Finance Department
Purchasing Cards

October 10, 2024

Report Highlights

Governance

Procedures were improved to ensure monthly statements for purchasing card transactions were reviewed and reconciled before payment.

Transactions

All purchasing card transactions we tested complied with City policy.

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Project Number

1240057

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Executive Summary

Purpose

Our purpose was to review Finance's oversight and monitoring of the City's credit cards (purchasing cards) to ensure compliance with policies.

Background

In 2015, the Finance Department (Finance) started the purchasing card program with a small number of credit cards used by the City Controller for purchases that could not be made through a warrant. In 2023, the program was expanded to include issuing cards to executives. The City Controller is responsible for overseeing and monitoring the purchasing card program. With the rise of online transactions and the growing number of merchants that only accept credit cards, there has been a steady increase in the use and spending associated with purchasing cards since the program's inception.

In calendar year (CY) 2022, there was a large increase in purchasing card spending due to a $985,000 purchase of COVID-19 test kits and an increase in travel-related expenses once COVID-19 restrictions were lifted. Purchasing card expenditures for the calendar year 2023 were $1.96M.

Purchasing Card Usage CY 2019 – CY 2023
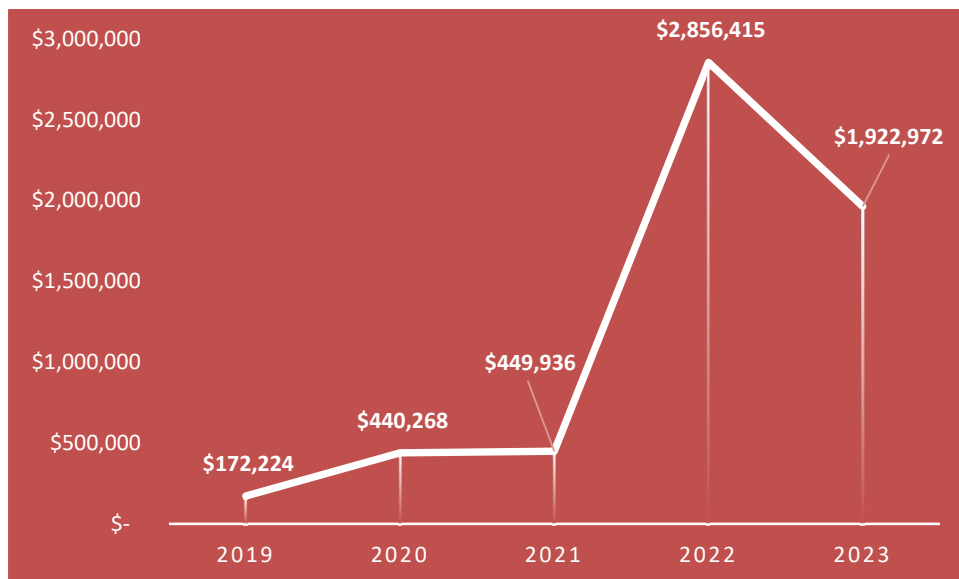
Purchasing card transactions decreased 31% in 2023.

Results in Brief

Procedures were in place to update policies and procedures and provide training for the purchasing card program to ensure staff understood their roles and responsibilities.

Finance has documented detailed policies and procedures for the purchasing card program, outlining the roles and responsibilities related to the program and card management. These procedures were updated in 2023 to include additional guidelines when the program was expanded to include issuing cards to executives. Procedures were also updated to address control weaknesses in the reconciliation process.

Purchasing card transactions we tested complied with City standards.

The transactions we reviewed had sufficient supporting documentation on file, followed program guidelines, and were approved by the department and Finance. The credit card activity reconciled to the Chase statements and payments in SAP.

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1 – Governance

Background

City *Administrative Regulation 3.10 (AR) – General Procurement Procedures* provides limited guidance on purchasing card use and management. The AR states that purchasing cards are not to be obtained and used for any purchases except with written authorization from the Chief Financial Officer.

In August 2020, Finance formalized the purchasing card procedures into written guidance. The Department's policies identify the intended use of the cards, who is responsible for the cards, the requirement of cardholder agreements, and the immediate submission of supporting documentation for all purchases. The Finance Department governs the program and has the responsibility of coordinating the issuance of cards, obtaining purchase receipts, reconciling transactions, and issuing payments to the City's purchasing card vendor.

In July 2022, Finance updated purchasing card procedures to include the processing of travel expenditures, and in March 2023, the program was expanded to include issuing cards to executives. Since its implementation in 2015, the purchasing card program has evolved to include issuing more cards to individual departments and issuing cards to individual employees, including executives or other authorized employees.

Purchasing Cards Issued
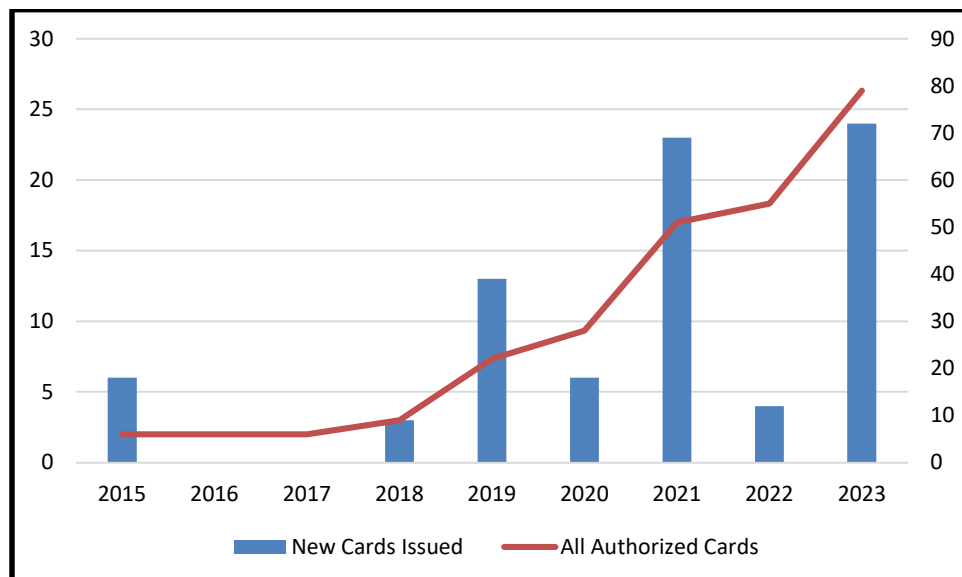
Since the program's inception, 79 cards have been issued.

To ensure that Finance had appropriate controls in place for the oversight and monitoring of purchasing cards, we interviewed Finance staff, reviewed policies and procedures, and observed purchasing card processes.

Results

Finance maintained documented policies and procedures governing the purchasing card program.

Finance had procedures in place to document and update detailed guidelines for the purchasing card program. The guidelines outline the roles and responsibilities related to the program and card management. As the program evolved, these procedures were updated in 2022 and again in 2023, when the program was expanded to include issuing cards to executives. The additional guidelines identified the allowable use of payment cards by executives. Allowable use includes professional subscriptions or memberships, rental cars during travel, and food purchases as outlined in the Food Memo guidelines. Some prohibited uses include personal purchases, fixed or inventory assets, alcohol or tobacco, or meals when traveling. Maintaining these guidelines reduces the risk of card misuse.

Finance improved procedures to ensure monthly statements for purchasing card transactions were reviewed and reconciled before payment.

Finance established procedures to ensure monthly statements from the City's purchasing card vendor are reviewed and reconciled. Previous to 2023, the processes involved multiple Finance divisions emailing each other. In 2023, staff identified that a duplicate payment was paid to the vendor. This occurred when staff filling in for an employee were copied on an email and initiated payment based on that email. However, that email was not the final authorization email. When the final authorization email was issued the following week, a second payment was issued by a different employee.

Finance identified the duplicate payment the following month during the reconciliation process. When staff reviewed the monthly statement, they noted the additional credit applied by the vendor. Their analysis identified the control weakness in the process. Finance provided all staff with refresher training on handling these payments. Additionally, procedures were updated to ensure all divisions associated with the review and reconciliation process are not copied on the emails until necessary for their specific role.

We reviewed the reconciliation emails from July and August 2024 and confirmed that the email distribution was consistent with the new process. Additionally, we confirmed no other duplicate payments were made during 2023.
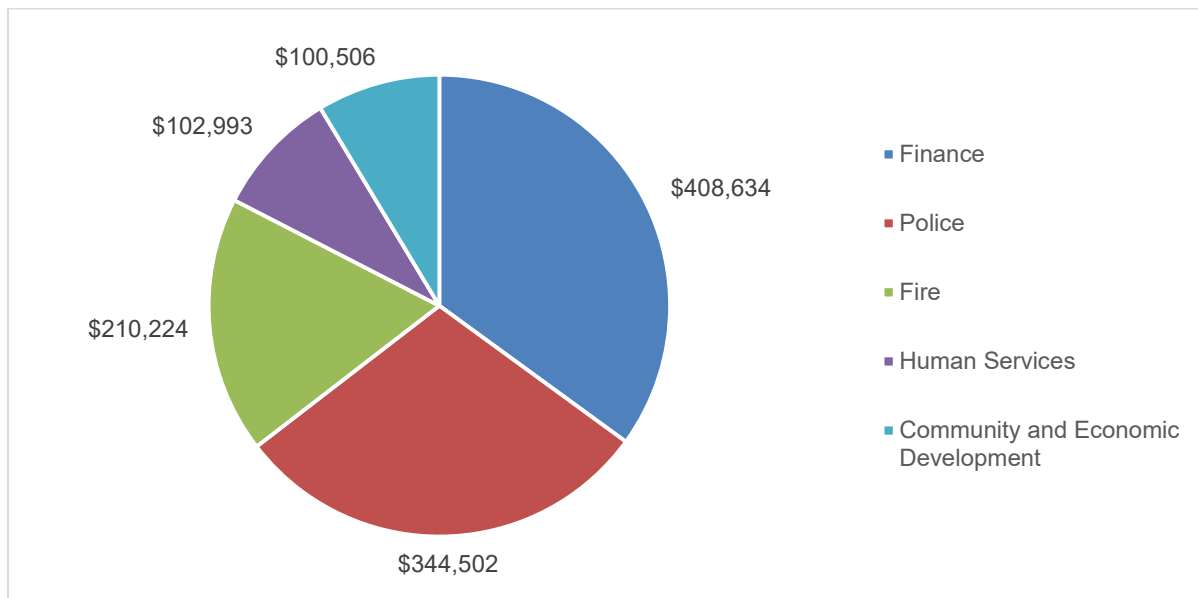
Recommendations

None

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2 – Transactions and Reconciliation

Background

From January 2023 through December 2023, there were 3,722 purchasing card transactions totaling $1,964,219. Transaction volume decreased from 2022, primarily due to COVID-19-related pandemic expenditures.

Generally, when employees need to arrange travel, they will coordinate the payment for the related expenses through their department if a purchasing card is issued to the department. Departments that are not issued a card will have their employees work with Finance to coordinate the purchase using a centralized purchasing card managed by Finance.

Top Five Departments Purchasing Card Transactions

- Finance
- Police
- Fire
- Human Services
- Community and Economic Development

$100,506
$102,993
$210,224
$408,634
$344,502

35% of all transactions were from cards assigned to Finance and used for purchases for other departments.
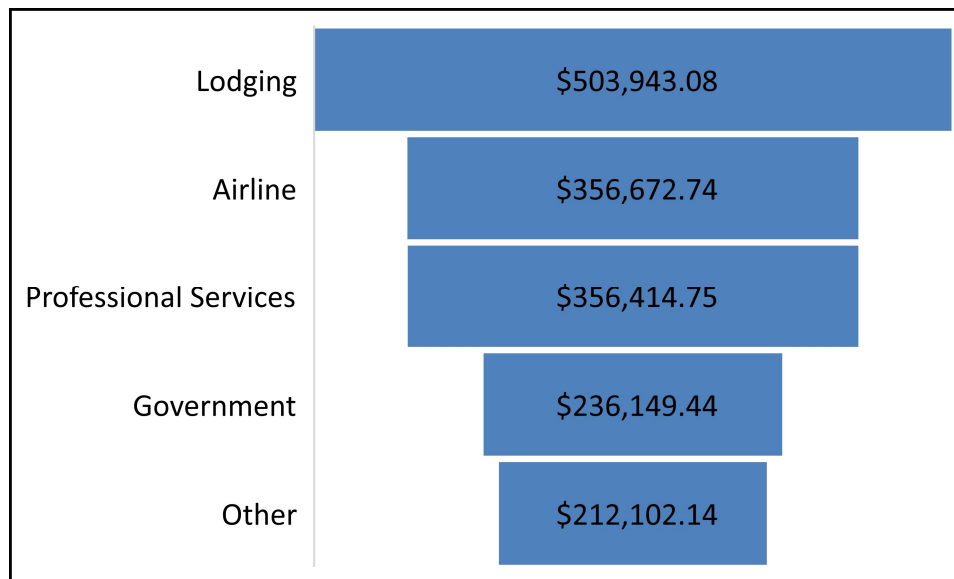
We interviewed staff, reviewed policies and procedures, and selected transactions for testing to ensure compliance with City policies. Additionally, we reconciled purchasing card transactions to the monthly bank statements and payments recorded in SAP.

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Results

Purchasing card transactions we tested complied with City standards and guidelines, proper approval, and supporting documentation.

We obtained reports from Finance that identified 3,759 transactions for $1,922,972.18 in CY 2023 from 66 different purchasing cards. Nearly 25% of the charges were spent on lodging during travel.

Top Five Merchant Transaction Types

Merchant Type	Amount
Lodging	$503,943.08
Airline	$356,672.74
Professional Services	$356,414.75
Government	$236,149.44
Other	$212,102.14

Lodging was the top expense in CY 2023.

From all CY 2023 transactions, we selected a sample of 24 transactions for $69,453 and found that all transactions had sufficient supporting documentation on file and that the purchase was within program guidelines. We also noted that the department associated with the transaction and Finance approved each transaction.

Monthly purchasing card payments reconciled to transactions in SAP.

Finance staff reported that after each division reviews and approves the transactions through the PaymentNet application from J.P. Morgan Chase (Chase), they enter the appropriate cost centers and general ledger accounts for all transactions in PaymentNet. The data payment file is then reconciled by Finance in SAP, and the payment is then sent to Chase for processing.

We obtained a download of all purchasing card transactions for CY 2023. We reconciled the downloaded transactions to the monthly Chase account statements and vendor expenditure report in SAP and found all transactions reconciled between the three data sources. No exceptions were noted.

Recommendations

None

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Scope, Methods, and Standards

Scope

We reviewed purchasing card transactions from January 1, 2023, through December 31, 2023.

The internal control components and underlying principles that are significant to the audit objectives are:

- Monitoring Activities
    - Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
- Control Environment
    - Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.

Methods

We used the following methods to complete this audit:

- Interviewed Finance staff regarding purchasing card processes.
- Reviewed purchasing card policies and procedures.
- Obtained purchasing card activity for calendar year 2023.
- Reconciled purchasing card transactions to card statements and SAP payments.
- Tested purchasing card transactions for appropriate approvals, supporting documentation, and authorizations.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

We assessed the reliability of Chase's monthly statements, Chase's Payment System, and SAP payments by (1) performing electronic testing, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing Department staff knowledgeable about the data. We determined that these data were sufficiently reliable for the purposes of this audit.

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Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.

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