



AUDIT OF PROCUREMENT CARD PROCESS

Follow-Up Report

ABSTRACT

Significant improvements to the p-card expense approval and reporting processes have further safeguarded about \$5 million in resources. In addition, enhanced monitoring procedures facilitate compliance with procurement regulations and cost effectiveness.

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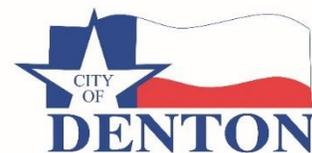


Table of Contents

Follow-Up at a Glance	3
Introduction	4
Management Responsibility	4
Audit Objectives, Scope, and Methodology.....	4
Recommendation Status Update	5
Compliance with Procurement Regulations	5
Excessive Number of Cards	7
Supervisory Approvals	8
P-Card Administration.....	9
Internal Controls Weaknesses	10
Need for Training	11
Opportunity for Savings	11

Follow-Up at a Glance

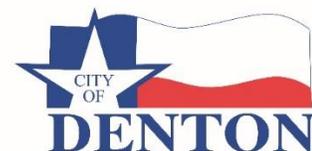
Why we did this Follow-Up:

This report is intended to provide information on what changes have been made in response to the Procurement Card Process audit issued in August 2019. The original audit reviewed controls over about \$6 million in procurement card transactions. This follow-up was included on the City's Fiscal Year 2019-20 Audit Plan as approved by the City Council.

What we Found:

The Purchasing Division has significantly improved the p-card review and approval process through the implementation of a p-card expense reporting system. In addition, significant monitoring improvements have been made that further ensure compliance with procurement regulations and that the City is receiving the best value for commodities. The status of each recommendation is summarized below:

Recommendation	Mgmt. Response	Status
1. Monitor p-card purchases for compliance with procurement regulations.	Concur	Implemented
2. Educate dept. personnel about procurement regulations.	Concur	Implemented
3. Monitor p-card purchases to identify consolidation opportunities.	Concur	Implemented
4. Educate dept. personnel about procurement regulations.	Concur	Implemented
5. Eliminate sparingly used cards.	Concur	Implemented
6. Look for p-card user consolidation opportunities in departments.	Concur	Implemented
7. Suspend p-cards with unapproved purchases.	Concur	Implemented
8. Require p-card transactions receipts to be uploaded.	Concur	Implemented
9. Monitor and enforce the City's p-card procedures.	Concur	Implemented
10. Prohibit p-card administrators from having p-cards.	Concur	In Progress
11. Review active cards to determine appropriateness.	Concur	Implemented
12. Notify Compliance Officer of p-card audit results performed by Purchasing staff.	Concur	Implemented
13. Provide p-card training to staff who supervise p-card transactions.	Concur	Implemented
14. Evaluate the feasibility of participating in the State's Travel Management Program.	Partially Concur	Implemented



Introduction

The Internal Audit Department is responsible for providing: (a) an independent¹ appraisal of City operations to ensure policies and procedures are in place and complied with, inclusive of purchasing and contracting; (b) information that is accurate and reliable; (c) assurance that assets are properly recorded and safeguarded; (d) assurance that risks are identified and minimized; and (e) assurance that resources are used economically and efficiently and that the City's objectives are being achieved.

The Internal Audit Department has completed an audit follow-up of the Procurement Card Process Audit issued in August 2019. We conducted this follow-up review 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.

Management Responsibility

City management is responsible for ensuring that resources are appropriately managed and used in compliance with laws and regulations; programs are achieving their objectives, and services are being provided efficiently, effectively, and economically.

Audit Objectives, Scope, and Methodology

This report is intended to provide a progress update on recommendations from the [Procurement Card Process Audit \(August 2019\)](#), which reviewed the effectiveness of internal controls over the City's procurement card program.

Audit fieldwork was conducted during July and August 2020. The scope of review varied depending on the procedure being performed. The following list summarizes the major procedures performed:

- Reviewed documentation from the issued audit to develop criteria including industry standards, best practices, policies, and procedures;
- Examined a sample of 373 p-card transactions from Oct. 2019 through May 2020 to ensure adequately detailed receipts were attached;²
- Reviewed a judgement sample of 30 transactions to ensure they were approved;
- Compared a list of active cardholders to p-card transactions to review usage;
- Analyzed p-card transactions to determine if monitoring procedures adequately ensured compliance with procurement regulations, City policy, and City contracts; and
- Interviewed Purchasing staff and reviewed provided documentation.

¹ The City of Denton's Internal Audit Department is considered structurally independent as defined by generally accepted government auditing standard 3.56.

² This sample size provides with 95% confidence that the population mean is within ±5% of the sample mean.

Recommendation Status Update

This report summarizes the Audit of Procurement Card Process’s recommendations, management responses, and the Internal Audit Department’s follow-up findings, which describe to what extent City management has implemented Internal Audit’s recommendations since the publication of the original report (August 2019). The Purchasing Division of the Materials Management Department is generally responsible for administering the procurement card (p-card) program.³ The table below totals p-card purchases between Oct. 2019 and May 2020 by department:

Table 1: P-Card Transactions by Department (Oct. 2019 – May 2020)⁴

Department	Amount	Department	Amount
Parks & Recreation	\$467,000	Tech Services	\$100,000
Water	\$322,000	Solid Waste	\$86,000
Electric	\$320,000	Library	\$67,000
Wastewater	\$287,000	Animal Services	\$53,000
Fire	\$276,000	Finance	\$50,000
Public Works	\$224,000	Materials Management	\$49,000
Facilities/Airport	\$182,000	Development Services	\$42,000
General Government	\$158,000	Community Services	\$36,000
Police	\$148,000	Customer Service	\$13,000
		Total:	\$2,883,000

Compliance with Procurement Regulations

1. The Purchasing Division needs to satisfy its responsibility of monitoring purchases made by using P-Cards and enforcing compliance with State procurement statutes.

Management Response: Concur
 Improved monitoring effective 10/2018; updating monitoring processes in accordance with audit.

Audit Follow-Up Finding: Implemented

In order to safeguard municipal funds, Texas law requires different bidding requirements at differing levels of purchases.⁵ These requirements are generally summarized in Table 2, though there are some exceptions outlined in Texas Local Government Code Section 252.022.

Table 2: Texas Procurement Regulation Summary

More than \$50,000	<ul style="list-style-type: none"> • Invite competitive sealed bidding • Award a contract to the lowest responsible bidder
Between \$3,000 & \$50,000	<ul style="list-style-type: none"> • Attempt to acquire at least three quotes • Contact at least two historically underutilized businesses (HUB)
Up to \$3,000	<ul style="list-style-type: none"> • None

³ Procurement Cards – or p-cards – are typically used by organizations to expedite the procurement process for small purchases by granting employees the authority and ability to make purchases immediately.

⁴ Transaction totals are rounded to the nearest thousand dollars.

⁵ Texas Local Government Code prohibits the use of “separate, sequential, or component purchases” as a means of avoiding bidding requirements.

The City has contracted with Card Integrity to monitor p-card transactions for compliance with Texas procurement regulations. This contractor provides monthly reports to Purchasing’s Compliance Officer that identifies purchases with the same commodity category or vendor that cumulatively exceeds \$50,000. A similar report is provided for employees who exceed their single transaction thresholds; the single transaction limit for about 94 percent of the City’s cardholders is \$3,000.

Using p-card transaction data from Jan. 2020 through May 2020, only about 7 percent of transaction value did not appear to comply with procurement law as shown in Table 3. This is a significant improvement from what was reported in the original audit.

To address these compliance issues, cumulative spending trends are reviewed with departments annually to identify instances where competitive bids or quotes are needed. In addition, all noncompliant single purchases were appropriately addressed with a P-Card Misuse Warning from Procurement.

Table 3: Summary of Noncompliant Transactions (Jan. 2020 – May. 2020)

Procurement Compliance Test	Noncompliant Value
Cumulative Spend Exceeded \$50,000	\$0.00
Cumulative Spend Exceeded \$3,000	\$115,548.24
Single Transaction Exceeded \$3,000	\$10,561.12
Noncompliant Total:	\$126,109.36

2. Educate the department personnel responsible for verifying P-Card transactions regarding their duty for and information to verify compliance with procurement regulations.

Management Response: Concur

Training materials revised 10/2018 for new cardholders and approvers; will update in accordance with audit; Additional training will be completed as new P-Card system is implemented – Q4 FY 18/19.

Audit Follow-Up Finding: Implemented

The Purchasing Division has provided monthly trainings to p-card users and approvers that appears to include information about procurement regulation thresholds. The training makes it clear that compliance with these laws is the responsibility of the cardholders. In addition, the Procurement & Compliance Director distributed an email to all City staff that instructs employees to review the City’s online contracts list when making purchases.

The P-Card manual requires p-card users and approvers to attend training every 24 months.

3. The Purchasing Division needs to work with departments for the monitoring of purchases made on P-Cards and attempt to identify consolidation opportunities to obtain lower prices through contracting or receiving discounts.

Management Response: Concur

Improved monitoring and training material updates effective 10/2018; updating monitoring processes in accordance with audit; A new P-Card system will be implemented and additional training completed – Q4 FY 18/19.

Audit Follow-Up Finding: Implemented

The City’s p-card monitoring contractor – Card Integrity – identifies potential consolidation opportunities similarly to how it monitors for procurement regulation compliance. These opportunities are reviewed with departments annually to identify instances where purchases could be consolidated to ensure the City is receiving the best value. The City has entered into several contracts specifically for p-card purchases since the original audit in an effort to consolidate spending across the City. These vendors include:

Table 4: Vendor Contracts for P-Card Purchases

Vendor	Contract Amount	Vendor	Contract Amount
Amazon	\$600,000	Sam’s Club	\$220,000
Lowe’s	\$425,000	Dealers Electrical Supply	\$200,000
Home Depot	\$300,000	Grainger	\$100,000

Likewise, the City spent about \$20,600 a month on food during the original audit period (i.e. Jul. 2017 through Jul. 2018). During the follow-up period (Oct. 2019 through May 2020), this average monthly spending significantly decreased to about \$8,500.

- Educate the department personnel responsible for verifying P-Card transactions regarding their duty for and information to verify compliance with procurement regulations.**

Management Response: Concur
 Training materials revised 10/2018 for new cardholders and approvers; Additional training will be completed as new P-Card system is implemented – Q4 FY 18/19.

Audit Follow-Up Finding: Implemented

See findings regarding Recommendation Two.

Excessive Number of Cards

- Eliminate sparingly used cards and use other cards available to the respective Departments for making necessary purchases.**

Management Response: Concur
 In progress prior to audit; will continue to review utilization and work with departments regularly.

Audit Follow-Up Finding: Implemented

The City currently has 367 active p-cards that have been issued to employees; this is about an 18 percent reduction in cards from the issuance of the original audit. In addition, we found a total of 17 p-cards that had not been used between Oct. 2019 and May 2020 – meaning about 5 percent of cards may be underutilized. Previously, almost 17 percent of p-cards were considered underutilized. The departments with underutilized cards are identified in Table 4:

Table 4: Underutilized Cards by Department (Oct. 2019 – May 2020)

Department	Cards Sparingly Used	Total Cards	Percent Under Utilized
Engineering Services	1	5	20%
Materials Management	1	5	20%
Police	4	28	14%
Planning	1	10	10%
Wastewater	2	32	6%
Technology Services	2	32	6%
Electric	2	40	5%
Library	1	23	4%
Water	1	27	4%
Fire	1	43	2%
Parks & Recreation	1	47	2%
All Other Departments	0	75	0%
Total:	17	367	5%

6. Look for additional opportunity for consolidation of cards to facilitate better administration of P-Cards.

Management Response: Concur

In progress prior to audit; will continue to review utilization and work with departments regularly.

Audit Follow-Up Finding: Implemented

Based on our findings from Recommendation Five, the number of underutilized cards has been significantly reduced since the issuance of the original audit. In addition, opportunities to consolidate p-cards are presented to departments during an annual procurement meeting. That being said, Purchasing staff stated that the decision to eliminate or consolidate cards ultimately rests with the departments’ directors.

Supervisory Approvals

7. Suspend P-Cards for which transactions are not approved by the supervisors after giving adequate warning.

Management Response: Concur

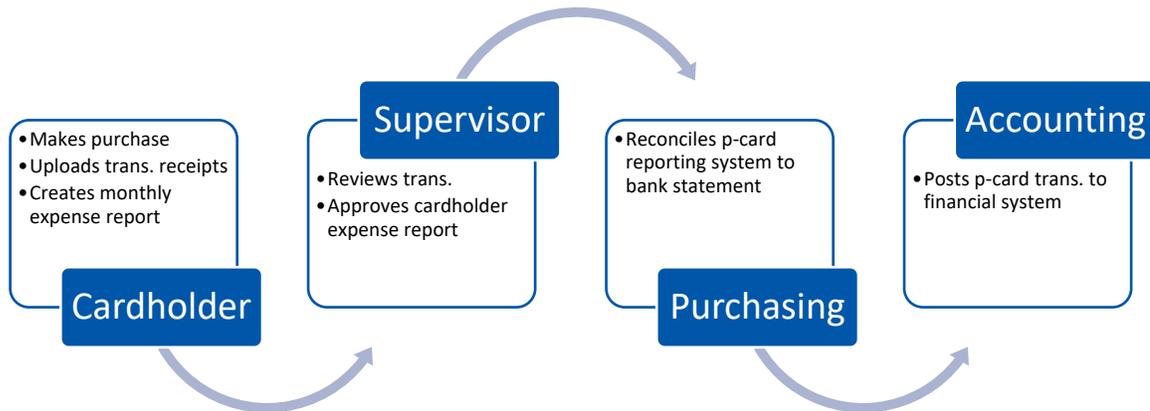
Compliance Officer has the authority to suspend cards effective 10/2018; monitors approvals monthly and communicates with approvers accordingly.

Audit Follow-Up Finding: Implemented

The Procurement Division has implemented a new p-card expense reporting system called Certify, which requires all transactions to be entered and approved as illustrated in Figure 1 on the next page. Of a sample of 30 transactions, all had adequate evidence of approval. In addition, all expense⁶ transactions on the May 2020 bank statement were recorded in the Certify system; based on this judgement sample all transactions appear to be reported.

⁶ Some reimbursement transactions were on the bank statement but were not found in Certify. Based on discussions with Procurement & Compliance management, this is because no receipt is provided. Since the City is receiving money, these transactions are considered low risk even without a receipt.

Figure 1: P-Card Approval Process



8. Require employees to upload their receipts in J P Morgan system.

Management Response: Concur
 Documentation required in JPMorgan effective 10/2018.

Audit Follow-Up Finding: Implemented

As shown previously, the Certify system requires cardholders to enter an itemized receipt for every transaction. There is evidence that all 12,127 transactions entered into Certify between Oct. 2019 and May 2020 had a receipt attached. The following table assigns a risk level⁷ to each sample purchase reviewed based on the adequacy of the uploaded receipt.

Table 5: Adequacy of P-Card Receipts (Oct. 2019 – May 2020)

Trans. Risk Level	No. of Trans.	Trans. Value
High	31	\$20,905.16
Medium	4	\$1,529.98
Low	338	\$79,082.10
Sample Total:	373	\$101,517.24

Based on this review, the recommendation appears to be implemented. Nevertheless, the Purchasing Division should consider providing additional training or communication to cardholders and approvers on the importance of providing an adequately detailed, itemized receipt.

P-Card Administration

9. The Compliance Officer needs to establish a process for monitoring compliance and enforce the City’s policy for noncompliance with P-Card procedures.

Management Response: Concur
 Compliance Officer has the authority to suspend cards effective 10/2018; monitors transactions and approvals monthly; communicates with cardholders and approvers accordingly.

⁷ Receipts were categorized as high-risk if they did not include an itemized list of the commodities purchased, medium-risk if they were itemized but did not include detail about the vendor or date of purchase, and low-risk if they were adequately detailed and itemized.

Audit Follow-Up Finding: Implemented

The City's p-card monitoring contractor – Card Integrity – screens purchases for those that are prohibited by the City's Procurement Card Manual and reports them to the Compliance Officer monthly. This monitoring generally identifies the following policy violations:

- Transactions with sales tax;
- Transactions that should be purchased by Technology Services;
- Services that require insurance;
- Transactions seemingly against the City's travel policy; and
- Possible personal transactions like gifts, food, and fuel.

In addition, the P-Card Manual states that p-card misuse or fraud may result in termination of the cardholder's privileges and additional disciplinary actions. There is evidence that the p-card program's administrator has issued several P-Card Misuse Warning Memorandums since the issuance of the original audit.

Internal Controls Weaknesses

- 10. The P-Card policies and procedures need to be updated prohibiting assigning cards to individuals responsible for administering the program.**

Management Response: Concur
Program administrators no longer have P-Cards.

Audit Follow-Up Finding: In Progress

Based on a review of the P-Card Manual, there is no written policy that prohibits assigning p-cards to individuals responsible for administering the p-card program. That being said, there are currently no p-card users with administrative access to the p-card reporting system (i.e. Certify) or the bank system, indicating that this is prohibited in practice.⁸ Still, the Purchasing Division should update its P-Card Manual to reflect this.

- 11. Periodically, the Compliance Officer needs to review active cards to determine appropriateness and business needs for the charge card accounts.**

Management Response: Concur
In progress prior to audit; will continue to review utilization and work with departments regularly.

Audit Follow-Up Finding: Implemented

Based on our findings from Recommendations Five and Six, the City has significantly reduced the number of active p-cards since the issuance of the original audit. In addition, p-card appropriateness and business needs are discussed with departments during an annual procurement meeting. That being said, Purchasing staff stated that the appropriateness and business need for a card are ultimately the responsibility of the departments' directors.

- 12. Notify results of audits to the Compliance Officer.**

⁸ We did find that the current Procurement & Compliance Director had a p-card for a short time due to a reorganization effective July 20th, 2020; however, this p-card has since been canceled.

Management Response: Concur

As of 10/2018, the Compliance Officer completes the audits; Results provided to Director.

Audit Follow-Up Finding: Implemented

The City's new p-card monitoring contractor – Card Integrity – has begun conducting individual cardholder audits per the Compliance Officer's direction. The completed audits are then reviewed and followed-up by the Compliance Officer.

Need for Training

13. Provide training on P-Card policies and procedures to all supervisors who approve P-card transactions.

Management Response: Concur

All new approvers trained effective -10/18; Additional supervisory training will be completed as new P-Card system is implemented – Q4 FY 18/19.

Audit Follow-Up Finding: Implemented

As stated in the finding for Recommendation Two, the P-Card Manual requires all City employees involved in the p-card program – both cardholders and supervisors – to attend p-card training every 24 months. The Purchasing Division was offering monthly, in-person training prior to the COVID-19 Pandemic and has been exploring online training solutions since then.

Opportunity for Savings

14. The Procurement and Compliance Office needs to evaluate feasibility of participating in the State's travel Management Program.

Management Response: Partially Concur

Opportunities to save on travel expenses will be researched; the state program is likely not a viable option.

Audit Follow-Up Finding: Implemented

The Purchasing Division has evaluated the feasibility of participating in the State's Travel Management Program compared to the City's current contracts and Travel Expense Policy and determined the following for each state contract:⁹

- Airline – could be utilized for airfare purchases that require an exception to the City's 21-day advance notice travel policy, assuming they offer the best value;
- State Travel Card – could be utilized in the future, however, the City currently has a bankcard vendor whose services were solicited via request for proposal;
- Hotel – could be utilized for hotel purchases assuming they are the best value.
- Rental Car – could be utilized for rental car services as its rates includes damage waiver and liability coverage, which is encouraged by City policy; and
- Travel Agency – could be utilized for international travel assuming it offered the best value.

⁹ It should be noted that the Division had not distributed information to employees about this program and its potential usage as of August 2020.