement since they do not always verify that the P-Card Maintenance Form is on file.

OIAI sampled 10 of 401 P-Cards cancelled between July 2009 and July 2010 to determine if DFAS is monitoring P-Card cancellation and replacement. The following was determined:

- 5 Maintenance Forms (50%) documenting P-Card cancellations were on file.
- 5 Maintenance Forms (50%) were not on file.

The P-Card Maintenance Form Does Not Agree With P&P

DFAS did revise the Cardholder Maintenance Section of the P-Card Maintenance Form to require approval by the department director; however, the approval is for credit limit changes only. Section 4 of the P&P requires all requests for card changes to card limits and restrictions be authorized by the department director.

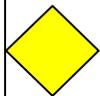
The P-Card Maintenance Form has a field labeled *Reason for Cancellation*, but does not specify a reason for replacement. Section 5 of the P&P requires an explanation from the department director or designee explaining the situation when a replacement is requested for a P-Card that is lost, stolen, or damaged.

Recommendation: DFAS should:

- Monitor P-Card cancellation and replacement and verify the Maintenance Form and justification (if applicable) are on file.
- Revise the P-Card Maintenance Form to agree with P&P.

Recommendation #5: The CAO should ensure departments promptly notify the P-Card administrator when gross receipts tax has been paid so a non-taxable certificate can be issued.

Response: The CAO agreed with the recommendation and stated that he would periodically remind directors to encourage their staff to review P-Card purchases to identify those instances when gross receipts tax was incorrectly charged and to ensure that steps were taken to execute a non-taxable transaction certificate.



Partially Implemented

Action Taken: The CAO stated that he periodically notifies department directors to ensure that non-taxable transaction certificates are executed in instances when gross receipts tax was incorrectly charged on a P-Card purchase.

OIAI determined that approximately \$3,900 in gross receipts tax was paid on purchases between January and September 2010.

Recommendation: The CAO should ensure departments promptly notify the P-Card administrator when gross receipts tax has been paid so a non-taxable certificate can be issued.

Recommendation #6: DFAS should update P&Ps to include specific instruction and guidelines for reviewing, granting and documenting P-Card purchase overrides.

Response: DFAS agreed with the recommendation and stated that the current practices for approving MCC exceptions would be reviewed and incorporated into the revised P&P.



Fully Implemented

Action Taken: The P-Card Works Administrator Guide contains specific instruction and guidelines for reviewing, granting and documenting P-Card purchase overrides.

Recommendation #7: DFAS should develop and implement a schedule to regularly review and update P&Ps. The latest version should be distributed to City employees and made available to all users.

Response: DFAS agreed with the recommendation and stated:

- The City's intranet e-web and SharePoint site was being constantly developed to incorporate added communication regarding policies, contracts and training opportunities.
- The Purchasing Program Specialist would be establishing a user group with an aim of enhancing department knowledge of all Purchasing P&Ps.



Fully Implemented

Action Taken: The P-Card P&P were revised in July 2008. According to DFAS management, P-Card P&P will be revised as required, such as when current practices change which make the process more efficient, or if requirements change. The P-Card P&P are located on the City's employee web at <http://sharepoint.cabq.gov/dfas/accounting/> where employees can easily access them.

Recommendation #8: DFAS should regularly schedule P-Card coordinator training and implement a system to document attendance. P-Card coordinators should not be allowed access to EAGLS prior to obtaining training.

Response: DFAS agreed with the recommendation and stated:

- P-Card Coordinators would be allowed access to the P-Card System only after proper training was received.
- The Purchasing Division had P-Card training for both P-Card holders and P-Card coordinators on the third Tuesday of each month. This training focused on the Policies and Procedures governing the P-Card program, including allowable purchases and the P-Card Coordinator reconciliation process.
- EAGLS was replaced by WORKS.
- DFAS would work with City LEAD staff to develop and administer WORKS training to all P-Card coordinators before the new system was implemented.
- After implementation, this training would be regularly scheduled and required for all new P-Card Coordinators.



Resolved

Action Taken: The DFAS Accounting P-Card Administrator provides card coordinators with access to WORKS. She then schedules one-on-one training to teach the card coordinator how to navigate through WORKS. Card coordinators are sometimes granted access to WORKS prior to receiving training. There is minimal risk in providing access to WORKS prior to training, as card coordinators would not know how to navigate through WORKS until they have received training.

Recommendation #9: DFAS should reconcile monthly automatic P-Card payments to the P-Card statement, and clarify discrepancies with the BOA.

Response: DFAS agreed with the recommendation and stated:

- DFAS-Accounting developed the BOA statement and G/L payable reconciliation process.
- This function would be assigned to the Program Coordinator and would be implemented when the transition to the WORKS program occurred.



Fully Implemented

Action Taken: OIAI reviewed DFAS' monthly reconciliations from July 2009 through May 2010 and determined that:

- Monthly automatic P-Card payments are reconciled to the P-Card and
- Discrepancies are clarified with BOA.

Recommendation #10: DFAS should perform an annual card use analysis, and consider requiring low use cardholders to justify the need to retain their P-Card.

Response: DFAS agreed with the recommendation and stated:

- An overall analysis of P-Card use would be completed prior to the implementation of the WORKS program and the related revisions to the P&P.
- This analysis would include discussion of the possible need to establish limits on the amount of P-Cards issued within each City department.



Fully Implemented

Action Taken: DFAS performed annual card use analysis in January 2009 and January 2010. The results were discussed with DFAS management so they could consider whether cards with low use should remain active.

Recommendation #11: DFAS should review and update the performance measure relating to the P-Card program. The measure should address how the program is performing and what value is added to the City by its use.

Response: DFAS agreed with the recommendation and stated:

- The performance measure that would best reflect the program's impact on DFAS utilization and benefit would be researched and a revised measure would be recommended.
- The findings of this research would help DFAS tailor the most optimal performance outcome.



Resolved

Action Taken: DFAS Purchasing met with the Office of Management and Budget and determined that the current measure would assist in identifying P-Card holder purchasing habits, such as when spending threshold levels are increased.

Recommendation #12: DFAS should:

- Determine who is responsible for receiving, reviewing and recording the annual P-Card rebate from the BOA.
- Review the annual rebates for accuracy and record it consistently.

Response: DFAS agreed with the recommendation and stated that the review of the annual P-Card rebate from the BOA would be assigned to the Program Coordinator and would be implemented when the transition to the WORKS program occurred.



Fully Implemented

Action Taken: A DFAS- Treasury staff member is responsible for receiving and recording the annual P-Card rebate. OIAI reviewed the P-Card rebate received for calendar years 2008 and 2009 and determined they were properly recorded.

Recommendation #13a: The CAO should ensure departments review P-Card transactions to identify patterns of recurring purchases that could potentially be set up as a contract.

Response: The CAO agreed that P-Card purchases should be reviewed by the departments to identify patterns of recurring purchases that could potentially be set up on a contract and would periodically remind directors to encourage their staff to do so.



Fully Implemented

Action Taken: The CAO stated that he periodically reminds department directors to encourage their staff to review their P-Card purchases to identify patterns of recurring purchases that could potentially be set up on a contract that may be more advantageous to the City.

Recommendation #13b: Council Services (Council) should review P-Card transactions to identify patterns of recurring purchases that could potentially be set up as a contract.

Response: The Council would review P-Card transactions to identify patterns of recurring purchases; however, it was not practical to enter into contracts with vendors of Council business meals unless there were only one or two such vendors.



Fully Implemented

Action Taken: Council reviewed P-Card transactions and identified recurring purchases with a large retailer and vendors who provide Council with business related meals. The purchases with the large retailer varied and did not lend themselves to the bid process. Contracts with the vendors who provide meals were determined to not be practical due to the number of vendors and how much the needs of the Council vary from meeting to meeting.

ADDITIONAL FINDING NOTED DURING THE FOLLOW-UP

The following finding was noted during our test work and was not part of the original audit. The finding concerns an area that we believe could be improved by the implementation of the related recommendation.

Procedure Requiring Approval Prior To Making P-Card Transactions

OIAI tested five of 80 P-Card Coordinators and determined that three did not have documentation to support that the P-Card holders received approval prior to making the purchases.

P-Card P&P, § 7 states that card holders should request approval, as required by the department. The P-Card training presented by the DFAS Purchasing P-Card Coordinator includes discussion of the importance of having a documented procedure in place for approval of P-Card transactions prior to the transaction taking place. This training is attended by all P-Card holders and coordinators.

The departments/divisions, of the three P-Card coordinators, did not have a procedure in place requiring approval of purchase requests prior to making the P-Card transaction.

Unauthorized transactions might take place, if P-Card holders do not have prior approval of purchase requests.

Recommendation: The CAO should ensure that all departments have a documented procedure in place requiring approval of purchase requests prior to making P-Card transactions.

We appreciate the assistance and cooperation of the CAO, Council Services, and DFAS personnel during the follow-up.