

Audit Report

***Citywide Purchase Card
(P-card)***

January 2014

AU14-08

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REPORT SUMMARY

In accordance with the Internal Audit Work Plan for Fiscal Year 2013/2014, a performance audit was conducted to assess adequacy of internal controls and cardholder compliance with the City's Purchasing Card Administrative Policy (07.017.00).¹

In 2007 the City of Riverside established the purchase card (P-card) program with the Bank of America, in order for authorized employees to augment other established purchasing methods for business related goods/services directly from vendors/suppliers.

For the audit period of FY2012/13, we selected and reviewed 181 Citywide cardholder statements - 1,434 transactions totaling \$533,846. Based upon the review and testing performed we concluded that:

- P-card Administration (within Purchasing) maintains and provides adequate documentation and training for new cardholders; and, the Bank is notified timely when a cardholder terminates employment;
- Documentation (statements and receipts) maintained by the cardholder was adequate to support credit card purchases, however, receipts were not always properly reconciled to monthly cardholder statements and approved by the cardholder;
- Cardholder statements were not always properly reviewed and approved monthly by the designated approving official (supervisor/manager);
- Transactions in WORKS were not always reviewed and signed off in the system by the cardholder and/or the approving official; and
- Purchases do not always include the appropriate California Sales/Use Tax on receipts; sales/use tax is not appropriately assigned in the Bank's P-card system, WORKS.

While the findings noted may not, individually or in the aggregate, significantly impair the P-card program, they do present risks that can be more effectively controlled. We did not find evidence of potentially fraudulent, improper, and abusive purchases made by City cardholders.

Hardcopy Statements Per the *P-card Program User's Manual*, reconciliation of receipts to monthly paper statements from the Bank is the responsibility of the cardholder; statements are to be signed and dated prior to submission of the statement with the original receipts/invoices to the approving official for timely review and approval. The approving official is also required to review, sign and date the cardholder's monthly statement. Of the 181 statements we reviewed during our audit, we noted 39% were not reconciled to receipts and/or approved by both cardholder and/or approving official. Ineffective monitoring contributes to a weak internal control environment, which can leave the City vulnerable to fraud, waste, and abuse. Review and sign-off of transactions by the cardholder AND the approving official provides assurance that only appropriate purchases have been charged to the cardholder's account.

System Transactions Per the *P-card Program User's Manual*, cardholders and approving officials are required to review and "sign-off" P-card transactions within the WORKS system as part of the monthly process. According to the *Unapproved Transactions* report in WORKS, there are currently 53

¹ Travel P-cards maintained by Departments were not included in our review.

cardholders who have a total of \$120,125² in transactions pending either sign-off and/or approval. Further review disclosed that 10 of the 53 cardholders with unapproved transactions are no longer employees of the City (terminated/retired). While there is no financial reporting impact, review and sign-off of transactions within WORKS by the cardholder and the approving official provides assurance that only appropriate purchases have been charged to the cardholder's account.

Use Tax³ California law requires sales tax to be paid for in-state purchases and items purchased out-of-state for use in California. Out-of-state or online retailers may not always charge sales tax at the time of purchase; the purchaser may owe "Use Tax". The *P-card Program User's Manual* instructs the cardholder to select the appropriate tax status in WORKS when a vendor does not charge sales tax on a taxable purchase. This step insures the City accrues and remits to the State the correct sales/use for purchases.

Our review/testing identified 3% of the P-card transactions did not include the correct sales/use tax. The majority of these transactions were with out-of-state or online retailers. While the related dollar amount owed to the State for "Use Tax" (based on our testing) is not material when compared to the overall number of transactions, the City is at risk of understating "Use Tax" due to the State in the event of a Sales/Use Tax audit.

Summary We reviewed our findings with the Finance Director, Purchasing Manager and P-card Administrator. With the forthcoming introduction of an updated version of the Bank's WORK system, there is an opportunity for Purchasing/P-card Administrator to reiterate administrative process steps to cardholders and approving officials.

OBJECTIVES, SCOPE and METHODOLOGY

Objective

The objective of our audit was to assess the internal controls and processes/procedures of the City's purchasing card (P-card) program and to ensure cardholders⁴ are in compliance with City Administrative Policy Administrative Policy 07.017.00 and regulatory agencies.

Scope and Methodology

The review was conducted during the month of October and November 2013 for records and transactions July 1, 2012 through June 30, 2013. To address the audit objectives and as part of our assessment of risk, we:

- Reviewed the City's Purchasing Card (P-card) policy number 07.017.00 and *Purchasing Card Program User's Manual*;
- Interviewed staff from Finance Department – Purchasing and Financial Systems to gain an understanding of the City's P-card processes;

² Transactions pending approval in WORKS are recorded in the proper expense account in IFAS at close of the related purchase month.

³ The City reports and pays to the State of California "Use Tax" on all P-card transactions identified with a tax status "Subject to Use Tax" in the Bank of America WORKSs system quarterly.

⁴ The statement review included Citywide cardholder transactions except those associated with the Police Department.

- Reviewed P-card Administrator documentation for each cardholder;
- Judgmentally selected and reviewed 181 cardholder statements for various billing periods within FY2012/13; and
- Downloaded and reviewed 12 months of transactions in WORKS for all City departments/divisions to assess top vendors, spending patterns and to identify potential fraud or abuse.

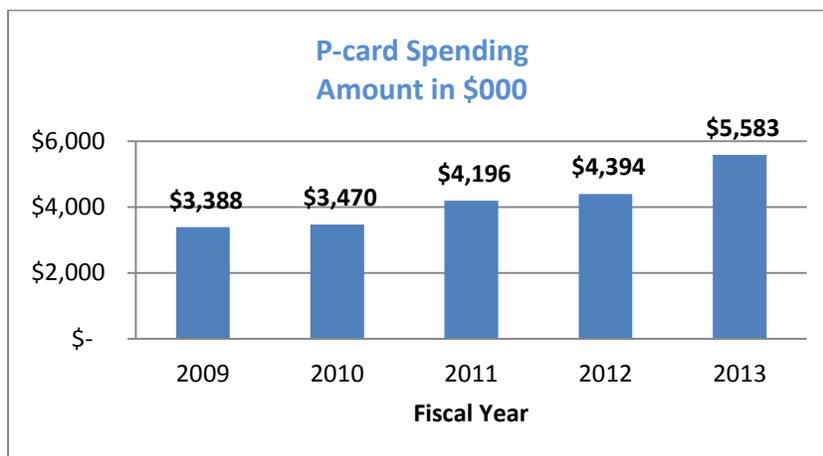
Our review was conducted in accordance with *Generally Accepted Government Auditing Standards* and according to the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors. Those standards require that the audit is planned and performed to afford a reasonable basis for judgments and conclusions regarding the department, division, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives.

The results of our testing, while not projectable to the entire population of P-card purchases in FY2012/13, provide a reasonable basis to determine whether the City has adequate controls over the administration and use of its P-cards. We relied on the information obtained from the Bank of America WORKS system; we did not test the system controls and reliability of this data.

BACKGROUND

In 2007, the City of Riverside established the Purchasing Card (P-card) program with Bank of America for selected City employees. The Purchasing Division (within the Finance Department) administers the program, which is designed to provide an expedited and cost-efficient method for procuring low-value/high-volume goods and off-site services. The P-card program is meant to supplement other methods of purchasing that are available to City organizations, such as requisitions and purchase orders.

The City’s P-card spending has gradually increased over the years, as noted below.



Source: Bank of America WORKS data

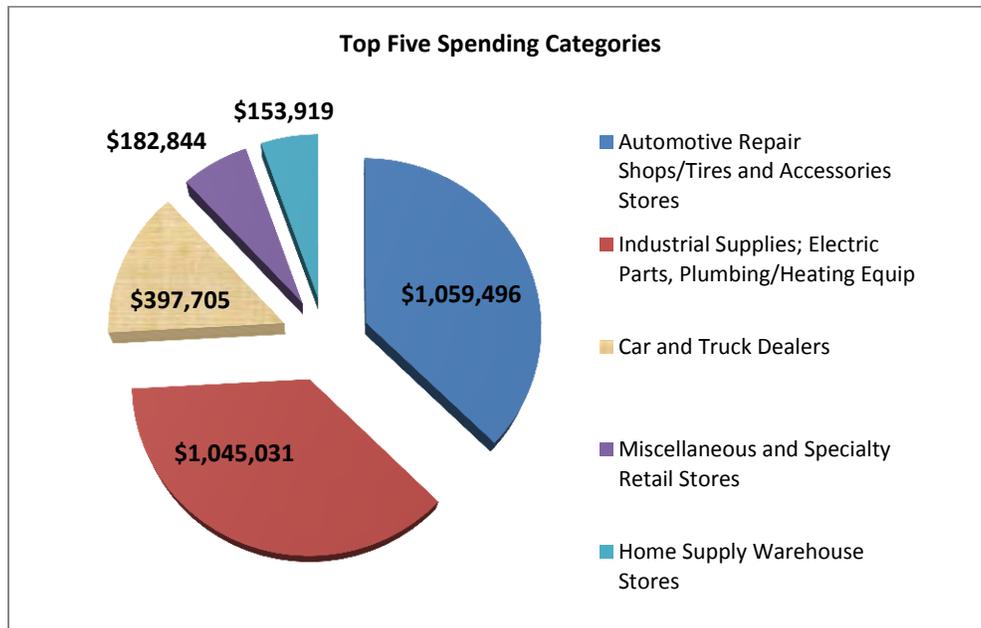
During FY2012/13, a total of 18,437 transactions were completed with 2,479 vendors/suppliers/establishments, for a total cost of \$5.6 million. Of this total number of vendors/suppliers/establishments, 52% were used only one time during the fiscal year. These one-time

purchases significantly reduce City administrative costs – setup of the vendor in the Master database, workflow processes in Accounts Payable, etc., which is one of the benefits of the P-card program.

The following chart provides an overview by Department of cardholder transactions and related spending in FY2012/13. The top five types/categories of vendors are noted in the pie chart.

Department	Cardholders	Number of Transactions	Total Spending
General Services	29	6,127	\$1,714,563
Public Utilities	88	3,611	1,313,805
Police	9	1,645	831,350
PRCSD	65	3,515	714,624
Finance	6	168	323,501
Public Works	29	1,084	265,570
Fire	22	419	120,563
Library	2	461	65,930
City Manager	3	318	63,145
Human Resources	4	283	44,035
Airport	5	299	35,835
Community Development	5	116	34,848
Information Technology	1	144	28,360
Museum	3	245	26,832
Mayor	1	2	183
Total	272	18,437	\$5,583,144

Source: Internal Audit analysis from Bank of America WORKS data



P-card Administration

The P-card Administrator (within the Purchasing Division) is responsible for the day-to-day management of the P-card program, including:

- Review and approval of the *Purchasing Card Application*;
- P-card training for the cardholder and approving official;
- Updates and distribution of the *P-card Program User’s Manual*;
- Issuance, replacement, and cancellation of all P-cards;
- Increase/decrease of cardholder’s single transaction limit/monthly credit limits in the WORKS system;
- Review and update of the Admin Policy and Restriction Table; and
- Safeguard of P-card information.

The City Administrative Manual Policy Number 07.017.00 (July 2012) and *Purchasing Card Program User’s Manual* (October 2008) provide guidance for the approval, issuance and use of P-cards. In order to obtain a P-card, an employee must complete the *Purchasing Card Application*. The Division Manager/Department Head (approving officials) reviews the application and selects the appropriate single transaction limit/monthly purchase limit. The application is forwarded to the P-card Administrator in Purchasing for review/approval and processed in the Bank of America web portal ~ WORKS⁵. Prior to issuance of a P-card, the employee must attend the required training and sign the *Purchasing Card Program Cardholder Agreement*; the approving official is also required to attend the training.

Each P-card issued has a single transaction spending limit and monthly credit limit established within the WORKS system. The City currently has 282 P-cards issued to employees; the majority has a limit of \$2,500 per transaction and monthly credit limit range from \$2,500 to \$25,000.

P-card Spending Limits

Single Transaction Limit (STL)	Monthly Credit Limit (CL)	Number of Issued Cards
\$200	\$10,000	16
\$350	\$1,000 to \$10,000	38
\$500	\$2,000 to \$10,000	35
\$1,000	\$5,000 to \$10,000	6
\$1,500	\$10,000	3
\$2,500	\$2,500 to \$25,000	177
\$15,000 or greater	\$30,000 or greater	7 ⁽¹⁾
	Total	282

Source: Internal Audit analysis from Bank of America WORKS data as of October 10, 2013.

(1): Two cards issued to a City Department (Sr. Office Specialist/Admin Analyst) have \$15,000 STL/\$30,000 CL and five cards issued to the Finance-Purchasing Division (Buyers) have \$50,000 STL/\$100,000 CL.

The P-card is issued in the employee’s name; however, the City is responsible for all payments to the service provider (Bank of America). The employee named on the card is the only authorized user. Any

⁵ A web-based system utilized by cardholders to perform required tasks, track account activity, allocate transactions to the proper City account code (GL, JL, Object, WORKS Order), download monthly statements, and produces ad-hoc reports (as needed).

personal purchases or delegating the use of the P-card to another City employee or individual is strictly prohibited. When not in use the P-card must be safeguarded at all times.

The cardholder is responsible for ensuring that all purchases are made in compliance with the P-card policy. A list of items the cardholder agrees not to purchase using the P-card is noted in the *Restriction Table* (see Appendix). Approving officials assume full responsibility to review P-card account activities monthly to ensure the cardholder complies with the Policy.

P-card Process

The monthly P-card billing statement cycle ends on the 27th of every month; cardholders are notified via email by the WORKS system that transactions are ready for review and sign-off. Bank of America also sends each cardholder a monthly statement (to the cardholder's work address), listing all transactions that have been charged on the card during the billing period. Cardholders are responsible for the following:

- Review the monthly P-card statement for accuracy and reconcile to the original receipts/invoices⁶;
- Sign and date the monthly P-card statement;
- Forward the P-card statement with the original receipts/invoices to the approving official for review and approval;
- Within WORKS, allocate purchases to the correct City account code (GL, JL, Object, Work order) if the pre-established default account is not correct;
- Within WORKS, select the appropriate tax status for the purchase (Sales Tax included, Subject to Use Tax, or Non-taxable); and
- Within WORKS, sign-off/approve all transactions.

The approving official receives an electronic notification from the WORKS system that the cardholder's transactions have been electronically signed off and ready for review. The approving official is responsible for the following:

- Review the P-card statement and original receipts/invoices to ensure purchases are appropriate and in compliance with policies/procedures;
- Sign and date the monthly P-Card statement;
- Ensure all P-card statements and receipts/invoices (or supporting documentation) are retained by the department for a period of five years; and
- Electronically approve cardholder transactions in WORKS.

Cardholders and approving officials have 10 business days after the statement closing date to complete the review and approval processes manually and within WORKS. By the 15th day of the following month, Accounting downloads the data (p-card transactions) from WORKS and uploads the data into the City's financial system, IFAS.

⁶ A Lost/Itemized Receipt Form must be completed and included with the monthly backup if a receipt/invoice does not provide sufficient detail or is lost.

Payment Terms/Rebate

The City’s payment terms with Bank of America are 30/3 - 30 day statement cycle period and payment made by the third day after the end of the statement period (30th day of each month or the following business day). Between the 28th and 30th of each month, Accounting runs a statement report in WORKS for the total monthly purchases, prepares a *Preauthorized ACH/Wire Debit Form*, and submits to Treasury for processing/payment via wire transfer to Bank of America. Bank of America also provides a monthly hard copy billing statement to Finance - Accounting.

The Bank of America P-card program includes a quarterly rebate based on dollars spent. The rebate is recorded by Treasury in the General Fund as Miscellaneous Receipts. The following table reflects the rebates received annually since FY2009. The increase in the rebate amount/percentage in FY2013 is due to membership in the California Public Sector Group (CAPSG) program⁷.

P-card Rebates from Bank of America

FY	Rebate Amount	P-card Spending	Percentage of Rebate
2009	\$ 41,624	\$ 3,387,662	1.2%
2010	43,555	3,469,643	1.3%
2011	57,773	4,196,266	1.4%
2012	62,529	4,394,170	1.4%
2013	102,033	5,583,144	1.8%

Source: Bank of America and Accounting records

FINDINGS and OBSERVATIONS

P-card Administration

The P-card Administrator retains the signed *Purchasing Card Application* and *Purchasing Card Program Cardholder Agreement* for each approved cardholder. During the course of our review we noted the following:

- Five of 272 employees did not have a signed cardholder agreement on file; and
- One separated employee was found to have an active P-card. (Card was deactivated in *WORKS* during the course of the audit; it was noted that the responsible department shredded the P-card at the time the employee initially separated.)

Periodically (at least once per year), the P-card Administrator should review the list of active cardholders in *WORKS* and compare to a list of terminated/inactive employees in *IFAS/HR* to minimize the risk of P-card fraud/abuse. ***Purchasing has agreed to perform this procedure at least annually and take action based on results.***

⁷ CAPSG is an association of the Bank of America’s Purchase Card, Travel Card and ePayable’s public sector clients. The purpose of the CAPSG is to help state and local government agencies, public schools and municipalities to grow their card programs and earn rebates on their annual transaction volume. To help all members maximize their earning potential, the CAPSG program aggregates all members annual spend volume and pay’s each member based on their individual contribution.

P-cards With Minimal Use

Our review identified 21 P-cards with very minimal use or no activity. The Purchasing Division and Department management should reevaluate low usage P-cards at least annually to ensure there is a continued business need. The cardholder should confirm annually in writing with the P-card Administrator that the assigned card is safeguarded when not in use. **Purchasing has agreed to review individual cardholder usage at least annually and take action based on the results.**

Splitting of Transactions

During our review we noted some transactions appeared to be *split* to avoid the cardholder’s established spending limit. Items purchased appeared appropriate; however the total purchase amount was greater than the cardholder’s single transaction limit. Per the *P-card Program User’s Manual*, any splitting of transactions to avoid authorized limits is strictly prohibited. With approval from the Division Manager/Department Head (approving officials), the P-card Administrator can coordinate with Bank of America to have the spending limits temporarily increased for a few business days to allow for the purchase to be completed. **In order to discourage split transactions with the P-card, Purchasing has agreed to advise all cardholders of the “temporary” spending process that can be initiated by the P-card Administrator.**

Cardholder Statement Review

Per the *P-card Program User’s Manual*, the cardholder must reconcile receipts to statements monthly, sign and date the P-card statement, and submit the statement with the original receipts/invoices to the approving official for timely review. Of the 181 statements reviewed, we noted 39% were not reconciled and/or signed by both cardholder and approving official.

P-card statement:	Number of Statements	Percentage
Not signed at all	33	18%
Signed by CH only	15	8%
Signed by AO only	23	13%
Signed by CH and AO	110	61%

Source: WORKS CH = Cardholder, AO = Approving Official

Ineffective monitoring contributes to a weak internal control environment, which can leave the City vulnerable to fraud, waste, and abuse. **Purchasing has agreed to communicate to all cardholders the importance of reconciliation and review of monthly transactions.**

Unapproved Transactions in WORKS

P-card transactions not approved/signed off in the WORKS system by the cardholder and/or approving official continue to remain outstanding as an unapproved/pending transaction. Currently, as an internal control any unapproved transaction in WORKS reduces the cardholder’s monthly credit limit. Per the *P-card Program User’s Manual*, the cardholder and approving official are required to review and sign-off on P-card transactions in WORKS as part of their monthly process.

According to the WORKS *Unapproved Transactions* report as of January 2014, there are 53 cardholders with outstanding/unapproved transactions totaling \$120,125.⁸. During our analysis, we noted 10 of the cardholders are no longer employed by the City. The WORKS system notifies the cardholder, approving official and department head twice monthly of outstanding/pending transactions awaiting approval. However, transactions continue month after month to remain “unapproved”. ***Purchasing has agreed to at least annually review the “unapproved transactions” in WORKS and communicate to the cardholder, approving official and group approver actions required to resolve these types of transactions.***

Applying Sales/Use Tax

California law requires sales tax to be paid for in-state purchases and items purchased out-of-state for use in California. Out-of-state or online retailers may not always charge sales tax at the time of purchase; the purchaser may owe “Use Tax”. The *P-card Program User’s Manual* instructs the cardholder to select the appropriate tax status in WORKS when a vendor has not charged sales tax on a taxable purchase.

Currently, in the WORKS system, the tax status for each P-card transaction is automatically defaulted to “Sales Tax Included.” The cardholder must change the tax status in the WORKS system from “Sales Tax Included” to “Subject to Use Tax”. Selection of the appropriate tax status by the cardholder at the time of review and sign-off for P-card transactions in WORKS is critical to ensure accurate, complete reporting and payment of “Use Tax” to the State of California.

Our review/testing identified 3% of the P-card transactions did not include the correct sales/use tax. The majority of these transactions were with out-of-state or online retailers. While the related dollar amount owed to the State for “Use Tax” (based on our testing) is not material when compared to the overall number of transactions, the City is at risk of understating “Use Tax” due to the State in the event of a Sales/Use Tax audit. ***Purchasing has agreed to communicate to all cardholders the process outlined in the P-card Program User’s Manual for recording the appropriate sales tax status on all purchases.***

CONCLUSION

The purchase card has proven to be a valuable tool for City employees to purchase commercial goods and services. However, empowering cardholders with purchasing authority requires implementing effective controls and performing adequate management oversight to ensure potentially fraudulent, improper, and abusive or questionable usage of purchase cards does not go undetected.

We thank the Purchasing Division and City personnel (cardholders and approving officials) that were directly involved with this review for their cooperation.

⁸ Transactions pending approval in WORKS are recorded in the proper department/division expense account at close of the related purchase month.

Appendix

City of Riverside Purchasing Card Program

Restriction Table

<p>Equipment</p> <ul style="list-style-type: none"> • Items valued at over \$2,500, with a useful life of +1 year & tag-able for inventory • Computers, Contractual Software • Purchases involving trade of City property • Telephones, IP phones, • Data networking equipment, switches, routers & wireless access points • Any device that plugs into a data network • Rental Equipment 	<p>Services</p> <ul style="list-style-type: none"> • Any On-Site Services • On-Site Repair and technical services • Construction services • Professional services • Moving services (employee relocation) • Rental services • Telecommunications services 	<p>Items restricted due to standards/reporting issues</p> <ul style="list-style-type: none"> • Alcoholic beverages • Controlled substances • Firearms, weapons & ammunition • Items from on-line auctions • Animals • Leases, Maintenance Agreements, Extended Warranties • Narcotics and Other Controlled Substances • Radioactive materials & hazardous materials • Postage and All Other Parcel Delivery Services
<p>Travel & Entertainment</p> <ul style="list-style-type: none"> • Hotel rooms (including reservation of hotel rooms), Cash Advances • Meals, Incidentals • Car rentals, Airline Tickets • Parking fees • Gasoline & fuel • Movie & Entertainment Tickets 	<p>Personal items & gifts</p> <ul style="list-style-type: none"> • Items for personal use • Gifts benefiting an individual employee • Donations • Cash Advances • Gift Cards 	<p>Additional restrictions for cardholders <u>except</u> Human Resources</p> <ul style="list-style-type: none"> • Recruitment Advertising • Hospitality Expenses • Meals and Food for Consumption • Interview/Candidate Entertainment Expenses • Hotel Rooms for invited Guests of the City

Revised August 21, 2008