

Internal Audit Report 18-03
Purchasing Card
September 2019



City of Sioux Falls
Internal Audit Department
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Purchasing Card INTERNAL AUDIT REPORT 18-03

INTRODUCTION

The Purchasing Card Audit was included in the 2019 Annual Audit Plan as a carryforward audit from 2018. The purpose of the audit was to review the purchasing card process and current procedures to ensure internal controls are in place and functioning and that the program is operating in accordance with leading business practices. The audit focuses on purchasing card transactions, purchasing card transaction limits, and purchasing card program controls. This audit did not include a review of travel card expenditures as this particular area will be addressed in a separate audit.

BACKGROUND

The City's purchasing card program was implemented for small-dollar purchases as a cost-effective, simplified, and efficient alternative to the City's existing purchase requisition and purchase order processes. The purchasing card program offers cost savings to the City and time savings to employees by reducing the amount of paperwork and administrative costs associated with traditional purchase requisitions and purchase orders.¹ Additional benefits to the City include the ability to set and control limits on purchasing cards, the ability to control purchases to specific merchant categories and vendors, and rebates from the bank. Since 2014, the City has received rebate checks from the bank, which are deposited into the General Fund each year. The table below shows the rebate amounts each year since 2014.

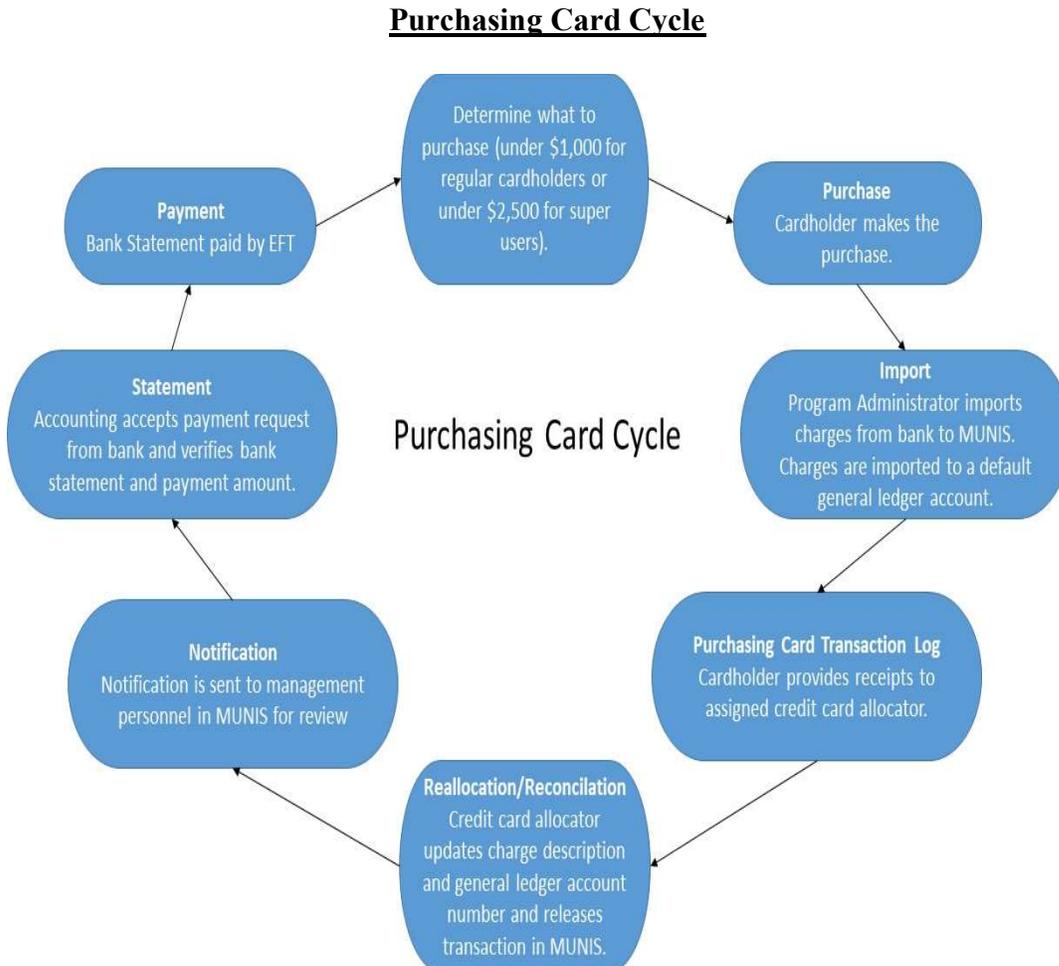
Fiscal Year	Rebate Amount
2014	\$9,730.07
2015	\$70,137.88
2016	\$71,409.25
2017	\$79,955.68
2018	\$129,256.95
TOTAL:	\$360,489.83

The purchasing card is intended for employees who are involved in the ordering of goods and services for the City. Supervisors are involved in determining those employees to whom the purchasing card should be made available. Prior to a purchasing card being issued, the employee must read, initial, and sign the City of Sioux Falls Purchasing Card agreement, which is part of the Purchasing Card Program Guide they are required to read prior to card issuance. In addition to the employee's signature, supervisor signature and director signature on the agreement are also required. The agreement is submitted to the Program Administrator, who then verifies the employee in the payroll system and requests the purchasing card from the City's credit provider, currently JP Morgan Chase.² Purchasing cards are sent to the Program Administrator, who then

¹ Information obtained from Purchasing Card Program Guide, updated June 2018.

² From July 2018 through March 2019, the credit provider was US Bank.

distributes the card to the cardholder’s supervisor. The purchasing card process is outlined in the image below.



From July 1, 2017 through June 30, 2018, the City spent approximately \$5,661,822 with purchasing cards through approximately 12,600 transactions. The table below shows purchasing card spending broken down by Major Organizational Unit (MOU).

Purchasing Cards by Department³

Department	# of Cards	# of Transactions	Transaction Total
Attorney	2	48	\$6,365.85
City Council	4	72	\$7,479.86
Finance	10	433	\$930,276.17
Fire Rescue	37	855	\$256,052.68
Health	11	712	\$283,070.79
Human Resources	19	1123	\$233,724.48

³ Information for number of cards is as of February 15th, 2019. Transaction information is for the audit period of July 1, 2017 through June 30, 2018.

Library	11	648	\$246,659.79
Mayor	1	22	\$1,757.29
Parks & Recreation	66	3321	\$652,756.40
Planning & Development Svcs.	5	170	\$22,079.34
Police	24	1043	\$272,700.33
Public Works	60	3656	\$2,596,715.56
Technology	14	506	\$152,183.89
TOTALS:	264	12,609	\$5,661,822.43

OBJECTIVES

The objectives of this audit were to:

1. Determine if purchasing card transactions are appropriate and in compliance with City policy and procedure,
2. Determine if City purchasing card program controls adequately mitigate risk,
3. Determine whether the City's purchasing card program is operating effectively in accordance with leading business practices and that cardholders have purchasing limits in accordance with actual purchasing activity.

SCOPE AND METHODOLOGY

The scope of this audit included a review of purchasing card policies and procedures, system access, and program controls as they are currently in place. The detailed testing of transactions covered the 12 month period of July 1, 2017 through June 30, 2018. Our audit work included the following:

- Interviews with purchasing management, the purchasing card program administrator, and purchasing card allocators.
- Review of prior audit recommendations.
- Review of written policies and procedures over the purchasing card program.
- Research of leading business practices for government entities for purchasing cards.
- Review of a sample of purchasing card transactions.
- Review of cardholder agreements.
- Review of surveys of a sample of employees with an open City Purchasing Card.
- Attended and observed training provided to cardholders by the Finance Purchasing Department.
- Review of cards issued to employees who terminated employment to verify they were turned in upon termination and that the card was closed in a reasonable amount of time.
- Review of automated controls and instantaneous denials.
- Review of system access to Purchasing Card Allocation.

- Review of consequences and penalties of inappropriate behavior.
- Evaluation of a sample of cardholder credit limits.

RESULTS

Purchasing Card Transactions

We reviewed internal policies and procedures, interviewed management, and observed the program administrator and purchasing card allocators to understand the purchasing card process. We also selected, obtained, and reviewed a random sample of 42 purchasing card transactions. We reviewed the cardholder agreements on file with Finance and verified that the cardholder making the purchase had a signed cardholder agreement on file. We verified that the transaction was properly supported by comparing the transaction in MUNIS to the itemized receipt or invoice to warrant the business reason for the purchase. We verified that the amount of the transaction was correct by recalculating the itemized transaction amount on the supporting documentation as well as verified that no sales tax was charged, as the City is exempt from paying sales tax. We also verified that transaction reallocation took place timely and was done by someone other than the cardholder who made the purchase. Out of a sample of forty-two transactions, there was one isolated purchasing card packet that was unable to be located in the file by Finance. In addition, out of the sample of forty-two transactions, there were four isolated transactions that took two months or more between the date of purchase and date of reallocation in the MUNIS system.⁴ These instances were isolated and therefore, based on the testing performed, we conclude that purchasing card transactions are appropriate and in compliance with City internal policy and procedure.

Purchasing Card Program Controls

We determined that controls are in place for purchasing cards upon employee termination. Any employee who has a purchasing card and leaves employment with the City of Sioux Falls is required to turn in their purchasing card to their supervisor upon termination. We determined that Human Resources initiates an Exiting Checklist that is routed through the employee's supervisor, then to Finance, and ultimately is filed by Human Resources. The purchasing cards of terminated employees during the audit period were closed in a reasonable amount of time upon termination of employment. We also reviewed the Declined Transaction Authorizations report from the bank to verify that instantaneous denials are in place for merchant category codes as well as card credit limit overages. This report is reviewed by purchasing management regularly and any denial issues are addressed immediately with cardholders. In addition, consequences for inappropriate card use or behavior are communicated in written policy and procedure and are addressed in trainings with cardholders. There have been isolated instances of employee termination due to card misuse and isolated instances where cards have been closed temporarily due to a cardholder not adhering to policy and procedure.

⁴ Examples of reasons for longer than normal time between purchase and reallocation could include a cardholder leaving for vacation and not turning in their packet beforehand or the structure of schedules for departments such as Police and Fire when they are out for a longer period of time in between sets of shifts.

The following audit findings were noted during the testing of purchasing card program controls and observations of the purchasing card process.

Audit Finding 1:

Based on our review of signed cardholder agreements and the results of a questionnaire sent to a sample of cardholders, we determined that cardholder training is inconsistent. We were able to attend a training with the Purchasing team that was done upon issuance of new purchasing cards that were issued in March 2019. Cardholders did sign a sign in sheet as proof of attending this training. However, we were unable to obtain all sign in sheets to verify that all initial and ongoing trainings occurred prior to this training. The Purchasing Card Program Guide states, "Prior to releasing the card, the cardholder will be required to attend a training session conducted by the Program Administrator." The Government Finance Officers Association (GFOA) recommends initial and ongoing training of cardholders and supervisors as a leading practice for governmental purchasing card programs. **See recommendation 1 on page 7.**

Audit Finding 2:

We determined, through observations with purchasing card allocators, that two individuals who have access to credit card allocations in the MUNIS financial system, who also have a City of Sioux Falls purchasing card in their name, are allocating their own purchasing card transactions. The remaining purchasing card allocators who also have a City of Sioux Falls purchasing card in their name are sending their purchasing card packets with supporting documentation to another purchasing card allocator for reallocation of their purchasing card transactions. This was further verified through reviewing the purchasing card transactions for the individuals with reallocation access in MUNIS. Leading practices encourage separation of duties be maintained throughout the purchasing card process to reduce the opportunity for fraudulent activity to take place. **See recommendation 2 on page 8.**

Program Operations

We interviewed management and the purchasing card program administrator, reviewed internal policies and procedures, and researched leading practices for purchasing card programs on the Government Finance Officers (GFOA) website. We identified the following leading practices are documented in written Policy and Procedure at the City:

- Instructions on employee responsibility and written acknowledgments signed by the employee and filed.
- Spending and transaction limits for each cardholder both per transaction and on a monthly basis.
- Recordkeeping requirements, including review and approval processes.
- Clear guidelines on the appropriate uses of purchasing cards, including approved and unapproved Merchant Category Codes (MCC).
- Guidelines for making purchases by telephone and fax or over the Internet.
- Timely reconciliation by cardholders and allocators.
- Procedures for handling disputes and unauthorized purchases.

- Procedures for card issuance and cancellation, lost or stolen card, and employee termination.
- Segregation of duties for payment approvals, accounting, and reconciliations.
- Regular review of spending per vendor and merchant category codes.

The following audit finding was noted during the review of GFOA leading practices compared to what is in place at the City.

Audit Finding 3:

Based on our review of GFOA leading practices and interviews with Purchasing management and the Program Administrator, we determined that the recommended leading practice of “written requests for higher spending limits” is not in place at the City. The City’s Purchasing Card Program Guide does not include any direction regarding the process of or required documentation for an increased spending limit on an employee’s purchasing card, should a legitimate business need for an increased limit arise. The process that is currently followed is either done verbally or through email and is typically initiated through the employee’s Purchasing Analyst, who then notifies the Program Administrator that the card limit should be increased. In addition, if it becomes apparent during the Program Administrator’s review that a cardholder is routinely declined for being over their limit or frequently gets close to their limit each month, the Program Administrator will contact the Purchasing Analyst or Purchasing Manager, and they will evaluate whether or not a credit limit increase is appropriate for the cardholder. The Program Administrator does retain emails as back up documentation to justify the credit limit increase. Leading practices recommend this process be documented in internal written policies and procedures. **See Recommendation 3 on page 8.**

RECOMMENDATIONS

We made the following recommendations that address the above referenced results.

- 1) We recommend that both initial and ongoing training is provided consistently to all cardholders who are issued a City of Sioux Falls purchasing card in their name. The Purchasing Card Program Guide states training will be provided by the Program Administrator. We recommend trainings be documented and filed as proof that cardholders did, in fact, attend required training.

Management’s Response: Management agrees and will utilize a Target Solutions, a training and tracking software to develop a training program for card holders once the software is purchased. In the meantime the City will relocate the training records into a centralized electronic file to track the card holder training.

Management Representative Responding: Scott Rust, Purchasing Manager

Date of expected implementation: July 31, 2019 - Electronic File; Target Solutions - 2020

- 2) We recommend that management ensure proper segregation of duties exists by ensuring those employees who have both purchasing ability with a City purchasing card as well as reallocation access in the financial system do not reallocate their own purchases. Any employee with both reallocation access and purchasing ability are to have their purchases reallocated by a different employee with reallocation access.

Management's Response: Management agrees, recommendation already addressed.

Management Representative Responding: Scott Rust, Purchasing Manager

Date of expected implementation: Complete

- 3) We recommend that management develop and document, in policy and procedure, a written process for requests for higher spending limits for all City of Sioux Falls purchasing cards.

Management's Response: Management agrees and a new policy has been inserted into the Purchase Card Program Guide as follows: "To request a higher limit daily/monthly limit, users shall have their supervisor email the program administrator requesting a higher limit. The request shall include the following information:

- *Amount of increase (daily/monthly)*
- *Justification for the increase*

Upon receipt of the email and review of the justification the Program Administrator will raise the daily/monthly limit if the justification warrants the increase.

Management Representative Responding: Scott Rust, Purchasing Manager

Date of expected implementation: Complete

CONCLUSION

Overall, adequate controls exist over the purchasing card process administered by the City's Finance Department. In addition, the City is following many of the leading practices recommended by the Government Finance Officers Association. The recommendations above, which are based on leading practices for governmental entities, will provide additional assurances that controls are in place to mitigate the risks associated with administering the purchasing card program. We would like to thank the Finance Department staff for their cooperation and assistance provided during the audit.

AUTHORIZATION

The Sioux Falls City Council approved this audit by resolution in December 2018 as a carryforward audit from the 2018 Annual Audit Plan. The Internal Audit Division operates under the authority of Sections 32.010 through 32.025 of the Sioux Falls Code of Ordinances.

AUDIT STANDARDS

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

STATEMENT OF INDEPENDENCE

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per section 32.022 of the Code of Ordinances of Sioux Falls, SD.

DISTRIBUTION OF REPORT

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

PERFORMED BY

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