



**Procurement Card
Audit A2015-03F**

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EXECUTIVE SUMMARY

The audit of the City of Fayetteville's (City) Procurement Card (P-card) Program was performed to assess the adequacy of internal controls over procurement cards, and compliance with policy and internal controls over procurement card usage. In order to meet the objectives, Internal Audit examined accounting documents and p-card authorization files; tested records; and interviewed personnel. Internal Audit also performed a follow-up to Procurement Card Audit A2015-03 to report on the progress in addressing prior audit findings and recommendations.

This report addresses a number of areas where management actions could further reduce the risks associated with use of p-cards. Issues identified were the result of mitigating factors not being implemented to address prior audit findings. Issues identified can generally be categorized as follows:

1. Non-compliance with City policy;
2. Inadequate evidence of proper approvals;
3. Lack of evidence of training, and
4. Insufficient documentation.

Internal Audit concluded internal controls existed but did not appear to be operating as intended to ensure p-card expenditures were accurate. The audit did not find evidence of intentional fraud but documented exceptions where procedures and policies were not followed. As evidenced by the reoccurrence of prior observations, Internal Audit concluded management did not ensure audit recommendations specified in the previous audit report had been fully implemented.

BACKGROUND

The procurement card program is designed to enable the City of Fayetteville to make small purchases quickly and efficiently, thereby reducing the volume of invoices and checks processed. According to procedure, the use of procurement cards has been proven to be a cost effective method of obtaining supplies and services for the City. Travel and training costs may also be handled through the procurement card process. Procurement cards can be processed by vendors like personal charge cards. Rather than making multiple small payments to many vendors, the City makes one payment to the procurement card provider. Vendors receive payment from the procurement card processor within a few days of purchase without extra paperwork.

The City of Fayetteville entered into a contract with Bank of America to administer its p-card program. Under this contract, there is no charge for issuance or maintenance of the cards. The City of Fayetteville has general guidelines for p-card usage but has left control of the procurement card program with the Chief Financial Officer. The Procurement Card Administrator assigns per transaction limits of \$1,000 and a monthly purchase limit for each card. By exception and with proper approvals, these limits can be increased by the Procurement Card Administrator only. As part of the contract, Bank of America provides an electronic payment application, Works. This application enhances the City's ability to manage procurement card transactions.

During July 1, 2016 through February 28, 2017, 6,130 procurement card transactions totaling \$951,106.55 were processed. This is an average of \$155.16 per transaction. As of February 17, 2017, there were 253 active procurement cards for the City of Fayetteville.

AUDIT OBJECTIVES

The objectives of this audit were to:

1. Assess the adequacy of internal controls, and policy and procedure compliance of the City's procurement card program;
2. Assess the adequacy of segregation of duties, physical security and proper use of the procurement cards;
3. Determine if card users are properly trained, designated and provided policy guidance;
4. Assess if procurement card transactions and approvals are made in accordance with procurement card policies and procedures; and
5. Follow up of the previously identified audit findings to ensure they have been remediated by management as stated in management's responses.

AUDIT SCOPE

The audit covered procurement card transactions from July 1, 2016 through February 28, 2017 and included a sample of card users from the following departments and office: Parks, Recreation and Maintenance (PRM); Engineering & Infrastructure; Environmental Services; Airport; and the City Manager's Office/Internal Audit. A total of 93 statements containing 385 transactions and totaling \$76,613.36 were included in the sample as shown below.

Department/Division	# of P-cards	# of Statements	# of Transactions	Total Spent
Parks, Recreation, and Maintenance	8	52	211	\$51,967.47
Engineering & Infrastructure	3	11	22	4,292.73
Environmental Services	4	10	21	2,608.14
CMO/Internal Audit	1	4	16	3,401.17
Airport	2	16	115	14,343.85
Totals	18	93	385	\$76,613.36

AUDIT METHODOLOGY

In order to meet the objectives, Internal Audit examined accounting documents and p-card authorization files; tested records; and interviewed personnel. Internal Audit also evaluated controls related to the administration of the Procurement Card Program and reviewed policies and procedures for compliance and completeness. Personnel from five City departments were interviewed and audit tests and procedures were conducted as considered necessary.

In particular, Internal Audit performed the following procedures to accomplish the objectives of the audit:

- Obtained and reviewed the *City of Fayetteville Policy # 312 Procurement Card Program: Revision 2* as revised May 18, 2016;
- Interviewed the Procurement Card Administrator;
- Verified the employment status of each cardholder;
- Interviewed personnel in charge of training cardholders;
- Verified account coding for the procurement card transactions; and
- Analyzed sample transactions processed through February 2017.

When appropriate, judgmental sampling was used to improve the overall efficiency of the audit. Internal Audit examined transaction reports from the Bank of America Works application; and reviewed electronic files for active and inactive cards. The departments selected for p-card sampling were Parks, Recreation and Maintenance; Engineering & Infrastructure; Environmental Services; and Airport, whereas, when analyzed, these departments were consistent whether categorized by total amount spent; number of

transactions; or number of cards held by the department. The Office of Internal Audit within the City Manager’s Office was judgmentally chosen to increase transparency.

AUDIT RESULTS (A2015-03F)

Internal Audit concluded internal controls existed but did not appear to be operating as intended to ensure p-card expenditures were accurate. The audit did not find evidence of intentional fraud but documented exceptions where procedures and policies were not followed. As evidenced by the reoccurrence of prior observations, Internal Audit also concluded management did not ensure audit recommendations specified in the previous audit report had been fully implemented. As a result, no new recommendations were made. Areas for which issues were found to be reoccurring are detailed in the Follow-up section below.

FOLLOW-UP AUDIT RESULTS (A2015-03)

Based on the results of follow-up test work, each original finding recommendation will be designated with one of the following four status categories:

<i>Implemented</i>	The finding has been addressed by implementing the original corrective action or an alternative corrective action.
<i>In Progress</i>	The corrective action has been initiated but is not complete.
<i>Not Applicable</i>	The recommendation is no longer applicable due to changes in procedures or changes in technology.
<i>Not Implemented</i>	The recommendation was ignored, there were changes in personnel levels, or management has decided to assume the risk.

Finding 1

Appropriate review and/or approval of procurement card charges were lacking.

During the audit, the following observations were made:

1. Procurement card transactions should be reviewed for appropriate City business and violation of City policies. During the review, Internal Audit was unable to determine if supervisory review and approval of procurement card charges was performed on 57 (63%) statements to ensure legitimacy of the purchases. Further review identified the City of Fayetteville Procedure for Procurement Card Expenditures dated April 4, 2008 did not assert this requirement. However, on April 21, 2015, management updated the procurement card policy and addressed this review, but was not specific in identifying an appropriate level of supervisor who would be in the best position to determine the legitimacy of the purchases and identify potential misuse of the p-card. Instead, the policy was updated designating the Department Director or designee for this approval. Therefore, Internal Audit identified all statements had been approved by the Department Director or designee consistent with policy, but because the designated area on the statements titled “managers signature” was not signed and only the accounts payable approval was reflected it was unclear if the 57 statements had been reviewed by the appropriate level of supervisor. Internal Audit recommends control improvements in the area of supervisory review to mitigate procurement card program risks. As a result, Internal Audit relied on the accounts payable approval by the Department Director or designee to validate the expenditures.

Statements without Eligibility Signature

Department	# without Signature
Corporate Communications	1
Police	21
Parks & Recreation	1
Airport	7
Transit	3
Traffic Services	2
Street Maintenance	7
HRD	3
Construction Management	3
OD&T	5
Stormwater	4
Total	57

2. Strong data control is essential to accurate reporting. During the review, Internal Audit identified expenditures lacking proper coding to the appropriate general ledger object account. Personnel responsible for coding and approving payment of p-card transactions should be familiar with the departmental chart of accounts. Of the sampled transactions, 16 entries (5%) were not coded to the correct object account. Recording expenditures to the appropriate object account(s) helps ensure the City of Fayetteville’s financial statements have properly classified expenditure amounts. As a result of misclassified expenditures, the City runs the risk of improper reporting and may also affect accurate departmental budgeting.

Transactions with Incorrect Account Coding

Department	# of Transactions
Police	4
Parks & Recreation	6
Transit	2
Traffic Services	3
Stormwater	1
Total	16

3. City of Fayetteville Procedure for Procurement Card Expenditures prohibited charges for prepaid services. Six transactions for prepaid services were noted. These prepaid services were for fingerprinting at the Airport through the Transportation Security Clearinghouse. Based on an Internal Audit inquiry, Airport personnel indicated this is the normal business procedure and the most expeditious way to handle the process. Notation should be made if this purchase has been approved by the Procurement Program Administrator.

Recommendation

- A. Strengthen the approval and monitoring process for p-card activity. An approving official (if other than the department head) should be assigned to each cardholder and should be in a managerial or supervisory position with respect to the cardholder. Personnel performing the review function should also have a good understanding of departmental account coding. A satisfactory review should include a manual review of p-card receipts and other supporting documentation, with emphasis placed on compliance with all applicable procedures and guidelines. In addition, Finance Department review should ensure the appropriate approving official signature is present on each statement.

- B. Mandate initial and refresher training for both cardholders and approving officials. Training of cardholders, approving officials and the Procurement Program Administrator must be ongoing and mandatory. Individual cardholders and approving officials should be required to attend initial training prior to issuance of p-cards and refresher training at prescribed intervals. Participation in training should be documented.

Management's Response

We concur. Management is in full agreement with the recommendation A and B. Management will revise current procurement card policy to address specific identification as to who approves expenditures for legitimacy, in addition to, the regular departmental accounts payable approver and their respective review processes. Historically initial training has been required. The policy changes will also address continuing education and training requirements for: card holders, legitimacy approvers, departmental accounts payable approvers, as well as Finance's accounts payable staff.

Responsible Party: Treasurer and Purchasing Manager

Implementation Date: 04/29/2016

Current Observation

- A. City of Fayetteville Policy #312 updated as of May 18, 2016 stated: "The Department Director or his/her designee must review and sign off on all departmental procurement cards transactions to validate that the transactions are for approved City business and that no transactions are in violation of any City policy. The approver must be in a managerial or supervisory position with respect to the cardholder. A second approver designated by the department director (typically the department's accounts payable approver) must review for appropriate documentation and proper expenditure account code. Both approvers must sign the procurement card log and then submit all information to the department's accounts payable representative for processing. A procurement card log (Attachment D) must be submitted with each procurement card's monthly approval packet. This log is a repository for all required approvals and serves as a summary of all the information needed by the Finance Department for processing."

Internal Audit noted statement(s) for which a procurement log was attached to the statement, but the department director or designee signature was not present on the log. Either the proper supervisory approval was present on the credit card statement but not on the log, or no one in a supervisory capacity with respect to the cardholder approved the purchases. Internal Audit also noted statement(s) for which no log was attached, and no approval(s) were present on the statement.

- B. City of Fayetteville Policy #312 updated as of May 18, 2016 remained unchanged relating to initial training, which stated: "Proposed cardholders must attend an orientation training prior to receiving the procurement card. A copy of this procedure shall be issued to the proposed cardholder during the training. Upon completion of the orientation training, the proposed cardholder will be required to sign a City of Fayetteville Procurement Card Employee Agreement indicating that the cardholder understands the procedures and the responsibilities of a procurement cardholder. See attachment A." However, the May 18, 2016 policy revision included the following update regarding continuing education: "Continuing education training is required for: each cardholder, each program card caretaker, all approvers, and accounts payable staff. The recommended refresher course will consist of viewing the training video and signing an attestation form. The individual attestation forms will be maintained by each department, and must be completed by December 31st of each year. The Program administrator will send out a summary form to each Department Director in September to identify those in need of training. The department is responsible for submitting the completed form signed by the Department Director or his/her designee indicating all that have completed the training, as well as, those that are still in need. If the annual training requirements are not met the associated accounts will be suspended."

Based on Internal Audit inquiry, Finance Department personnel could not provide documentation for initial training nor was documentation presented for refresher training. Finance Department personnel indicated the notification to departments as outlined in the policy was not made. Departments were asked to provide copies of attestation forms. Only one department (Environmental Services) provided the forms which were dated May 2017 and were not signed by the Procurement Card Administrator as identified on the *Training Video Attestation Form*. Finance Department personnel also stated there had been no procurement card suspensions.

Status of Recommendation

Not Implemented

Finding 2

Documentation was insufficient.

City of Fayetteville Procedure for Procurement Card Expenditures states: “The cardholder is responsible for ensuring that each, customer copy and/or cash register receipt contains enough information to properly identify the purchase. Information shall include the date, dollar amount and brief description. If the above information is not included, the cardholder shall write the information on the paperwork. If the customer copy or cash register receipt is lost or unavailable, a memorandum containing the appropriate information shall be substituted along with an explanation of the reason.” Part of the review and approval process should include comparing the receipts to the statements for proper documentation and adherence to policy. During this audit, the following observations were made:

1. Internal Audit found 19 instances which personnel taped the original receipt to copy paper before attaching the receipt to the statement and sometimes the receipts were cut to make it fit on the paper. The tape on the original receipt causes the ink to deteriorate making the receipt illegible; and the place where the receipt was cut made it hard to determine the date and time of the purchase. Making a photocopy of the receipt and including along with the original receipt would eliminate both issues.
2. Original itemized receipts provide information such as the date and time a purchase was made and a description of the item/service purchased. Included in the sampled transactions were six occurrences which proper documentation was not provided:
 - One instance where a packing slip was provided instead of an itemized receipt;
 - One instance in which an online confirmation page was provided instead of an itemized receipt;
 - Two instances in which a signed credit card receipt was included, but contained no detail;
 - Two instances in which no itemized receipt was provided.

It cannot be determined what was purchased if personnel do not submit the original itemized receipt. This creates a potential risk of unauthorized transactions being undetected. Per policy, cardholders are responsible for turning in all original itemized receipts, or a memorandum containing the appropriate information and an explanation for the missing receipt. Personnel were not taking the time to properly review and verify all attachments to the statements.

Recommendation

Consistently record transactions using a method that captures relevant transaction data and documents the intended business purpose. The business related purpose of each purchase should be documented to provide accountability. Adequate documentation should be prepared and retained which supports the nature and business related purpose of transactions. The business need as well as a case for best business practice should be communicated with the Procurement Program Administrator so that concessions can be made to accommodate the business needs of each department.

Management's Response

We concur. Management is in full agreement with the recommendation. Management will be working with departments to ensure that all required support documentation is included when procurement card invoices are submitted. This will include keeping original receipts intact and making copies of originals if fading or smudging is a concern. Management will implement a procurement card log that will aid the users and approvers with the requirements of the amended policy. The log will contain a description line, a check off box for receipts, and signature lines for approvals.

Responsible Party: Treasurer and Accounts Payable Supervisor

Implementation Date: Immediately

Current Observation

Finance Department management responded to the original recommendation for Procurement Card Audit A2015-03 dated February 2016 stating management would work with departments to ensure all required support documentation is included when procurement card invoices are submitted, including keeping original receipts intact and making copies of originals if fading or smudging is a concern. In addition, management would implement a procurement card log to aid the users and approvers with the requirements of the amended policy. However, as noted previously, there were statement(s) for which a procurement log was not attached or the log lacked the department director or designee signature. In addition, Internal Audit noted statement(s) for which a procurement card log was attached but no departmental AP approver signature was present; and statement(s) for which a procurement card log was attached but the departmental accounts payable approver signature provided was also the cardholder.

In addition, it does not appear personnel who maintain/process p-card transactions have a clear understanding of how the procurement card log should be used; therefore, the procurement card log does not appear to be used as intended.

Internal Audit reviewed 93 statements and supporting documentation to ensure original detailed receipts were intact and the expenditures were for official City business. Internal Audit noted the following transactions for which only:

- Summarized customer copy of receipt(s) were present;
- Hotel reservation confirmation(s) were provided;
- Part of the itemized receipt(s) were copied and attached;
- Printout of "shipping details" dated before the purchase was provided;
- Original receipt(s) with the potential for fading and deterioration were provided without copies for better retention;
- Memorandum was provided by the cardholder, for a purchase exceeding the policy's "acceptable" threshold of \$5 or less, which contained a description of the item(s) purchased, date of purchase and the vendor's name, but no reason for the lack of supporting documentation or management approval.

In addition, the business purpose of the purchases was not clear and was not documented on any of the supporting documentation. Based on Internal Audit inquiry, department representatives provided explanations for the purchases which appeared to be for official City business.

Status of Recommendation

Not Implemented

Finding 3

City of Fayetteville Procedure for Procurement Card Expenditures was often lacking in detail and did not provide sufficient guidance.

Instances were noted in which the existing City p-card policy could provide better guidance.

1. City of Fayetteville Procedure for Procurement Card Expenditures states: "Should a cardholder terminate employment with the City, the user's department head has the specific responsibility to reclaim the procurement card and return it to the procurement program administrator prior to the employee's termination date. The card will then be destroyed." Of the 254 active p-cards provided, Internal Audit found 14 cards for which the cardholder had separated from the City. There were six cards which the cardholder's employment status could not easily be determined based on the spelling of their name, or the fact that there were multiple personnel with the same or similar name. Historically, the credit limit of the procurement cards would be reduced for former personnel to \$1.00 leaving the p-card account in an active status. Based on an Internal Audit inquiry, the current Procurement Program Administrator indicated the process for former employees was to close the p-card account. During this audit, all active p-card accounts of former personnel were closed. To prevent fraudulent activity, it is important to have proper channels of communication between City departments, the Finance Department, and Human Resources. Former personnel should not have active p-cards to prevent misuse.
2. There were six instances of computer hardware or software purchases with no evidence of IT approval and two instances of furniture purchases with no evidence of department head approval. The current policy indicates furniture purchases are prohibited without specific approval of the department head or designee and computer hardware/software purchases are prohibited unless prior approval is obtained from the Director of Information Technology, but the policy does not identify what type of documentation. In addition, Internal Audit was unable to determine a specified designee for furniture purchases. Without proper documentation, the authorization of such purchases cannot be determined and leaves the potential for unauthorized purchases.

Recommendation

The Chief Financial Officer along with the Procurement Program Administrator and Department Heads should coordinate to update and clarify the City of Fayetteville Procedure for Procurement Card Expenditures. City of Fayetteville Procurement Card Program Policy #312 was drafted effective April 21, 2015. The City should continue to work with departments to refine the policy, and monitor and review p-card activity should also be continued. The policy should be updated to include a requirement for all cardholders to attach documentation of IT approval for all relevant technology purchases. Similarly, documentation should be required showing Department Head approval for any furniture purchases. Any violations would be referred to the Chief Finance Officer, the Chief Information Officer and/or the Department Head.

Management's Response

We concur. Management is in full agreement with recommendation. The policy recommendation will be in conjunction with Management Response #1

Responsible Party: Treasurer and Finance staff

Implementation Date: 04/29/2016

Current Observation

1. Procurement Card Audit A2015-03 dated February 2016 noted in Finding 3 that the procurement card policy could provide better guidance as it relates to controlling, issuing and retiring procurement cards. Internal Audit noted active procurement cards for three former City employees which had not been inactivated upon the employee's separation from the City. According to the

City's p-card administrator, these accounts were closed effective May 12, 2017. In addition, Internal Audit noted three cardholders whose names were spelled differently in the Bank of America Works application than in JD Edwards, the City's financial system. There was also one cardholder noted whose name had been changed in JD Edwards and on the procurement card, but was still listed in the Bank of America Works system with the cardholder's prior name. The City's p-card administrator indicated a request was made to the Bank of America Works administrator to update the name within the system. There did not appear to be a formal process in place for terminated employees, or for changes of cardholder information. Based on Internal Audit inquiry, Finance Department personnel indicated these procedures were under development.

2. Management responded that the policy recommendation would be in conjunction with Management Response #1. However, the policy was not updated to include a requirement for all cardholders to attach documentation of Information Technology (IT) approval for all relevant technology purchases nor does the policy require documentation showing department head approval for any furniture purchases. Internal Audit noted furniture purchase transaction(s) without the Department Head's approval, and purchase(s) of televisions without IT approval. Based on Internal Audit inquiry, IT Department personnel indicated anything that can be connected to the City's network, such as a television, is considered a computer hardware purchase and requires IT approval.

Status of Recommendation

Not Implemented

CONCLUSION

This report addresses a number of areas where management actions could enhance the procurement card program and existing controls could be strengthened. Although many areas noted during this audit were violations of the existing p-card policy, there were some instances in which the p-card policy could provide better guidance. For these cases, Internal Audit recommends updating the *City of Fayetteville Policy #312 Procurement Card Program: Revision 2*.

In many cases, it could not be determined if cardholder purchases were for legitimate City business, generally in compliance with the procurement card policy and meeting the City's current requirements. Internal Audit recommends improving oversight; increasing communication between the Finance Department and other City departments; and providing clearer guidance over purchases. Efforts to refine the *City of Fayetteville Policy #312 Procurement Card Program: Revision 2* effective May 18, 2016 should be an ongoing collaboration between the Finance Department and other City departments to ensure an effective and efficient procurement card program and should include:

1. Strengthening internal controls to mitigate the potential for misuse of procurement cards;
2. Reinforcing the approval process such that all required approvals are obtained and approvers are certifying transactions are in compliance with City policy;
3. Verifying complete and adequate documentation is provided, including the business related purpose of all transactions;
4. Ensuring all participants complete initial and refresher training which should include all aspects of the procurement card program; and
5. Providing guidance to p-card participants to increase understanding of policy requirements and strengthen documentation compliance issues. Clarification should be made in the policy to include, but not limited to:

- a. What requires IT approval and what the approval should look like;
- b. When is pre-approval from the Department Head for a furniture purchase needed and what the approval should look like;
- c. Use of PayPal accounts with the City p-card; and
- d. Use of the procurement card log.

Internal Audit wishes to thank the Finance Department and other City departments that participated in this audit for their assistance and numerous courtesies extended during the completion of this audit.

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