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**To:** The Honorable John McLeod, President of the Council  
The Honorable Jay Musleh, President Pro Tem  
The Honorable James Hilty  
The Honorable Brent Malever  
The Honorable Mary Sue Rich  
The Honorable Kent Guinn, Mayor  
Sandra Wilson, Interim City Manager

**Date:** November 3, 2014

**Re:** FY 2014 External Audit Assistance – Procurement Cards Review

Internal Audit assists the external financial auditors, Purvis Gray and Company, LLP, with specific audit procedures for the Financial Statement Audit for the Fiscal Year Ending September 30, 2014. We have completed procedures for Procurement Cards. For the period of October 1, 2013 – September 30, 2014, there were 11,287 procurement card transactions totaling \$3.1 million. The City's Procurement Card policy that was approved on August 16, 2011 was revised and approved by Council on February 18, 2014.

**Purpose:** To ensure procurement cards are used appropriately for valid business purposes, transactions are appropriately recorded in the financial records, transactions are processed in compliance with the current procurement card policy, and to review the internal controls over the process.

**Scope:** Procurement card transactions for the period of October 1, 2013 – September 30, 2014.

**Approach:** Reviewed and compared both Procurement Card policies which were in effect for the fiscal year to ensure that our testing attributes appropriately addressed compliance with the policy in effect at the time of the transaction. We reviewed the revised policy to ensure that strong internal controls are in place for the procurement card process. We selected 40 transactions for testing. We reviewed documentation authorizing the cardholder, the card limits, the validity of the transaction, approval of the transaction, and recording of the transaction in the City's general ledger.

**Conclusion:** Based upon our procedures, we conclude that procurement card transactions are used appropriately for valid city business and the transactions have been appropriately recorded in the City's financial records.

Based upon the review of the revised policy and discussions with the Director of Procurement and the Purchasing Card Administrator, we have identified opportunities to strengthen the internal controls over the procurement card process which includes realigning responsibilities set forth in the policy which also should increase effectiveness of the policy.

We appreciate the assistance provided by Lisa Greer, Procurement Card Administrator.

*Generally Accepted Government Auditing Standards and the Institute of Internal Auditors Standards require that we plan and perform our audits 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 observations and conclusions.*

A handwritten signature in blue ink that reads "Jeanne Covington".

Jeanne Covington, Internal City Auditor

c: Diane Reichard, CFO and Assistant City Manager, Finance  
Tiffany Kimball, Director, Procurement



## **FY 2014 External Audit Assistance – Procurement Cards Review**

**Audit Wrap-up Conference:** September 3, 2014

**Participants:** Tiffany Kimball, Director, Procurement; Lisa Geer, Procurement Card Administrator; S. KaRhonda Leslie, Assistant City Auditor; Jeanne Covington, Internal City Auditor

**Purpose:** To discuss the results of the procurement card testing completed on behalf by Internal Audit for the City's External Auditors, Purvis Gray and Co., LLP. The objective of the testing was to ensure procurement cards are used appropriately for valid business purposes, transactions are appropriately recorded in the financial records, transactions are processed in compliance with the current procurement card policy, and to review the internal controls over the process.

Based upon auditing procedures, Internal Audit concludes that procurement card transactions are used appropriately for valid city business and the transactions have been appropriately recorded in the City's financial records.

The review and application of the current Procurement Card Policy that was approved by City Council on February 18, 2014 has identified opportunities to strengthen controls over the procurement card process which are outlined in the attached document.

Internal Audit is requesting that management formally respond to the opportunities discussed during this meeting by October 9, 2014. This document, including management's response will be attached to the audit report issued to City Council.

**Observations, Recommendations, and Management’s Response**

(Management’s response should include an action plan to address the opportunities along with estimated implementation dates of the action plan)

	<b>Observation</b>	<i>Discussion of Criteria, Cause and Effect</i>	<b>Recommendations</b>	<b>Management Response</b>
<b>P-Card Process Assigned Responsibilities</b>	<p>Revised policy authorizes Assistant City Managers (ACM) or their designee to request new p-cards and request changes to existing card limits and allows the ACM to assign a designee for this responsibility.</p> <p>Revised policy removed the Department Directors responsibilities for the procurement card process and reassigned those responsibilities to the ACM or their designee to include designating the departmental p-card representative and completing the "Manager Approval" (this is the last approver in the current ESP system) by the 10th of the month following the close of the business cycle.</p> <p>Our testing revealed that ACMS are routinely not performing these functions as designees have been assigned to include department directors, division heads, fiscal administrators and others to carry out these responsibilities.</p>	<p><i>ACMs, in most cases, are not involved in the day-to-day operations to effectively and efficiently meet the responsibilities set forth in the policy. Assigning designees appears to bypass the intent of the policy and the responsibility is reverting back to the department head as outlined in the previous policy.</i></p>	<p>Consider changing the policy responsibilities for requesting new p-cards and/or changing existing limits to include both the department head and the ACM; the department head would have the knowledge of the day-to-day business need and the ACM is validating that need. If a new p-card or an existing card limits must be immediately changed, the City Manager or Director of Procurement could fill the role of the ACM to meet the immediate business need without necessitating the ACM to assign a designee.</p> <p>Consider realigning the other responsibilities of the ACM to the department director and/or division head (such as designating departmental p-card representatives and approving p-card transactions on a monthly basis). This aligns p-card responsibilities to a level of management that has firsthand knowledge of the day-to-day business whereas the ACM may be too far removed.</p> <p>If the department director or division head are not available to address an immediate business need, the responsibility would pass to the ACM without the need for a designee.</p>	<p>Agree, and support suggested changes. The policy manual will be revised and calendared for Council approval by January 2015.</p>

	Observation	Discussion of Criteria, Cause and Effect	Recommendations	Management Response
Exceptions to P-Card Use	<p>The revised policy allows ACMs or designees to authorize exceptions to standard credit card use.</p>	<p><i>This policy provision provides the ACM and/or designee the broad authority to make exceptions to the use of the procurement card which appears to bypass the intent of the policy and inadvertently could allow the p-card to be used for any type of purchase.</i></p>	<p>We recommend that exceptions to the procurement card policy be only made on a case-by-case basis by the City Manager or Director of Procurement.</p> <p>If an immediate business need arises and the City Manager or Director of Procurement is not available, this responsibility should never be delegated to a level lower than an ACM. If the situation dictates an ACM approval, the approval should be formally communicated to the Director of Procurement immediately and retained with the transaction records.</p>	<p>Agree, and support suggested changes. Policy manual will be updated.</p>
Designee Assignment	<p>Both the previous and current procurement card (p-card) policies allow the City Manager and Assistant City Managers (ACM) to assign a designee to carry out their responsibilities. The current policy removed the requirement that designees be assigned in writing.</p> <p>Our testing revealed that ACMs have assigned designees to include department directors, division heads, fiscal administrators and others to carry out their responsibilities.</p>	<p><i>Without the assignment of a designee documented in writing, the assignment cannot be verified by the purchasing card administrator nor can the designation be audited.</i></p> <p><i>Proper internal controls include appropriate segregation of duties over financial transactions. Assigning departmental fiscals or department p-card representatives as designees conflicts with their responsibilities for reviewing and reconciling financial transactions.</i></p>	<p>If business operations/needs dictate that responsibilities of an ACM, department director or division head set forth in the policy must be delegated to a designee:</p> <ul style="list-style-type: none"> <li>• formal written approval should document the specific responsibilities that are being delegated along with the designee's name, position, and signature; there should only be one designee.</li> <li>• delegation should be approved by the Director of Procurement.</li> </ul> <p>If a designee does sign on behalf of an ACM, department director or division head:</p> <ul style="list-style-type: none"> <li>• designee's signature should reflect the designee's correct title (i.e., if it is a pre-printed form that states "ACM", ACM should be crossed out and the designee's position should be inserted).</li> <li>• documentation should include the reason which necessitated the designee to carry out the responsibility.</li> </ul>	<p>Agree; this has already been put into place with all designees having been formally approved by the ACM and identified in a written document maintained by the P-Card Administrator. However, this existing practice needs to be included in the policy manual. We support suggested changes with the following exception: when a designee does sign on behalf of an ACM, they should sign their name and write 'FOR' next to the ACM name. Then designee should print the name, and indicate designee title under their signature.</p>

Internal Audit will continue to review procurement card transactions as part of the internal control testing for the City's external auditors. Working with management, we will ensure that management has considered and addressed the opportunities to strengthen internal controls over the procurement card process.

Jane Covington, Internal City Auditor 11/3/14  
Internal Audit Signature/Title Date

[Signature] Director, Contracts and Procurement 11/3/14  
Management Signature/ Title Date

Donna Richards, Chief Financial Officer/ACM 11-3-14  
Executive Leadership Signature/Title Date