



Office of Internal Audit

Compliance Audit 2022-03 Procurement Card

January 2023

Internal Audit Director
Rose Rasmussen

Internal Auditor
Christina Zimmerman



OUR MISSION

Provide independent, objective assurance and consulting services designed to add value and improve the City of Fayetteville’s operations.

Internal Audit Director
Rose Rasmussen

Internal Auditor
Christina Zimmerman

TABLE OF CONTENTS

[Highlights.....1](#)

[Background.....2](#)

[Findings.....4](#)

[Recommendations, Management Response & Conclusion.....5](#)

[Internal Audit | Fayetteville, NC \(fayettevillenc.gov\)](#)

Mailing Address: 433 Hay Street, Fayetteville, NC 28301

Procurement Card Highlights

Objective:

To determine if the procurement card program was managed in compliance with policies and procedures and rebates were received as required.

Scope:

- Procurement card activity starting July 1, 2021 through July 31, 2022.
- 590 (6.7%) transactions totaling \$88,274.45 included in sample.

Background:

- Procurement cards (charge cards) are issued to certain employees in all City departments to make small dollar purchases, generally less than \$1,000.
- The Finance Department administers the procurement card program.
- Cardholders must follow City Procurement Card Program Revision 2 Policy #312 and complete training based on the policy annually.
- 244 cards were active as of October 26, 2022.
- 8,785 transactions were completed totaling \$1,533,062.82 between July 1, 2021 to July 31, 2022.

Highlights:

- The City's procurement card Policy #312 no longer reflected current business practices and included all controls needed.
- The two main causes for the overall change in business practices was the:
 - Implementation of Oracle, the City's new enterprise resource planning (ERP) system, in March 2022, and
 - Effects of the COVID-19 Pandemic which included:
 - Increased online shopping,
 - Remote work, and
 - Increased turnover in positions with difficulty filling those vacancies.
- 9 purchases were shipped to home addresses. All sampled items were observed in the applicable workplaces during surprise inventories.
- Policy did not require a clear business purpose. 49% of transactions reviewed did not provide more information than was already on the receipt which included 85 food related transactions totaling \$9,703.79.
- Written guidelines were not established on requesting card limit increases. Therefore, the method used to request these increases was inconsistent.
- The City received a rebate totaling \$23,429.61 for calendar year 2021.

Conclusion:

Based on the audit work performed, Internal Audit concluded the procurement card program was generally in compliance. However, controls could be improved by updating Policy #312 along with corresponding training materials.

Internal Audit will conduct an ongoing review of approval workflows in Oracle HUB to determine if proper review and approvals are being completed.

BACKGROUND

Procurement cards (charge cards) are issued to certain City employees to aid in the purchasing process for small dollar purchases, generally less than \$1,000. Some travel and training costs may also be handled through the procurement card process. Procurement cards have proven to be a cost effective method of obtaining low cost supply and service items. Rather than making multiple small payments to many vendors, the City makes one payment to the procurement card vendor, Bank of America.

The City uses the mandatory contract through the State of North Carolina to administer its purchasing card program. Under this contract, there is no charge for issuance or maintenance of the cards. The Finance Department Purchasing Division is responsible for administering the procurement card program.

All cardholders must follow the City's Procurement Card Program Revision 2 Policy #312 when utilizing their cards. The Finance Department pushes the policy and training on the policy to cardholders annually through PowerDMS, a policy management and training software. Some departments have created additional controls in an effort to ensure procurement cards are used responsibly and expenses are reported accurately and timely.

Procurement cards are utilized by all City departments. During the scope of the audit, July 1, 2021 to July 31, 2022, there were a total of 8,785 transactions totaling \$1,533,062.82 on 286 procurement cards as shown below. A report provided by Purchasing showed 244 active cards as of October 26, 2022 which is nine less than the 253 active as of February 17, 2017 reported in the Procurement Card Audit Report A2015-03F dated August 2017.

Department	Number of Cards	Number of Transactions
Airport	10	301
Budget & Evaluation Office	4	18
City Attorney's Office	4	62
City Manager's Office	13	305
Development Services	5	220
Economic & Community Development	5	116
Finance	14	169
Fire	30	1,288
Human Relations	4	178
Human Resource Development	16	254
Information Technology	14	302
Marketing & Communications	8	91
Mayor, Council and City Clerk	5	298
Parks & Recreation	60	2,630
Police	50	1,332
Public Services	32	874
Transit	12	347
Total	286	8,785

AUDIT OBJECTIVE

The objective of the audit was to determine if the procurement card program was managed in compliance with policies and procedures and rebates were received as required.

AUDIT SCOPE

The scope of the audit included procurement card activity starting July 1, 2021 through July 31, 2022. The departments included in the sample were selected based on the percent of each department's procurement card expenditures to their total budget. In addition, Internal Audit conducted an initial review of vendor names to determine if the purchases appeared consistent with cardholders' duties. This was taken into consideration when selecting the departments. For the eight departments selected, 590 transactions totaling \$88,224.50 were reviewed.

	Number of Cards	Number of Transactions	Total Expenditures
Airport	1	39	\$ 7,575.28
City Manager's Office	2	46	8,036.52
Economic & Community Development	1	41	6,653.83
Human Relations	3	32	3,158.86
Marketing & Communications	1	15	2,880.68
Mayor, Council and City Clerk	1	58	7,076.35
Parks & Recreation	6	201	32,066.99
Public Services	6	158	20,775.99
Total	21	590	\$ 88,224.50

AUDIT METHODOLOGY

To determine compliance, Internal Audit:

- Reviewed City of Fayetteville Procurement Card Program Revision 2 Policy #312;
- Interviewed personnel from the following departments:
 - Airport,
 - City Clerk's Office
 - City Manager's Office,
 - Economic & Community Development,
 - Finance,
 - Human Relations,
 - Marketing & Communications,
 - Parks & Recreation, and
 - Public Services;
- Reviewed Bank of America reports for cardholder information and procurement card activity from July 1, 2021 to July 31, 2022;
- Reviewed procurement card training logs from PowerDMS, a policy management and training software;
- Reviewed any procurement card related documentation necessary to complete the audit to include:
 - Documentation used to set up cardholders;
 - Documentation used to request card limit increases;
 - Paper logs used prior to Oracle implementation;
- Reviewed JD Edwards and Oracle, the City's former and current enterprise resource planning (ERP) systems, for employment status of each cardholder, procurement card expenditures, credits, rebates and associated transactions and attached documentation; and
- Conducted surprise inventories for departments audited.

***FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT'S RESPONSES***

Finding 1

Procurement Card Program Revision 2 Policy #312 was not updated.

Criteria: Policies are an essential control that establish expectations. According to the Government Accountability Office's Standard for Internal Control, management should periodically review policies and procedures to ensure they remain relevant.

Condition: Procurement card Policy #312 did not reflect current business practices and include all controls needed. The following observations were noted:

- Nine purchases were shipped to employees' home addresses. A sample of these items was selected for surprise inventories. All sampled items were observed in the applicable workplaces. The departments stated employees used their personal accounts for online purchasing and forgot to change the shipping address.

The City's new ERP software, Oracle, directly links employees to several online vendors to select items for purchase, creates a requisition and once approved the City will be invoiced. Utilizing this function would eliminate the risk of shipping items to home addresses. However, the purchase may take longer under the requisition process.

- Policy #312 did not require cardholders to provide the business purpose for each transaction. Of the 590 transactions, 291 (49%) transactions did not include more information than was already provided on the receipt. In addition, 85 were food related purchases totaling \$9,703.79 with no additional documentation to support the business purpose other than the receipt as required by policy. However, food purchases are more likely to be scrutinized by external parties.
- In March 2022 the City implemented Oracle. However, the policy had not been updated to reflect the new processes established due to the implementation.
- The vendor procurement card software allowed the City to establish monthly limits for each card. For eight of 21 cardholders reviewed, the current monthly limit was greater than the limit requested on the initial procurement card application. The written approval by the department director or designee requesting the increase was inconsistent for five of the eight cardholders. Written documentation was not provided for the remaining three. The policy did not provide guidance on the process to request a limit increase.

Cause: With a revision date of May 18, 2016, Policy #312 no longer reflected current practices within City operations. Two major factors in change of practices was the COVID-19 pandemic and ERP system implementation.

COVID-19 was declared a pandemic in 2019 and effects of the pandemic remain today. Some of the effects that contributed to the shift in business practices included increased online shopping, remote work and increased turnover in positions with difficulty filling those vacancies.

In addition, the City implemented Oracle in March 2022, changing the way procurement card expenditures were processed and approved.

Effect: Fraud risks when using personal online shopping accounts include:

- Accidental charges of personal items on the City procurement cards; and

- Items ordered on the City procurement card and shipped to home addresses without someone ensuring the items are being used for business purposes.

In addition, without a business purpose, someone not familiar with the work the department performs or not in the department at the time may not understand why the purchase was necessary. When the business purpose is not clear it presents a reputation risk and could be seen as wasteful or not being transparent about the use of City resources.

Recommendation

Finance Department management should update Policy #312 along with corresponding training materials and include but not limit the update to:

- Use of the Oracle online purchasing platform;
- Restrictions on use of personal online shopping accounts;
- Restrictions on shipping to home addresses;
- Requirements and definition of business purpose with examples provided;
- Documentation requirements and restrictions for food purchases;
- Current business processes, i.e. changes due to Oracle HUB implementation; and
- A formal process for card and transaction limit increase requests.

Management's Response

Management concurs with the recommendation. Policy #312 and training materials will be updated and distributed to City Pcard holders. Policy #312 needs updated to reflect the current Oracle business processes to include documentation requirements and business purpose. Policy #312 will also be updated to include restrictions on personal shopping accounts, shipping to home addresses, and limitations on food purchases. Management will establish a formal process for credit limit increase requests.

Responsible Party: Chief Financial Officer or designee

Implementation Date: July 1, 2023

CONCLUSION

Based on the audit work performed, Internal Audit concluded the procurement card program was generally in compliance. However, controls could be improved by updating Policy #312 along with corresponding training materials. Internal Audit will also conduct an ongoing review of the approval workflows in Oracle HUB to determine if proper review and approvals are being completed.

Internal Audit would like to thank department personnel for their assistance and numerous courtesies extended during the completion of this audit.