

# **Procurement Card Follow-Up Audit**

**April 2019**

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April 22, 2019

Honorable Mayor and Members of the City Council:

The City Auditor's Office has completed the Procurement Card Follow-Up Audit. The audit objective was to determine the implementation status of the audit recommendations presented in the original audit report.

Management concurred with all twelve recommendations in the original report. Audit follow-up procedures indicate management fully implemented nine of the prior audit recommendations and made progress in implementing the remaining three recommendations.

We would like to thank staff from the Finance Department, Handitran, and the Action Center for their assistance and cooperation in completing this audit.

*Lori Brooks Jaquess*

Lori Brooks Jaquess, CPA, CIA, CGAP, CRMA  
City Auditor

c: Trey Yelverton, City Manager  
Jim Parajon, Deputy City Manager  
Gilbert Perales, Deputy City Manager  
Jennifer Wichmann, Assistant City Manager  
Mike Finley, Chief Financial Officer  
Will Velasco, Purchasing Manager  
Jay Warren, Director, Communication & Legislative Affairs  
Gil Mesa, Action Center Manager  
Bob Johnson, Transit Manager

# Procurement Card Follow-Up Audit

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## ***Background***

As part of the 2019 Annual Audit Plan, the City Auditor's Office conducted a follow-up audit of the Procurement Card Audit completed in June 2018. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit objective was to determine the implementation status of the prior audit recommendations.

## ***Audit Scope and Methodology***

The scope of the project was limited to following up on management's implementation of the previous audit recommendations. Our methodology included obtaining updated status reports from management regarding the implementation of the audit recommendations and reviewing relevant supporting documentation.

The matrix on the following pages illustrates the results of the follow up procedures.

**Status of Prior Audit Recommendations**

PRIOR AUDIT RECOMMENDATION	CONCUR/DO NOT CONCUR	PRIOR MANAGEMENT RESPONSE	RESPONSIBLE PARTY	DUE DATE	CURRENT MANAGEMENT RESPONSE/IMPLEMENTATION STATUS	AUDIT CONCLUSION
<p>1. <i>City Auditor's Office recommends the Purchasing Division consider including additional guidance in the P-Card Policy related to the purchase of food, gifts, memberships, etc.</i></p>	<p>Concur</p>	<p>The Procurement Card Policy will be updated to include guidance on food and gift purchases. The update will also include additional language regarding travel reservations and 3rd party transactions. Once these updates are complete and the new policy in place, the Purchasing Division will conduct mandatory refresher training for all the p-card holders and approvers. The Finance Department will also continue to routinely monitor spend by vendor to identify potential contracting opportunities for potential cost savings.</p>	<p>Will Velasco, CPPB Purchasing Manager</p>	<p>12-31-18</p>	<p>Policy has been updated to reflect language on food purchases to ensure they are being made for City functions only and at the best value. Finance staff will continue to monitor City memberships such as Amazon and Sam's Club in an effort to consolidate purchases.</p>	<p><b>Implemented</b></p>

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<p>2. <i>The City Auditor's Office recommends the Purchasing Division require each P-Card cardholder attend and/or complete refresher training periodically. This training could be either face to face or computer-based training.</i></p>	<p>Concur</p>	<p>Finance currently provides quarterly training classes, which we recommended to all our end users. That training consists of a Purchasing 101 overview that includes a p-card refresher. Going forward, we will mandate that all p-card users attend a separate refresher training every two years where they will be updated on changes to the policy and performance of program in order to retain their p-card privileges.</p> <p>This will be done at the convenience of department user groups and is anticipated to be completed no later than December 31, 2018.</p>	<p>Will Velasco, CPPB Purchasing Manager</p>	<p>12-31-18</p>	<p>All active P-Card holders have attended mandatory training that covers policy, best practices and reconciliation.</p> <p>Finance continues to provide quarterly procurement training where p- card policy is covered.</p>	<p><b>Implemented</b></p>

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<p>3. <i>The City Auditor's Office recommends the Purchasing Division develop a training program for P-Card approvers.</i></p>	<p>Concur</p>	<p>The Finance Department will implement a required training program for approvers before they are allowed access into JP Morgan Chase. New approver training will occur in conjunction with the p-card user training that takes place before the card is issued. In addition, Finance will also require all current approvers attend a refresher training program to ensure all approvers are proficient in the roles and responsibilities of the position.</p> <p>The refresher training will include handouts and explanations of what constitutes a good and auditable p-card reconciliation packet, in accordance with the policy. It will also highlight restricted and sequential purchases. This training is expected to be completed for all approvers no later than December 31, 2018.</p>	<p>Will Velasco, CPPB Purchasing Manager</p>	<p>12-31-18</p>	<p>All active approvers in the JP Morgan Chase system have attended mandatory training that covers policy, the approval process and reconciliation. Finance will provide training for approvers once a month before they are allowed access to the system.</p>	<p><b>Implemented</b></p>

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<p>4. <i>The City Auditor's Office recommends the Purchasing Division create an Approver Agreement Form that explains the roles and responsibilities of a P-Card Approver. The Approver should be required to sign the agreement, indicating that they understand their roles and responsibilities and agreeing to abide by the program requirements.</i></p>	Concur	<p>The Finance Department will develop an Approver Agreement Form similar to the Card Holder Agreement Form that lays out the responsibilities of the approver within the City of Arlington P-Card Program. This form will be accepted at the conclusion of the initial p-card training that's referenced in Finding 3. Finance will also gather signed forms once the approver refresher training is completed.</p>	Will Velasco, CPPB Purchasing Manager	12-31-18	<p>Finance has created an Approver Agreement Form that must be completed and signed by the approver before access is granted to the system. All current approvers attended the mandatory approver training and signed the approver agreement form acknowledging the terms of the program.</p>	<b>Implemented</b>
<p>5. <i>The City Auditor's Office recommends the Finance Department implement a monitoring program, whereby one such aspect of this program could be periodic random audits. Additionally, the P-Card policy should be amended to reflect the Finance Department's responsibility to monitor.</i></p>	Concur	<p>Currently, the Finance Department reviews Merchant Detail reports quarterly to identify vendor and p-card group spend. This ensures program policies are not being violated and contracting opportunities are being addressed by recognizing repeated or aggregate spend. Going forward, the Finance Department will consider alternate methods, such as conducting spot audits, as work load allows.</p>	Will Velasco, CPPB Purchasing Manager	12-31-18	<p>Policy has been updated to reflect periodic audits by Finance staff. These audits will be conducted based off the merchant detail report reviewed quarterly by Finance.</p> <p><i>Auditor's Comment: The Procurement Card Policy has been updated. However, per Will Velasco, CPPB Purchasing Manager, no audits have been completed.</i></p>	<b>In Progress</b>



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6. <i>The City Auditor's Office recommends the Purchasing Division verify that the rebate amount is in accordance with the terms of the agreement.</i>	Concur	The Finance Department will review the terms of the contract with JP Morgan Chase and develop an internal process to ensure the rebate amount is in accordance with the contract. This will include coordinating with the Treasury Division to ensure the amount issued is based off the pre-established percentage of the City's expenditures.	Will Velasco, CPPB Purchasing Manager	10-31-18	The Purchasing Division works in coordination with the Treasury Division to ensure the rebate amount is accurate and meeting the terms of the agreement. This includes reviewing total organizational spend in relation to the overall consortium spend.	<b>Implemented</b>
7. <i>The City Auditor's Office recommends the Purchasing Division evaluate the feasibility of using the P-Card on large ticket items.</i>	Concur	The Finance Department will review opportunities within the organization where we can take advantage of this clause in the contract. Several of our Finance controlled contracts such as electricity and gas have already been identified as potential areas where we can evaluate this process and test its value. The City must be cautious with implementing this type of rebate citywide on all issued p-cards to ensure State purchasing laws are not violated.	Will Velasco, CPPB Purchasing Manager	12-31-18	Finance has reviewed this recommendation and determined that it is not in the City's best interest to implement. Large ticket items such as electricity, gas and disposal all require a 3% transaction fee in order to pay with credit card. This would be an additional \$30K a month per invoice. Going forward, Finance will continue to explore other ways the City can take advantage of this clause in the agreement.	<b>Implemented</b>

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<p>8. <i>The City Auditor's Office recommends the Transit Manager at Handitran require the Cardholder to prepare a reconciliation package as required by the P-Card Policy. In addition, the Manager should inspect the documentation packet to ensure that it has all the proper receipts at the time of approving the transactions in the JP Morgan Chase online system. The reconciliation package should be retained for the current fiscal year plus three additional fiscal years as required by the retention policy.</i></p>	Concur	The transit manager will review the prepared paper packet as requested against the electronic approval process. Packets will be maintained as required.	Bob Johnson, Transit Manager	04-26-18	Each month, I review each card holder's purchases online based on the paper copies of receipts of the purchases they have made to ensure that they match and are appropriate. These paper packets receive my initials and okay along with the date of my review. These are maintained in our office.	<b>Implemented</b>
<p>9. <i>The City Auditor's Office recommends the Action Center Manager require the Cardholder to prepare a reconciliation package as required by the P-Card Policy. In addition, the Manager should inspect the documentation packet to ensure that it has all the proper receipts at the time of approving the transactions in the JP Morgan Chase online system. The reconciliation package should be retained for the current fiscal year plus three additional fiscal years as required by the retention policy.</i></p>	Concur	Immediately after this was brought to the P-Card holder's attention, we implemented the auditor's recommendation at that time.	Action Center Manager/Action Center Supervisor	Implementation of the revised process completed January 2018.	There are no modifications to my original response as noted.	<b>Implemented</b>

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<p>10. <i>The City Auditor's Office recommends the Action Center establish an inventory tracking system for the gift cards and require the employee to sign for gift cards received.</i></p>	Concur	<p>We are in agreement this should be implemented. We have created an inventory document that both the Action Center Manager and P-card holder have to each sign off on.</p>	Action Center Manager/Action Center Supervisor	Implementation of the revised process completed on April 26, 2018.	<p>There are no modifications to my original response as noted.</p> <p><i>Auditor's Comment: Audit Met with the Action Center Manager on 3/22/19 to review the recommendations. At that time there was no inventory tracking system for the gift cards. Since that meeting, the Action Center Manager has provided a new inventory tracking system.</i></p>	<b>In Progress</b>
<p>11. <i>The City Auditor's Office recommends the Action Center notifies the Payroll Division to properly record the gift cards as income for the employees who receive them during the pay period the gift cards are distributed.</i></p>	Concur	<p>The Action Center Manager did reach out to the HR Manger responsible for Work Force Investment to help with engagement ideas for Action Center staff. During follow up conversations I did make him aware of our gift card incentive program.</p> <p>In initial discussions with the Payroll Division it was not communicated to us we should inform them when a gift card was presented to an agent with in that same pay period. Going forward, we will.</p>	Action Center Manager	Implementation of the revised process completed December 2017.	<p>There are no modifications to my original response as noted.</p> <p><i>Auditor's Comment: The Action Center awarded five gift cards to employees between June 2018 and March 2019. The Action Center notified the Payroll Division of one of the awarded gift cards in a timely manner. We encourage the Action Center to develop a consistent process to timely notify the Payroll Division of the award of gift cards to employees.</i></p>	<b>In Progress</b>

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<p><i>12. The City Auditor's Office recommends the Purchasing Division amend the P-Card Policy to prohibit the purchase of gift cards with P-Cards.</i></p>	<p>Concur</p>	<p>The Finance Department will review the Procurement Card Policy in its entirety to include all recommended changes from this audit. This will include prohibiting the purchase of gift cards. Once all updates are in place, Finance will conduct a mandatory refresher training for all users and approvers in the program.</p>	<p>Will Velasco, CPPB Purchasing Manager</p>	<p>09-30-18</p>	<p>Policy has been updated prohibiting the use of gift cards with the p-card and the recent refresher training addressed this change.</p>	<p><b>Implemented</b></p>