



CITY OF SAN ANTONIO

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April 25, 2006

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Ladies and Gentlemen:

RE: City Management's Corrective Action Plan for and the Report on the General Review of the Purchasing Card (P-card) Program and Utilization by Purchasing and General Services, Public Works, Parks and Recreation, Aviation and Asset Management Departments

We are pleased to attach for your review the consolidated report for audits of the P-card Program. This series of audits began in fall 2004 and continued through spring 2005, and concluded by exit conferences with the involved Departments in December 2004 and September 2005. Due to changes in City Executive Management and organizational realignment, additional meetings occurred in late 2005 to discuss issues in the report and to clarify Management's responses. The City Attorney's Office was also consulted about state procurement requirements. The Management and Staff of the Departments audited should be commended for their cooperation and assistance during the audits, especially since this was the first review of the P-card Program since it began in 2001.

Using purchasing cards has evolved as a means to acquire low value goods with greater efficiency. While the City's Program has expanded slowly, it was invaluable when dealing with the needs of evacuees from Hurricanes Katrina and Rita last year. However, the logistics, performance results, and controls for the P-card Program are not broadly known and/or understood by City Management and Staff involved in the processes. In addition, this information

has not been periodically shared with the Mayor and City Council Members. We believe that this communication is critical because the Program is a fiscal policy issue that allows designated Staff to use the City's credit. Based on transaction and monthly card control limits in effect during the audits, the cumulative purchasing capacity was up to \$1 million per month, or \$12 million annually. However, in fiscal year 2004, the total City purchases using the P-cards amounted to only \$1.4 million. In addition, the Mayor and Council should periodically be briefed on how the City's SBEDA policy and program are complimented, or impacted, by this Program. No such reports were prepared or available from early 2001 until late 2005 that evaluated the small/minority purchase impact.

A credit card program can be a very cost effective tool for purchasing; however, the activities should be adequately reported and monitored to ensure that no misuse, abuse or theft occurs. The sample of transactions reviewed during this audit did not indicate any such problems. There were concerns and recommendations about the need to improve/strengthen the internal controls for the Program. Many items purchased could be desirable for personal consumption, such as tools, lumber, cleaning supplies, postage stamps, hardware, plumbing parts, etc. Departmental oversight is critical to ensure that items purchased are consumed in the conduct of City business. Accordingly, the City Management Team should ensure that a cost effective but appropriate set of standards for purchases using these cards are developed, approved, implemented and monitored. The City can request more detailed electronic transaction information from the service provider, Bank of America, for its continuous monitoring initiative.

Various analyses have been summarized in the detailed report to give you some indication as to where the purchases are made and the level of activity. Data on merchant category codes (MCC) activity, and exceptions due to declined transactions and/or blocked MCCs have been presented. These would be areas for City Management to further examine for potential patterns or problems.

The Corrective Action Plan provided by the City Management Team generally agrees with the recommendations offered as a result of these audits. However, the P-card Program by its nature will require on-going scrutiny by the City to ensure that its use is reasonable, cost effective and appropriate.

The Internal Audit Department appreciates the opportunities to have performed these reviews because they have highlighted areas for substantial improvements in a Program that is still relatively new for the City. We are available to discuss this material with you individually at your convenience.

Sincerely,



Patricia M. Major CPA, CIA, CGFM, CTP
City Internal Auditor
San Antonio, Texas

cc: Leticia Vacek, City Clerk
All Other City Department Directors
Oz Parker, Purchasing Manager
Terry Collazo, Purchasing Card Administrator



CITY OF SAN ANTONIO
INTERNAL AUDIT DEPARTMENT

**General Review of
the Purchasing Card Program and Utilization**

by

Public Works Department

(Project No. AU05-002)

Parks and Recreation Department

(Project No. AU05-010)

Aviation Department

(Project No. AU05-013)

Issue Date: April 20, 2006

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EXECUTIVE SUMMARY

Overview

An evaluation of Purchasing Card (P-card) Utilization within the City of San Antonio has been completed. The objective of this audit was to determine if the P-card Program (Program) has been implemented as intended, and if internal controls are adequate and effective. This project included detailed review of completed transactions using P-cards during the period October 1, 2003 through March 31, 2005. Fieldwork for this review was conducted during the period October 2004 through June 2005.

This review was designed to provide reasonable but not absolute assurance whether the Program is being utilized appropriately. This audit included a study of internal controls that are considered relevant in assessing control risks and the control environment as established by management. The study was based on discussion and review of selected documentation; however, it would not necessarily reveal all internal control weaknesses.

The audit report includes background information to assist the users in understanding the Program. The twenty participating Departments used P-cards to expend \$1.4 million in fiscal year 2004. In fiscal year 2004, there were 9,321 P-card purchases with an average transaction amount of \$152.

Results in Brief

Based upon the work performed for this review, a number of issues and observations have been included in the report. Most of the issues are related to providing additional guidance to employees and strengthening internal controls over purchases made with P-cards. While we did not identify P-card transactions involving fraud and abuse, patterns of purchases were noted that should be scrutinized more closely in the future. Several instances of activity by vendors could be construed as inappropriate.

The Program could be strengthened with a P-card policy and comprehensive guidelines issued by the City Manager's Office. The guidelines that currently exist were issued by the Purchasing and General Services Department (Purchasing). Guidelines issued by Purchasing do not carry the same level of authority as would a set of guidelines issued by the City Manager's Office. Also, the Program does not currently enjoy the support of an Executive-level sponsor. The Sponsor could serve to evaluate the effectiveness of the Program and implement corrective actions if necessary. The Sponsor could also report on the status of the Program to the City Manager and the City Council.

Strengthening internal controls will help to ensure that expenditures made with P-cards are in compliance with established policies and procedures. While P-card programs can provide an efficient method of purchasing small dollar items, the efficiency comes with a higher risk of fraud and abuse than traditional purchasing methods.

Purchasing should perform analyses of transactions using P-cards to determine if commonly acquired products could be obtained at a lower cost by establishing an annual contract. They should also develop written procedures for the program's administrative duties performed within Purchasing.

The Departments that utilize P-cards should increase scrutiny of purchases and discipline cardholders who do not comply with policies and procedures. Management should increase monitoring for split purchases, which is a technique used by cardholders to bypass their transaction limit. The number of active cards should be reduced and cards that are no longer needed should be canceled immediately. An employee should be trained to serve as a back-up site administrator within each Department. Public Works has taken the initiative to strengthen the Program by completing the Departmental P-card Guidelines.

Bank of America provides online transaction reporting to authorized City employees. This transaction information can be analyzed in Microsoft Excel or similar tool to identify potential issues. The attachments to this report were developed by analyzing information that is available from Bank of America's website.

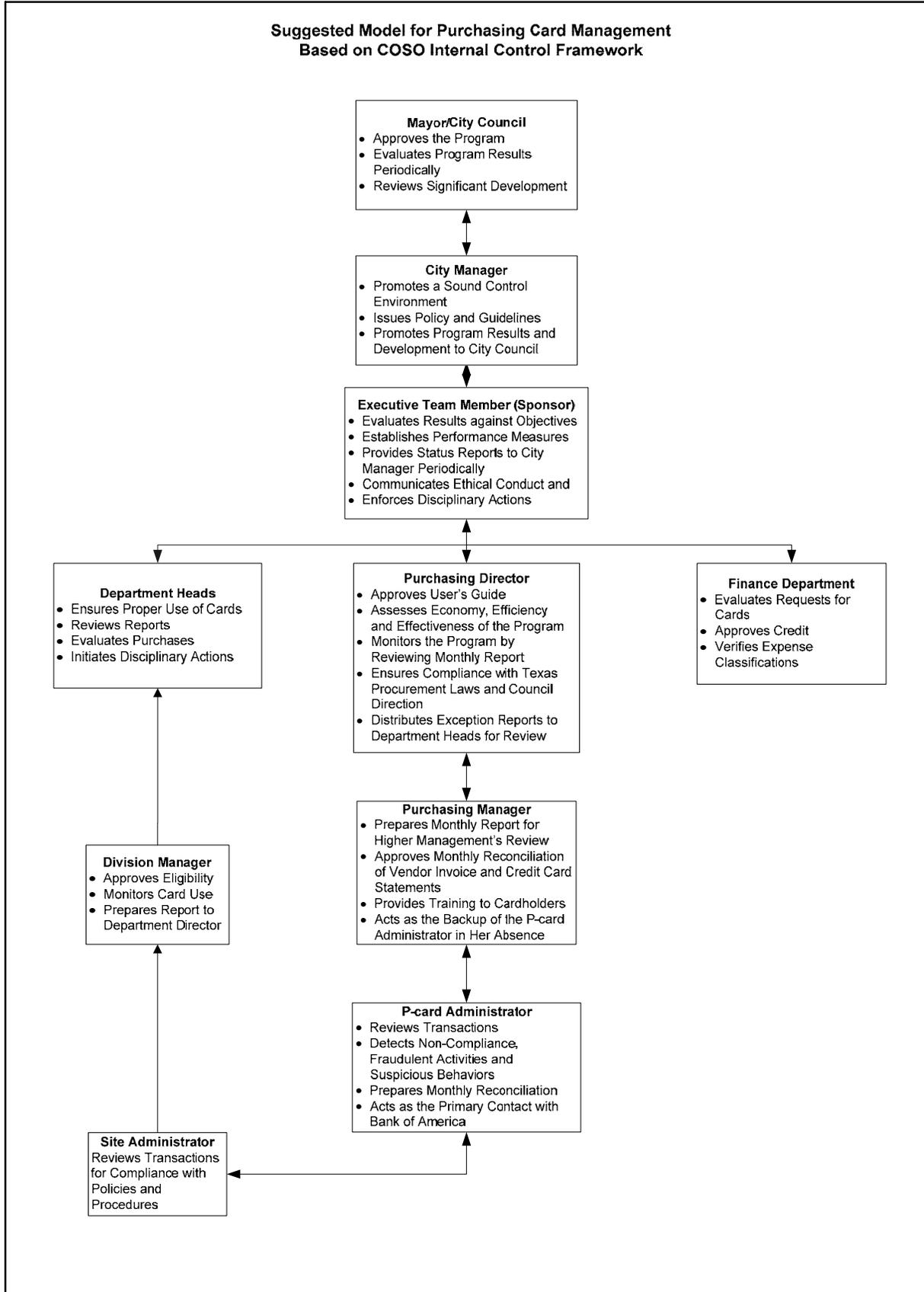
Addressing these observations may require coordination and input between the City Manager's Office, Purchasing and the participating Department. A combined response coordinated through the City Manager and the Executive Team is included with the report.

A suggested model for the P-card Program was developed during the audit. The model was formed based on the Internal Control – Integrated Framework, which was initiated by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)¹ in the 1980s to address the problem of fraudulent financial reporting. The framework identifies the following five internal control components:

- **Control Environment** - The control environment provides an atmosphere in which people conduct their activities and carry out their control responsibilities. It serves as the foundation for the other components.
- **Risk Assessment** - Management must continually assess risks that threaten the achievement of specific objectives.
- **Control Activities** - Control activities, including policies and procedures, are implemented to prevent and detect errors and irregularities. An example of an important control activity is segregation of duties.
- **Information and Communication** - Relevant information is captured and communicated throughout the organization.
- **Monitoring** - The entire process is monitored and modified as conditions warrant.

¹ The five organizations that form COSO are:

- American Institute of Certified Public Accountants
- American Accounting Association
- Financial Executive Institute
- The Institute of Internal Auditors
- Institute of Management Accountants



Introduction

With passage of City Ordinance 93584, the City Council approved the establishment of a pilot Purchasing Card Program (Program) on March 15, 2001. The ordinance approved a proposal by Bank of America (BOA) to provide Purchasing Card (P-card) services to the City of San Antonio at an estimated initial cost of \$5,000. The Program was implemented by the City to provide more efficient, cost-effective methods to purchase and pay for low-dollar, non-inventory and non-contract items, and to expedite the disbursement process.

The Program has been administered by the Purchasing and General Services (Purchasing) P-card Administrator since inception. Four Departments participated in the pilot Program including Public Works, Aviation, Information Technology Services, and Purchasing. Currently, twenty Departments are participating in the Program. Approximately 450 employees have been issued P-cards. **Attachment 1** on page 33 provides an overview of the city-wide participation in December 2004.

The pilot Program continued until the late summer of 2002. Purchasing Management indicated that there have been no other briefings to the City Council on this Program since March 2001. A presentation on the Program was given to the City Manager in September 2002. However, there is no written approval for this Program continuing beyond the pilot.

The former Office of Internal Review assisted Purchasing by reviewing the initial system controls during the pilot period in fiscal year 2002.

In conducting the audit, it became apparent that the City's risks were greater than generally known. As shown in **Attachment 1** on page 33, the City has extended transaction limits totaling approximately \$532,000 as of December 14, 2004. A revolving credit limit of \$1 million was established with Bank of America on August 16, 2001; thus, the City's financial exposure is capped at this limit during any monthly payment cycle. The City's financial exposure could approach \$12 million annually if the Program is fully utilized. Purchasing desires to expand the Program into more City Departments based upon its view of the benefits thus far.

Background

The Program was selected for audit based on a risk assessment process. Several risk factors contributed to the selection of this Program for audit, including:

- the newness of the Program
- the magnitude of dollars spent and transactions made using the Program
- the complexity of the Program, and
- the number of employees involved in the Program.

Three Departments, Public Works, Parks and Recreation, and Aviation were selected as the primary focus for this review due to their high dollar purchases among all City Departments. The City Auditor's Office conducted a risk assessment in late fiscal year 2004 to assist in determining which Departments' purchases to review in detail. Various aspects of Purchasing were also reviewed due to its administrative responsibility for the Program.

Purchasing

To administer the Program, Purchasing prepared the Program Cardholder User's Guide (User's Guide) outlining the responsibilities of cardholders and departmental employees who review transactions. BOA allows the City to customize the Program by blocking certain Merchant Category Codes (MCCs) through its EAGLS System (EAGLS), such as the travel & entertainment group. Thus, attempts to purchase blocked items are automatically declined. EAGLS, a web-based application, captures all the purchases made through the City's P-cards. Within EAGLS, various levels of access privileges can be assigned to provide the opportunity to view transaction activity, change transaction and monthly limits, cancel P-cards, specify the general ledger expense account to be charged for each purchase, and produce a variety of pre-set reports.

P-cards are issued in the name of the employee; however, all purchases are billed to the City of San Antonio. Each participating Department designates one or more Site Administrator(s) to coordinate the Program. Once per month, Site Administrators gather receipts from cardholders and prepare a Transaction Log Envelope (Log) for each cardholder. Site Administrators review transactions for compliance with Purchasing guidelines. Some Departments include an additional review which is performed by a Division Manager or Supervisor. All Logs are forwarded to the P-card Administrator for review, reconciliation, and processing for payment. Once this is complete, the Finance Department, Accounts Payable Section, initiates payment to BOA which occurs three times per month.

Public Works Department

The Public Works Department (Public Works) is staffed with approximately 1,000 employees and, as of December 2004, 64 P-cards were active in four divisions: Building Maintenance, Storm Water, Traffic and Parking. P-cards were generally granted to employees who purchased supplies for the Department as part of their job duties. As of November 1, 2003, the Building Maintenance Division was transferred to the Asset Management Department so that 41 of 64 cardholders were no longer under the management of Public Works. However, throughout fiscal year 2004, P-card transactions were recorded as part of Public Works' expenditures. For fiscal year 2004, total purchases by Public Works amounted to \$253,000, a 44% reduction² from \$448,000 in fiscal year 2003.

Overview of Public Works Purchasing Card Program						
Fiscal Year	Number of Users During Year	Total Dollar Amount of Purchase	Number of Purchases	Average Purchase	Total Trans. Limits	Total Monthly Credit Limit
2002	58	NA*	NA*	NA*	\$ 74,000	\$760,000
2003	70	\$448,098	2,252	\$ 199	\$100,000	\$813,000
2004	70	\$252,712	1,823	\$ 139	\$100,000	\$813,000
* Data not received Excerpt from Attachment 5 on page 41						

Parks and Recreation Department

The Parks and Recreation Department (Parks and Recreation) is staffed with approximately 880 employees and, as of December 2004, 120 P-cards were active in nine divisions. P-cards were generally granted to employees who purchased supplies and materials for the Department as part of their job duties. Due to the decentralized nature of Parks and Recreation, several Satellite Site Administrators have been designated to assist in the review of transactions and other administrative duties.

Overview of Parks and Recreation Purchasing Card Program						
Fiscal Year	Number of Users During Year	Total Dollar Amount of Purchase	Number of Purchases	Average Purchase	Total Trans. Limits	Total Monthly Credit Limit
*2002	-	\$ -	-	\$ -	\$ -	\$ -
2003	134	\$198,837	2,784	\$ 71	\$ 70,835	\$187,825
2004	153	\$228,246	2,739	\$ 83	\$ 76,384	\$204,825
*Did not participate in the P-card Program. Excerpt from Attachment 5 on page 41						

² A former supervisor of Building Maintenance purchased a total of, approximately, \$129,000 in fiscal year 2003. The dollar amount was reduced to \$5,000 in fiscal year 2004 because many cleaning supplies were placed on annual contracts.

Aviation Department

The Aviation Department (Aviation) is staffed with approximately 435 employees and, as of December 2004, 11 P-cards were active among four divisions: Finance and Administration, Planning and Engineering, Operations and Maintenance, and Stinson Municipal Airport. Again, P-cards were generally granted to employees who purchased supplies and materials for the Department as part of their job duties. All P-cards issued to Aviation employees have a single transaction limit of \$3,000.

Overview of Aviation Purchasing Card Program						
Fiscal Year	Number of Users During Year	Total Dollar Amount of Purchase	Number of Purchases	Average Purchase	Total Trans. Limits	Total Monthly Credit Limit
2002	13	\$226,073	791	\$ 286	\$ 39,000	\$ 100,000
2003	13	\$220,190	742	\$ 297	\$ 39,000	\$ 100,000
2004	12	\$103,728	434	\$ 239	\$ 36,000	\$ 95,500

Excerpt from Attachment 5 on page 41

Objectives

The objectives of this review were to determine if the Program has been implemented as intended, and if internal controls are adequate and effective. The scope of this review is from inception of the Program through March 31, 2005.

Criteria

The review was performed in compliance with generally accepted government auditing standards issued by the U.S Government Accountability Office and other criteria to conform with The Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Government Auditing Standards Quality Control and Assurance Section 3.52, requires an external peer review of an auditing practice at least every three years by independent reviewers. The City Internal Audit Department (CIAD) had its last external peer review in July 2001. It is scheduled for the next peer review in August 2005. The delay occurred as a result of realigning the Department from November 2001 through October 2004 to implement the City Charter changes.

Methodology

City Internal Audit staff performed the following procedures for the review:

- Reviewed policies and procedures related to P-cards
- Interviewed Site Administrators and the P-Card Administrator
- Developed process maps (or flow charts)
- Conducted risk and control analysis
- Tested transactions selected using both random and judgmental sampling.

Conclusion

The City has issued approximately 450 P-cards to employees with credit limits of \$1.9 million a month. With such a substantial financial risk, the first line of defense would be strong internal controls. Based upon audit procedures, the internal control environment for the Program needs substantial improvement. Existing practices and written guidelines lack City Manager and Mayor/Council policy support. There was no evidence of information provided to the Mayor/Council or any subsequent elected body about escalating the P-card pilot to a City-wide Program. Purchasing envisioned goals for the Program, however neither it nor user Departments have developed performance measures to ensure that the desired outcomes were measured, monitored, and achieved.

This audit did not identify specific examples of theft. There were significant concerns about the appropriateness of using this method of procurement, and the routine bypass of control functions by cardholders and the P-card Administrator. There were two examples of questionable vendor actions. These and various other exceptions could be interpreted by the public/taxpayers as unacceptable business practices, including possible misuse and abuse.

Recommendations presented to the City Manager require action in the following areas for the Program:

- Seek Mayor/Council approval of significant financial policy issues and matters related to procurement laws, including program expansion, credit limits, small business economic development, etc.
- Assign primary responsibility for oversight and monitoring to an Executive Sponsor.
- Develop the current administrative directive to support the Mayor/Council policy.
- Update, improve, and approve the User's Guide.
- Implement training for supervisors and staff on updated policies and procedures.
- Establish eligibility criteria for Departments and cardholders.
- Review and appropriately reduce transaction and monthly credit limits.
- Develop performance measures for the Program. Require annual performance measure reporting to the Mayor/Council.
- Establish accountability and implement consequences for non-compliance.
- Increase efficiency by improving the transaction reviews performed by Finance, Purchasing, and User Departments.

Detailed observations and recommendations are discussed on the following pages.

Observations, Recommendations, and Responses

1. Executive Sponsorship and Financial and Procurement Policy Directives

Observation

The use of P-cards is a broadly-accepted business practice in government and industry. This procurement method is viewed as efficient and cost-effective. However, research of other government programs suggests that there have been many cases concerning misuse, abuse, and theft. For this reason, having an adequate management and internal control environment is critical to achieve the desired outcome. A primary objective of this audit was to evaluate the adequacy and effectiveness of the City's P-card Program control structure.

The documentation provided by City staff, primarily Purchasing, indicated that the Mayor/City Council was given a high-level briefing about the pilot Program in March 2001. This was done essentially in conjunction with the request of an expenditure of \$5,000 for BOA software (EAGLS). There was no evidence of additional information provided to the Mayor/Council or any subsequently elected body about escalating the pilot to a City-wide Program. A presentation was given to the City Manager on the evolution of the Program in September 2002; however, there was no evidence of approval for the expansion of the Program

The City's financial exposure associated with this Program could approach \$12 million annually if the Program is fully utilized. Purchasing has plans to expand the Program into more City Departments based upon its view of the benefits thus far. The City Council has not been informed about the broad extension of the City's credit to employees without background checks and needs assessments. In many cases credit limits for P-cards are excessive which increases the financial risk of the Program.

In fiscal year 2004, \$1.4 million was expended through the Program. These funds are expended in a manner that lacks some of the preventative purchasing controls that typically exist. These controls provide management with some assurance that purchases are appropriate and that the items acquired are used to benefit taxpayers. In the absence of these controls, it is difficult for management to ensure that goods and services purchased with P-cards are necessary and are used appropriately. Also, there are policy issues involving Council direction on small and minority business purchasing that may be bypassed when funds are expended through P-card purchases.

During this review, it was difficult to determine whether items purchased with P-cards were used to benefit taxpayers. It is clear that cardholders often attempt to use the P-cards to purchase goods and services that should not be purchased by this method. The number of declined transactions was surprisingly high. During the first six months of fiscal year 2005, 783 or 13% of 5,945 P-card transactions attempted were declined (see **Attachment 2** on page 34). This seems to indicate that employees who are utilizing P-cards do not fully understand their role in the purchasing of goods and services or the proper use of P-cards.

The success of the Program is highly dependent on the ethical conduct of cardholders themselves. The City Manager is in a position to promote ethical conduct by communicating the values and behavioral standards that should be demonstrated by all employees. Important components of this communication are the resulting discipline to employees who violate ethical standards, mechanisms that exist to encourage employee reporting of suspected violations, and disciplinary actions against employees who fail to report violations.

The City Manager has not issued guidance for the Program since inception. Although Purchasing has developed some guidelines for administering the Program, the City Manager possesses a higher level of policy making authority, including disciplinary actions for violations. Purchasing did not include disciplinary actions for misuse of P-cards in their guidelines because they do not possess the authority to impose disciplinary actions on employees outside of their Department.

The Program does not have a Sponsor within the Executive Team to promote the positive aspects and deter the potential negative aspects of purchasing with P-cards. The Executive Sponsor should take responsibility for the establishment of performance measures, evaluating the level to which the Program is

achieving its objectives, and periodically reporting to the City Manager on the status of the Program. The City Council, or a Council Committee, should also be informed of the results of the Program.

Risk

In the absence of guidance issued from the City Manager, the Program may not achieve its goal of purchasing small items more efficiently and effectively. Employees are less likely to be aware of their ethical responsibility to use P-cards only for their intended purpose and that the goods purchased should be used only for the benefit of taxpayers.

The City Manager and the City Council do not receive information regarding the magnitude of the Program and the extent to which the Program is achieving its goals. The City Council is unaware of the extent to which credit has been extended through this Program. This extension of credit increases financial risk to the City and may negatively impact the City's ability to meet small business economic development goals.

Recommendation

The City Manager should issue policy guidance for the administration of the Program. This guidance should include:

- Appropriate and inappropriate use of P-cards
- Accountability of Departmental Management and staff for the purchases made with P-cards
- Responsibilities of cardholders and the consequences of non-compliance with Program rules.

The City Manager should designate an executive within the City Manager's Office to serve as the Sponsor of the Program. The Sponsor should assume responsibility for establishing criteria to measure the success of the Program and for reporting on the level to which the Program has achieved objectives. The Executive Sponsor should determine and seek Council approval of an appropriate limit to the extension of credit for the Program as a whole. They should also assist in establishing criteria for the issuance of cards to employees and guidelines for maintaining reasonable credit limits based on need.

The Executive Sponsor should participate in an evaluation of the credit currently extended and reduce credit limits to better address business needs.

2. Administration of the Program

Observation

Purchasing management has demonstrated good planning for the Program by establishing a User's Guide. The User's Guide indicates the purpose of the Program and outlines restrictions and control procedures. However, several critical internal controls did not seem to be considered in the development of the Program.

2.1 Eligibility Criteria

Eligibility of cardholders has not been defined for the Program. The current practice allows cards to be broadly granted to employees who may make purchases as part of their job duties. As a result, many of the cards issued have never been used and were closed shortly before or during this review. Additionally, some cards have never been used and are still open. Other cards are rarely used. It appears that the following considerations were lacking from the Program:

- A formally documented needs assessment supporting each Department's card request
- A formally documented needs assessment supporting each individual cardholder
- A formally proposed employee cardholder eligibility criteria review including background checks.

2.2 User's Guide

It was said that the User's Guide was approved by the Purchasing Director, yet an officially signed copy is not available.

Purchasing has not updated the User's Guide since it was put in place on July 6, 2001. The User's Guide does not accurately reflect current practice. Purchasing performs some procedures that are not in the User's Guide and some procedures are performed differently than they are described in the User's Guide. For example, the current practice related to distributing newly issued cards differs from the process described in the User's Guide.

2.3 Management Monitoring

The Program is generally monitored by Purchasing and a report is submitted to the Director of Purchasing on a monthly basis. It lists total dollars spent for the month, top ten vendors, and issues/exceptions noted with its resolution. The report is informative and useful in monitoring the Program. However, it stays within Purchasing and has not been used to communicate with the City Council, Manager, Executive Team, or Department Heads regarding the performance of the Program.

In addition, Site Administrators do not produce any management reports for the Directors' review.

Risk

Lacking controls over the issuance of P-cards dramatically increases financial exposure of the City. An excessive number of P-cards outstanding invites opportunities for cards to be misused or stolen, and adds administrative burden for managing these cards. The Program will not be cost-beneficial if the risk of loss exceeds cost savings.

An outdated User's Guide could lead to confusion as to the current status and responsibilities of personnel involved in the process. As a result, internal controls may not be functioning effectively as intended.

Without on-going monitoring activities, any deficiencies of the Program may not be detected in a timely manner.

Recommendation

Document the eligibility criteria in official documents to ensure consistency of the practice, especially during employee turnover or organizational changes. To identify and control cards used infrequently, see recommendation made on page 20.

Strengthen controls over individual cardholder's eligibility by establishing criteria based on the following three areas of considerations:

Department needs include:

- (a) Number of existing cards within the Department
- (b) Type of purchases.

Individual employee's needs include:

- (a) Demonstrated and documented purchasing duties and responsibilities
- (b) Frequency of anticipated use.

Employee background checks includes:

- (a) Driving records
- (b) Criminal records
- (c) Credit history
- (d) Length of service with the City beyond the probationary status
- (e) Check for prior or current disciplinary status.

Obtain City Council approval of the financial/credit extension policy for this Program and provide at least an annual status report to them. The City Manager's and the Chief Financial Officer's (CFO) approvals should be required for the User's Guide. The City's CFO review and approval should be required for all Department-specific procedures in support of or to supplement the City-wide document.

Update the User's Guide to accurately reflect current practices. Distribute the updated User's Guide to all employees involved in the Program. Establish a training program to inform employees of the updated User's Guide and policy.

Develop a process to provide Departmental Management with periodic reporting of critical P-card purchasing information. Site Administrators have access to this information and could produce the reports. Reports might include the top vendors patronized, card usage by employee, card usage by division, transaction limits by employee, monthly limits by employee, etc. This available information can be used to establish benchmarks or performance measures by which the Program's effectiveness and use can be judged to determine if it is successfully meeting City and Department goals and objectives.

3. Effectiveness of Oversight and Monitoring

Observation

Purchasing has established internal controls such as review and monitoring of purchases made by cardholders. These controls are intended to prevent or detect transactions that do not comply with guidelines. Certain exceptions found in audit testing indicate that some controls were not functioning as intended, for example:

- Seven purchases were made by employees who were not the cardholder. These purchases were generally made by telephone or using the Internet. Four of these transactions were made by employees in Aviation, two in Parks and Recreation, and one in Public Works.
- Documentation on twelve purchases reviewed did not include receipts that describe the items purchased. Eight of these were in Aviation and four were in Parks and Recreation.
- Five purchases were for items which were on an annual purchase contract. Employees do not receive the contracted sales price when paying with P-cards. Three of these purchases were made by employees in Aviation and two were in Public Works.
- Meals are purchased for staff meetings and other events for the Convention and Visitors Bureau. This does not appear to be an appropriate use of taxpayer money. Purchases of meals were sometimes charged to a general ledger code titled "Other Contractual Services," which does not accurately describe the items purchased.
- Split transactions were allowed. Split purchases are two or more transactions that would have normally been a single transaction. Cardholders in Public Works and Parks and Recreation split the single transaction into two or more to circumvent, or to by-pass, the transaction limit control established for the cardholder.
- P-card purchases made by employees in Parks and Recreation and Aviation appear to be charged to general ledger codes that do not match the goods or services purchased.
- P-card purchases were made at City Departments such as the COSA Store and COSA Treasury by the Convention and Visitors Bureau and Asset Management Departments, respectively. When interdepartmental transactions are made using P-cards, they are not captured correctly by the accounting system.
- One vendor made three unauthorized charges on May 28, 2003 to an Aviation P-card totaling \$8,700. Those charges were identified by a COSA employee and were credited by the vendor on June 20, 2003. The vendor claimed that the charges were made in error; however, in the absence of diligent monitoring, these charges may not have been identified and reversed.
- Purchases are made with P-cards that could be made collectively at a lower cost; for instance, registration fees for conferences and professional membership dues. Many separate Departments have employees that belong to the same professional organization. This may also be the case with a specific conference. The City could pay a lower cost through group memberships across City Departments. This was noted in reviewing Parks and Recreation transactions.

It appears that persons responsible for reviewing P-card transactions do not consider the pattern of purchases over time. For example, analysis of P-card purchases made by Public Works cardholders revealed that the previous Building Maintenance Supervisor for the Storeroom, who retired from the City in May 2004, made the highest amount of total purchases for the period under review, \$134,000. **Attachment 6** on page 42 lists ten employees with the highest total amounts of purchases in Public Works and Asset Management.

Further analysis indicated that 39 percent of the supervisor’s fiscal year 2003 purchases, about \$50,000, was made from a particular vendor for general cleaning supplies, as summarized in Exhibit A. The supervisor’s accumulated purchases exceeded \$25,000 in a year, and these cleaning supplies are considered items highly desirable for personal use. However, this was not brought to the attention of City Executive Management or Public Works management. According to City Contracting Policy, goods that cost over \$25,000 may trigger a requirement for competitive bidding under the Texas Local Government Code chapter 252.

This practice was indeed noted by the P-card Administrator in Purchasing who explained that a majority of the purchases were potentially for emergencies. Building Maintenance indicated that the P-card was used for purchasing the Department’s inventory of routine cleaning supplies at the time.

Exhibit A					
Purchases Made by the Former Supervisor of Building Maintenance					
Fiscal Year	Total Employee’s Purchases	Purchases from a Single Vendor	Purchases from Other Vendors	Total COSA Purchases	Percent Purchases by Employee
2003	\$129,019	\$50,194	\$78,825	\$1,646,008	8%
2004	\$5,242	\$2,230	\$3,012	\$1,420,677	0%
Total	\$134,261	\$52,424	\$81,837	\$3,066,685	N/A
Source: BOA EAGLS system provided by the Purchasing Department					

Risk

A lack of diligent transaction review may lead to inappropriate purchases, inaccurate general ledger coding, and overpaying for products that should be purchased through a contract.

The City may not be in compliance with Texas Local Government Code chapter 252 which requires that goods costing more than \$25,000 be acquired through contracting or competitive bidding. In addition, such purchases are not reviewed and approved by the City Council. In the case described above, it was unclear whether the most reasonable pricing was achieved. A purchase order open for bid could have helped the City achieve its goals for utilizing small, minority, women, and African-American owned businesses.

Recommendation

Strengthen the transaction review process to detect purchases and transactions that do not comply with purchasing guidelines. For example, cardholders should always submit detailed receipts to support the purchases made. Reviewers should request additional documentation if necessary. The Departmental Site Administrator should ensure that the proper general ledger code is used for each purchase.

Enhance P-card training by incorporating an overview of relevant purchasing laws and the consequences of non-compliance.

4. Responsibility and Accountability

Observation

Based on observation and discussion, Division Managers are reviewing and approving P-card transactions in some Divisions but not others. Review by Division Managers is desirable; however, the review performed by the Division Manager often duplicates the review performed by the Site Administrator by focusing on the same areas of concern.

Purchases with P-cards could be reviewed and approved several times by multiple personnel throughout the process from transaction initiation to allocation in EAGLS. In large Departments such as Public Works and Parks and Recreation, transactions are reviewed by the Division Site Administrator, the Department Site Administrator, and sometimes the Division Manager/Supervisor. Another review is performed by the P-card Administrator in Purchasing.

It did not appear that the duplicate reviews necessarily enhance or improve controls. While the User’s Guide describes the above reviews, it fails to clearly distinguish who should review what so that each reviewer covers different, but specific areas of concern: inappropriate use of cards, transaction discrepancies, inaccuracy of accounting records, or fraudulent activities.

Risk

If the focus of each review is not clearly identified, some areas/items may be repeatedly reviewed while others may never be reviewed. Reviews, if not focused, could be based on individual intuition and thus lack consistency. Excessive and ineffective monitoring effort adds administrative burden, diminishes the effectiveness of the review process, and confuses responsibility and accountability in cases of mistakes and irregularities.

Recommendation

Clearly identify what is expected of each reviewer by establishing specific review objectives for each person. An example is provided in Exhibit B. Develop check lists to provide direction and completeness of the various review steps.

Create a requirement that Division Managers participate in the review of P-card transactions.

Exhibit B	
Recommended P-card Review Process	
Position	Review Responsibility
Division Manager/ Supervisor	Ensure appropriate use of cards.
Department Site Administrator	Ensure accuracy of Logs and adequacy of purchase documentation. Run monthly merchant and declined transaction reports. Review for split transactions.
P-card Administrator	Ensure additions and terminations of card users. Ensure coordination with the vendor and management of the overall Program. Ensure accuracy of P-card statement reconciliation and accounting records.
Accounts Payable	Ensure accuracy of payment in terms of dollar amount and vendor.

5. Review of Purchases

Observation

Purchases were reviewed by Site Administrators and some Division Managers. Review of a sample of purchases and reconciliations of P-card statements revealed the following incidents:

- Some purchases reviewed did not contain the Department Site Administrator's approval
- One purchase reviewed was approved by a Stock Clerk, who does not have authority to approve purchases
- The P-card Administrator performs a reconciliation of P-card statements. However, no signoff was documented, nor was the reconciliation reviewed by the Purchasing Manager. A signature is necessary to provide evidence that statements were reconciled and reviewed.

Risk

Controls that had been established by management are not thoroughly implemented. Thus, not all purchases were examined and properly approved during the review process.

Responsibility and accountability may not be established if reconciliation of P-card statements is not documented. It may also indicate that reconciliation was not performed.

Recommendation

Ensure that reviews and approvals are documented by all reviewers. Add an additional signature line to the Log to document the Manager's review and approval.

The Purchasing Manager who supervises the P-card Administrator should review the monthly reconciliation of P-card statements to ensure that they are performed timely and accurately. The Manager's review should be documented.

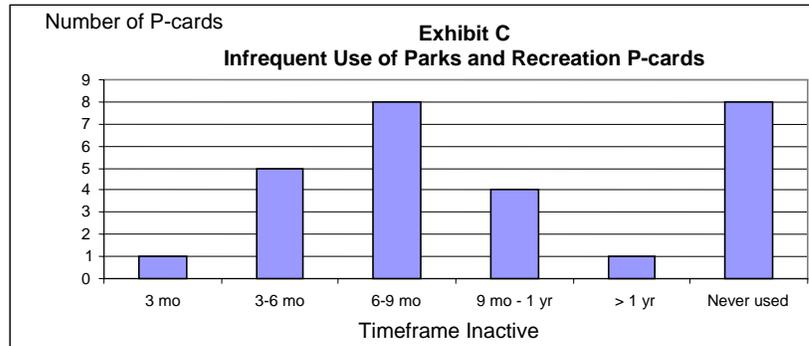
6. Infrequent Use of P-cards and Financial Exposure

Observation

Based on an analysis of the number of P-cards issued to Parks and Recreation employees, P-card usage, and total employees within each cost center, it appeared that some cost centers may have more cards than is necessary.

6.1 Infrequent Use

Parks and Recreation probably issued many cards to provide convenience and to allow for emergency purchases. Exhibit C shows that, as of February 7, 2005 many P-cards were used infrequently. Eight P-cards have not been used since issuance. Thirteen other cards were not used for six months or more.



Source: Bank of America EAGLS System

Further analysis indicated that all fourteen Site Administrators in Parks and Recreation have been issued a P-card. Eight of them have had many consecutive days of account inactivity or use their cards very infrequently. Five Division Managers have P-cards. Three have P-cards with high credit limits and have never made a purchase. **Attachment 8** on page 44 shows P-card usage in each of nine divisions. **Attachment 9** on page 45 shows P-card usage within Parks and Recreation sorted by transaction limit.

When Division Managers make purchases with P-cards, the review of the transaction is performed by a Site Administrator who may report to the manager. In these cases, the reporting relationship may deter the reviewer from challenging transactions that do not comply with purchasing guidelines. **Attachment 10** on page 46 is a user profile that includes employee titles within Parks and Recreation along with the associated transaction limit ranges and the amount purchased during the audit period.

In Aviation, an employee was designated as a cardholder by management in October 2001 when the Department was asked to participate in the pilot Program. Since issuance in 2001, the employee has never picked up the card. The card has remained open since issuance and it is retained at Purchasing. **Attachment 11** on page 47 is a user profile that includes employee titles within Aviation and the associated number of transactions and the amount purchased. **Attachment 12** on page 47 shows that the majority of cardholders in the Aviation Department have not made purchases that approached their credit limit. This suggests that credit limits could be reduced. **Attachment 13** on page 48 shows that many Aviation cardholders' transaction limits appear to be beyond their needs.

Attachment 6 on page 42 is a user profile that includes employee titles within Public Works and the associated number of transactions and the amount purchased. In Public Works, for fiscal years 2003 and 2004, the average purchase amount was \$172. **Attachment 7** on page 43 shows P-card usage within Public Works sorted by transaction limit.

The Government Accountability Office's Audit Guide titled Auditing and Investigating the Internal Control of Government Purchase Card Programs states:

“Purchase cards should be issued in controlled, limited quantities and only to government employees with legitimate needs to have the cards. Single purchase and monthly credit limits should be established based on the expected monthly purchases of the cardholder. Both of these determinations require an objective effort by operational supervisors and management, with assistance from purchase card management, to evaluate the existing and continuing needs of operations and cardholders.”

6.2 Financial Exposure

Over \$400,000 of credit (annual financial exposure) related to inactive cards was not used in Parks and Recreation. Exhibit D shows the financial exposure associated with each of the cost centers that have the inactive P-cards described above.

**Exhibit D
Specific Parks and Recreation Cost Centers with Inactive P-cards as of February 7, 2005**

Cost Center	Number of Cardholders	Number of Employees	Number of Cards Not Used within 90 Days	Annual Credit Available	Annual Unused Credit
Contract Serv. Admin.	1	3	1	\$12,000	\$12,000
Cultural	4	9	1	108,000	36,000
Director's Office	4	14	2	108,000	18,000
Market Square	4	16	1	84,000	12,000
McFarlin Tennis Ctr.	2	2	1	24,000	12,000
Mission del Lago Golf	1	14	1	12,000	12,000
Park Maintenance	21	157	3	168,000	18,000
Park Ops. Admin.	4	16	3	126,000	94,000
Park Police	4	118	1	120,000	12,000
Park Projects	3	19	2	36,000	24,000
Prop. 3 - Linear Parks	2	2	2	24,000	24,000
Rec. Serv. Admin.	5	21	2	156,000	42,000
River Operations	5	28	1	72,000	12,000
Special Programs	2	7	1	48,000	24,000
Tower	3	16	2	42,000	18,000
Volunteer Services	5	12	1	60,000	24,000
Warehouse Ops.	2	10	2	12,000	12,000
Totals	72	464	27	\$1,212,000	\$406,000

Source: Bank of America EAGLS System and the Parks and Recreation Department

Risk

An excessive number of P-cards issued and high credit limits increase the financial exposure to the City and invites opportunities for cards to be misused or stolen. A higher number of P-cards also increase the administrative burden of the Program. Lack of separation of duties in the review process increases the risk of misappropriation of funds.

Recommendation

- a. All Departments participating in the Program should perform an analysis of P-cards issued, including usage of each card, to determine if some of the P-cards could be eliminated. Identify those cards that are infrequently used in the annual review process and determine if there is continuing need for retaining the cards. Reclaim cards where use is limited, and where the need is not clearly demonstrated.
- b. The analysis should also consider transaction limits and credit limits to determine if they can be reduced. It may be possible to eliminate some cards or reduce limits without impairing the efficiency and effectiveness of operations.
- c. To strengthen separation of duties by eliminating the P-cards issued to Site Administrators and Divisional Managers who review P-card transactions.

7. P-card Training and P-card Agreement (Agreement)

Observation

Employees are required to attend training before accepting a P-card. Purchasing provides training a few times a year. At the end of training, employees are required to sign an Agreement acknowledging their understanding and compliance with the terms and conditions for the card's use. The following opportunities were identified to improve the training experience and requirements:

7.1 Training

Cardholders receive training prior to receiving a P-card. The training seminar informs cardholders of the P-card process, purpose, credit limits, recordkeeping and responsibilities. Since the work environment may change, follow-up training is necessary to update or remind cardholders of new developments in laws, procedures, or personnel. However, the Program currently does not provide such update training to cardholders. Also, attendance at training sessions is not consistently recorded on a sign-in sheet.

7.2 Cross Training

Site Administrators are the only persons trained to administer the details of the Program for their Departments. Specific duties related to P-card administration must be performed on designated days of each month.

7.3 P-card Agreement

When an employee is issued a P-card, they must sign an Agreement stating they have a copy of the User's Guide, will adhere to the guidelines for the Program and to their specific transaction and monthly limits. The Agreement that the cardholder signs does not consistently state the cardholder's limits and card number. If a P-card is lost or stolen and a new card is issued with a different number, the cardholder is not required to sign a new Agreement with the new card number.

The review of ten randomly selected Agreements in Public Works indicated that two Agreements were not signed by a supervisor. The review of sampled Agreements for Parks and Recreation and Aviation indicated that none of them included supervisor approvals. According to the P-card Administrator, supervisors sometimes document approvals in an email to the P-card Administrator, instead of on the Agreement. However, no evidence was available to support the approval.

Risk

Cardholders' knowledge of City policy and State laws may not be current if continuing education is not provided.

If the P-card Site Administrator is unavailable to perform job duties, efficiencies related to the Program may not be realized.

If Agreements are not consistently created and updated with supervisor approval, card number and credit limits, cardholders and their supervisors may not be aware of their established limits.

Recommendation

Periodically, at least annually, provide mandatory follow-up training to cardholders and re-certify their understanding of the Program, City policy and State laws governing card use. Prepare and retain an attendance sheet signed by all employees who participate in training sessions.

For Departments that do not have a trained back-up Site Administrator, train another employee to perform the duties of the Department P-card Site Administrator in case of illness, vacation or unforeseen circumstances.

Purchasing should ensure that transaction and monthly limits are included on the contracts signed by employees and supervisors. This will communicate the limits to the employee and document their agreement. If limits are changed or new cards issued with a new card number, a revised contract should be signed by the cardholder and their supervisor.

8. Review of Purchases for Possible Annual Contracts

Observation

P-card transaction data is analyzed monthly by the P-card Administrator so that Purchasing can understand the utilization of P-cards. Among the data analyzed is the amount being spent by each Department and the top vendors patronized.

It does not appear that this analysis is used to identify vendors or products that should be put under a purchasing contract. According to City Contracting Policy (Texas Local Government Code chapter 252), if the City spends more than \$25,000 annually using municipal funds, a contract is required to be sought. In fiscal year 2004, over \$58,000 was spent using City P-cards at Lowe's and The Home Depot. Parks and Recreation accounted for over \$32,000 of the amount spent. The goods were purchased at full retail price. Another example noted occurred in Public Works where the previous Building Maintenance Supervisor for the Storeroom made purchases of general cleaning supplies from a single vendor for approximately \$50,000 in fiscal year 2003. Details of this are described in Observation 3 in this report.

Purchasing requested a legal opinion from the City Attorney's Office in January 2006 regarding its compliance with the provisions of Chapter 252 of the Texas Local Government Code. An opinion has been rendered under the assumption that "Card usage is monitored by the Purchasing Department to determine whether a need exists to create additional annual contracts, or add commonly used commodities to existing annual contracts."

The opinion indicated that the City's Purchasing Card Program as it is currently established and monitored does not violate Texas Local Government Code Chapter 252. While this is good news to the City, no evidence was provided during the audit to indicate that adequate monitoring mechanism exists in the process to identify annual contracts.

Risk

In the absence of purchasing contracts, the City may be foregoing cost savings.

Recommendation

Purchasing should more effectively analyze all City expenditures, including those made by P-cards, to determine if an annual contract should be sought.

9. P-card Vendor

Observation

Bank of America (BOA) issues the credit cards used in the Program. EAGLS is the web-based application that BOA makes available to P-card customers. The City uses EAGLS to research transactions, change limits and run reports. BOA has been the vendor for this Program since its inception in October 2001. The City has a term agreement with BOA.

Since the inception of the Program, Purchasing has not issued a Request for Proposals to determine if other vendors offer more features or greater value in P-card Programs. Generally, service contracts should not extend beyond five years before being re-bid. This standard was adopted by the Federal Government with the passage of the McNamara-O'Hara Service Contract Act. This is to ensure that the services offered represent best practices and at the best pricing.

According to Purchasing, the City has had some problems with BOA as the vendor. They do not always respond to inquiries made by Purchasing. Occasionally BOA provides inconsistent answers to inquiries. EAGLS does not provide a complete audit trail for the Program. BOA has had a problem processing large quantities of cards in a timely manner. They have eliminated the transaction limits for 16 percent (70 out of 425) of the City's cardholders and have not corrected the limits since it was brought to their attention. During analysis, summary reports were not found to be completely accurate when compared to the transaction level data. In addition, inconsistent results are received when summary reports of the same time period are run on different dates.

The P-card Administrator indicated that in 2004 City staff attended presentations by at least one other P-card vendor. A decision was made however, to continue using BOA as the P-card vendor.

Risk

The City could be utilizing a P-card Program that does not offer all of the features that are desired and available in the market place today. The controls the City has requested are not being administered accurately and timely by BOA (limits, changes, etc.) which could translate to higher financial exposure.

Recommendation

Consider issuing a Request for Proposals to determine if competing P-card vendors can provide additional features or value that would benefit the City through automated controls improvements.

10. Develop Written Procedures for P-Card Administration

Observation

Purchasing has not developed internal written procedures for administering the Program.

Risk

If the P-card Administrator is absent due to an illness or resignation, there are no written procedures to guide another employee in administering the Program. If policies and procedures are not in writing with management approval, employees may perform inconsistently. Without written policy and procedures, management does not have any form of measurement to base a performance evaluation.

Recommendation

Develop written procedures for the administration of the Program within Purchasing. Purchasing Management should review and approve the written procedures.

11. Overrides of Established Controls

Observation

The Internal Audit Department reviewed transactions that were originally declined and later accepted by vendors. Transactions can be declined for a variety of reasons as shown in **Attachment 2A** on page 34. The majority of declined transactions reviewed were initially declined because they exceeded credit or transaction limits or were attempted at vendors who were classified with a restricted MCC. Many of those declined transactions were subsequently completed when the P-card Administrator overrode the control that prevented the transaction from being completed. It was noted that little documentation was retained specifically documenting the approvals to override the decline. Most approvals to override a credit/transaction limit or restricted MCC were made verbally on the phone.

Based on discussion with the P-card Administrator, she was authorized to override an employee's transaction limit if the purchase is over the transaction limit by 10 percent or less. If the purchase is over the transaction limit between 10 percent and 20 percent, then the purchase has to be approved by the Department Site Administrator.

BOA provides a standard report that shows all declined transactions for a given period. These reports are a good resource for monitoring P-card use; however, these reports are not reviewed by the P-card Administrator, Site Administrators or Division Managers.

Risk

Purchasing practice may not adhere to the established policy and procedures. Site administrators may not be aware of declined transactions and the associated problems for their Department.

Recommendation

Reduce overrides of established controls to a minimum. When an override is necessary, obtain written approval from the Purchasing Manager and document the circumstances. Purchasing should retain all documentation of the approval of the override.

On a monthly basis, Site Administrators should review the P-card transactions that were declined for their Department by pulling reports similar to **Attachment 3** on page 36 and **Attachment 4** on page 40. This review may identify cards that do not have a credit limit that meets the needs of the Department. It may also identify attempted misuse of P-cards such as exceeding transaction limits or attempted use at a restricted merchant.

In addition, this documentation will facilitate annual review to determine if the transaction limit approved for each employee is established at an appropriate level or if a MCC should be restricted.

12. Merchant Category Codes

Observation

Every merchant that accepts credit cards is required to select a MCC for their category description. These codes can be used to limit the types of purchases that are made on a credit card. Purchasing has blocked many MCCs in an attempt to control the types of items that are purchased through P-cards. Examples of blocked MCCs include boat dealers, beauty shops, and airlines.

Based on data reviewed, on average, 70 P-card transactions per month are completed at restricted merchants regardless of the MCC block. In a six-month period (October 2004 through March 2005), there were 407 declined transactions due to MCC Group Exclusion. However, 396 of those were overridden by the P-card Administrator and purchases were made. See **Attachments 2 and 2C** on pages 35 and 36 for additional information related to declined transactions.

The User's Guide lists types of vendors that are blocked. The following MCCs were not blocked in accordance with the User's Guide:

- Professional services
- Automobile & truck dealers
- Personal care services.

Risk

The frequent override of MCC blocks and credit limits increases the risk that cardholders make purchases at restricted vendors.

Each time a cardholder or Site Administrator calls to have an MCC temporarily lifted, the P-card Administrator is required to spend time satisfying the request. This is not an efficient use of time. To lift a block, the P-card Administrator must contact BOA.

Recommendation

Review the frequency and dollar amounts of purchases that have been made at vendors with blocked MCCs. Compare the list of blocked MCCs to the number of purchases in each MCC to determine if the current list of blocked MCCs is helping to prevent unauthorized purchases. **Attachments 3A – 3C** on pages 38-40 are examples of analysis reports to use in this process.

13. Termination of P-Card Accounts

Observation

The User's Guide establishes procedures to be followed when an employee with a P-card transfers or terminates employment with the City. The Site Administrator secures the P-card from the employee and notifies the P-card Administrator who reduces the card's credit limit to zero. The P-card Administrator closes the employee's account through the BOA EAGLS system. The testing of a sample of terminated employees' transaction history and interviewing personnel revealed the following:

13.1 Notification to the P-card Administrator

The P-card Administrator is not always notified when an employee with an active P-card is terminated. In one such incident, the terminated employee's card was not closed. In other cases the card is not closed immediately after the termination. However, credit limits are requested to be reduced to zero by Site Administrators which lessens the risk of unauthorized use of the card.

13.2 Charges after Employee Termination

A purchase was made in July 2004 after the termination of the Building Maintenance Supervisor in Public Works in May 2004, but the purchase was immediately refunded by the vendor. Further inquiries indicated that the purchase was originally declined by the BOA EAGLS System because the employee's account had been closed; however, the vendor forced it through by entering a special code. The vendor later found out that the employee had retired from the City and a credit was processed. Purchasing indicated that the vendor was able to charge the employee's credit card because the employee's credit card was on file with the vendor.

In another case, a professional membership was purchased on a P-card seven days after a Parks and Recreation cardholder's termination date. Consequently, the cardholder did not submit any supporting documentation for the purchase. The City did not ask the former employee to reimburse the City for the membership purchased.

Risk

If Purchasing does not receive the terminated employee's P-card and immediately close the employee's account, the P-card would still be active after the employee has separated from the City.

Vendors may create fictitious charges to City P-cards.

Recommendation

All City Departments should already have an employee termination checklist identifying all the possible items to be collected from an employee when a transfer or termination occurs. The list should include keys, ID card, cell phone or pager, P-card, etc. Site Administrators should follow established procedures for notifying the P-card Administrator in Purchasing following transfer or termination of a cardholder. The P-card Administrator should close accounts immediately after receiving notification that a cardholder has terminated, and ensure that all closed P-cards are retrieved.

Work with BOA to ensure that there is not a code that vendors can use to override declined transactions. Continue to check for fictitious charges during transaction review and monthly reconciliation.

14. Split Purchases

Observation

“Split purchases” are two or more transactions that would have normally been a single purchase transaction. Cardholders split the single transaction into two or more to circumvent, or by-pass, the transaction limit control established for the cardholder.

Possible split purchases were tested by analyzing Public Works, Parks and Recreation, and Aviation P-card transactions that occurred during the audit period. There were six confirmed split purchases in Public Works and thirteen confirmed split purchases in Parks and Recreation. There were no split purchases identified in Aviation transaction data.

Public Works management had detected one of the six split purchases and had notified Purchasing. There was no specific record of action taken with this employee or with other Department cardholders to reinforce adherence to transaction limits or to remind staff about the potential for disciplinary action.

Based on our data analysis criteria, 45 Parks and Recreation purchases were identified as possible split purchases. A sample of these was judgmentally selected for detailed review. Out of 18 selected purchases, 13 were identified as having circumvented single transaction limits by splitting their purchase into more than one transaction. In one instance, it was noted that the split purchase was identified by management and the cardholder was given a written reprimand. However, many other split transactions occurred and were either not identified by a reviewer or no action was taken.

The User’s Guide states, “Your Purchasing Card may have a single transaction dollar limit. This is the amount available on the Purchasing Card for a single purchase. Currently, the maximum limit allowed is \$3,000.00. Cardholder **should not** attempt to make a purchase greater than his/her approved amount.”

Risk

Purchases exceeding the cardholder’s transaction limit are unauthorized transactions. Allowing occasional exceptions establishes an environment of control violation tolerance.

Recommendation

Purchasing should establish reporting systems for the Program to identify any split purchases made. Purchasing should also provide guidance to transaction reviewers to assist them in identifying split transactions. In addition, re-emphasize to cardholders in P-card training that splitting purchases to circumvent transaction limit controls is not allowed and will result in serious disciplinary action.

The City Manager should establish disciplinary actions that are consistent throughout the City for unauthorized transactions using the P-card. These disciplinary actions should be defined in City policy and the User’s Guide.

The Department Director should ensure that appropriate and progressive disciplinary action follows for the individual(s) involved. Employees who violate the User’s Guide should be reprimanded in writing and reminded of the standards in the User’s Guide. Management should increase scrutiny of the cardholder’s transactions and should cancel the card if violations continue. The Department Director and City Manager should be informed of all violations of P-card regulations and guidelines in a timely manner.

15. Change of Management

Observation

Building Maintenance was transferred to the Asset Management Department from Public Works on November 1, 2003. The Asset Management Department did not review the Program after the transfer, nor did it document acceptance and approval of the Building Maintenance Division P-card use.

Risk

Controls that were established and effective under the original organizational reporting structure may not necessarily be effective under realignment. Whenever a P-cardholder is transferred to another Department, Division, or Section, the management/supervision of the new area should review the needs assessment for the area and the eligibility of the individual because that manager/supervisor is accepting the responsibility for the credit exposure and losses if any should occur.

Recommendation

Purchasing should develop P-card procedures to assist Departments in handling reorganizations. When City Departments are re-organized, re-assess the Program in terms of Department needs.

16. Safety Awards

Observation

Public Works purchased gift cards from Target, Olive Garden, Toys R Us and other retail stores as safety awards for employees. The cards were normally \$20 or \$25 each and awarded three times a year; and an employee could receive multiple cards in a year. Public Works no longer awards gift cards but gives gifts, such as coolers, camping chairs, and bags. The awards are currently not included in the employees' compensation for tax purposes.

This award raised a concern about the taxability of these items. IRS regulations may require these gifts to be included in employees' compensation. Public Works management has taken precaution to document the distribution of gift cards and track the recipients, award items, and social security numbers. However, the documentation does not specifically address the issues below:

- The award sheet does not document awarded employees' position titles to demonstrate employees' eligibility. IRS Publication 525 states that an award will not qualify as a safety achievement award if (i) it is given to a manager, administrator, clerical employee, or other professional employee; and (ii) during the tax year, more than 10% of employees, excluding employees stated in (i), received a safety achievement award.
- No post-review procedures are in place to ensure that 10% or less of employees receive the awards, based on the above IRS requirement.
- Documentation is in a manual format that prevents electronic sorting by recipient in order to track the total dollar amount received by a recipient in a one-year period.
- Gift card serial number, date, and dollar value are not tracked in the documentation.
- Private information such as social security numbers is not protected, and
- Recipients did not consistently sign off to acknowledge the receipt.

The authority and policy for Departments to distribute employee awards was traced to a City Administrative Directive. Administrative Directive 4.69 – Safety Incentive Awards Program effective February 1, 1982, authorized a five-year pilot period during which awards could be given to City staff. Other than a minor 1984 update, the Administrative Directive has not been officially extended beyond the pilot period.

Risk

Departments who distribute employee awards may not be in compliance with City policy.

Safety award programs may not be in compliance with IRS regulations.

Recommendation

The City Manager should update or retract Administrative Directive 4.69, Safety Incentive Awards Program.

If the Awards Program is continued, research IRS regulations and determine how to properly implement an achievement award program.

17. Work Order Process versus Purchasing Process

Observation

The review of 150 randomly selected purchases by Public Works revealed that 46 purchases were not signed off by the employees' Division Manager or Supervisor on the Log. A majority of such purchases were made by Building Maintenance personnel for work orders. Building Maintenance believes that it would be sufficient if only the work orders are approved and signed off by supervisors. In fact, work orders and P-cards are distinctive business processes with different business purposes. The former is for allocation of resources such as labor and materials, while the latter is for expenditure control. Hence, the approval on a work order should not supersede the other.

It is also noted that the Department of Asset Management Facility Services Division Policies and Procedures Handbook as of October 2004 regarding P-cards states, "Supervisors will closely examine each P-card receipt to ensure that all items purchased are appropriate for the job assignment and sign or initial the receipt indicating their approval of the purchases made." This policy was still in draft status during the audit review. It was unclear if Department Management formally communicated and issued the draft as a working document to those involved with the Program.

Risk

Purchasing could compromise the effectiveness of Program monitoring if documentation of approval is not standardized for all City Departments. Each Department may document approvals in a different manner which adds to the analysis and cost of administration.

Recommendation

Ensure that approval of purchases are consistently signed off and documented on the Log throughout all Departments. The draft of Asset Management's Facility Services Division handbook should be finalized and signed off as the Division's procedures.

18. Safeguarding of Assets

Observation

COSA ERM/SAP Business Process Procedure FI 1.1.8 describes requirements for recording tracked assets. Tracked assets are non-capitalized assets having a value below \$5,000. FI 1.1.8 states, "A tracked property record must be maintained for all tracked property with values between \$1,500 and \$5,000 and for tracked property with values below \$1,500 that are tracked at the Department's discretion." Many non-consumable items valued below \$1,500 are highly desirable, easily transported items such as tools, equipment, cameras, and musical instruments that should be controlled to deter and detect misuse and theft.

The business process described in FI 1.1.8 does not take into account assets purchased with P-cards. Departmental Asset Managers rely on purchase orders and receiving reports and may not be aware of assets purchased through P-cards.

Based on observations made during this audit, the Parks and Recreation Department does not appear to have an effective process for tracking and controlling assets valued at less than \$1,500. Several musical instruments purchased with a P-card (three keyboards and four guitars) were stolen out of the personal vehicle of a contracted music instructor. The instructor is not a City employee but is contracted to teach music classes offered by Parks and Recreation. The theft occurred in the early morning hours while the vehicle was parked on the driveway of the instructor's home. City-owned assets were not reasonably safeguarded by the person who was in possession of them. The City had to replace the stolen musical instruments, which were valued at \$460.

Risk

In the absence of strong internal controls related to desirable assets such as these musical instruments, there is an increased risk that assets are lost or stolen. This increases costs due to the need to replace the assets.

Recommendation

Develop City-wide procedures for controlling items with a high risk of theft such as tools, equipment, cameras, etc. that are currently tracked at the Department's discretion. The threshold value for tracking these assets should be established at a level that captures a large percentage of the items purchased.

Procedures for recording and tagging tracked assets should include those items that are purchased with P-cards.

All City Departments should develop procedures that address the responsibilities of employees and contractors to safeguard City assets, regardless of whether or not they are capitalized. Asset control listings with serial numbers and asset control numbers should exist within each cost center. Conduct periodic inventory checks to verify the existence and condition of each cost center's assets. If assets leave their designated location, they should be signed out by the individual who will be responsible for the asset.

ATTACHMENT 1

**COSA Departments Issued P-cards
As of December 14, 2004**

Departments	Number of Cardholders	Number of Positions Per FY2005 Budget	Single Transaction Limit
1 Alamodome	18	51	\$ 34,850
*2 Aviation	11	434	33,000
3 City Clerk	2	20	1,200
4 Code Compliance	6	111	100
5 Convention Facilities	41	287	34,800
6 Convention & Visitors Bureau	11	94	29,892
7 Cultural Affairs	1	11	3,000
8 Development Services	18	218	14,900
9 Finance	1	98	3,000
10 Fire	21	1,537	25,094
11 Health	54	745	26,200
12 Human Resources	11	2,030	5,150
13 Information Technology Services	32	245	88,000
14 Library	7	445	21,000
15 Management & Budget	1	17	300
*16 Parks & Recreation	120	1,050	61,863
17 Planning	6	41	5,500
18 Police	2	2,763	6,000
*19 Public Works (1)	64	995	97,600
20 Purchasing & General Services	23	219	40,500
TOTAL (2)	450	11,411	\$531,949

Source: "Number of cardholders" was received from Purchasing
"Number of positions" was taken from the Fiscal Year 2004-2005 City Budget

Note (1): Number of Cardholders includes 41 cards transferred to the Asset Management Department on November 1, 2003

Note (2): Approximately twenty City Departments do not have P-cards

* Department audited

ATTACHMENT 2				
All City Departments Comparison of P-card Transactions and Decline Code Summary For the Period of October 2004 through March 2005 (6 months)				
Purchases (From Attachments 2B & 2C)			Declines (From Attachment 2A)	
	Number of Transactions	Total Amount Purchased	Number of Transactions	Total Transaction Amount
Total	5,162	\$ 880,504	783	\$ 412,959
Blocked MCC	396	82,218	407	122,984
Percent	8%	9%	52%	30%

Source: BOA EAGLS System

ATTACHMENT 2A				
All City Departments Decline Reason Code Summary For the Period of October 2004 through March 2005 (6 months)				
Code	Decline Reason	Number of Transactions	Transaction Amount	
48	Not Enough Available Money	231	\$ 161,019	
803	MCC Group Excluded	407	122,984	
805	Exceeded Account Single Trans Limit	106	122,409	
134	Card Activation	19	2,719	
540	Overlimit 100+ Percent	8	1,606	
865	<Null>	2	1,302	
2	Closed Account	4	550	
207	Card Not Effective	1	228	
813	Exceeded Account Velocity Amount	1	132	
557	Watch	2	11	
111	Bad PIN	2	-	
Totals		783	\$ 412,959	

Source: BOA EAGLS System

ATTACHMENT 2B

**All City Departments
P-card Purchases
For the Period of October 2002 through March 2005 (30 months)**

Year	Debits		Credits		Total	
	Number of Purchases	Amount	Number of Transactions	Amount	Number of Purchases	Amount
2003	9,418	\$ 1,704,709	358	\$ (58,701)	9,776	\$ 1,646,008
2004	8,969	1,466,999	352	(46,322)	9,321	1,420,677
*2005	4,990	902,671	172	(22,167)	5,162	880,504
Total	23,377	\$ 4,074,379	882	\$ (127,190)	24,259	\$ 3,947,189
Monthly Average	779	\$ 135,813	29	\$ (4,240)	809	\$ 131,573

* For the Period of October 2004 through March 2005 (6 Months)

Source: BOA EAGLS System

ATTACHMENT 2C

**All City Departments
P-card Purchases (Authorized and Blocked Merchant Codes)
For the Period of October 2002 through March 2005 (30 months)**

Year	Authorized		Blocked**		Total	
	Number of Purchases	Amount	Number of Purchases	Amount	Number of Purchases	Amount
2003	8,819	\$ 1,460,668	957	\$ 185,340	9,776	\$ 1,646,008
2004	8,573	1,271,205	748	149,472	9,321	1,420,677
*2005	4,766	798,286	396	82,218	5,162	880,504
Total	22,158	\$ 3,530,159	2,101	\$ 417,030	24,259	\$ 3,947,189
Monthly Average	739	\$ 117,672	70	\$ 13,901	809	\$ 131,573

* For the Period of October 2004 through March 2005 (6 Months)

**Blocked merchant codes were temporarily released by the P-card Administrator so the purchase could occur.

Source: BOA EAGLS System

ATTACHMENT 3

All City Departments
 Top 25 Declined Merchants for All Reasons
 For the Period of October 2004 through March 2005 (6 months)

Merchant Location	Number of Transactions	Total Transaction Amount	Average Transaction Amount
1 Cleaning Ideas-San Antonio TX	24	\$ 27,694	\$ 1,154
2 Sam Ash Music #59-San Antonio TX	9	24,225	2,692
3 E Flume Blding Special-San Antonio TX	9	14,022	1,558
4 Travel Industry Assn O-Washington DC	3	13,500	4,500
5 Champion Exposition Sv-Middleboroug MA	10	13,288	1,329
6 Biomerieux Inc-Durham NC	8	10,303	1,288
7 Richard Lindsay Design-Santa Fe NM	7	8,930	1,276
8 ICI Dulux Paints #869-San Antonio TX	6	8,821	1,470
9 La Hacienda De Los-San Antonio TX	3	8,522	2,841
10 Chemsearch-Irving TX	6	7,198	1,200
11 Kentec Medical Inc-Frvine CA	4	6,871	1,718
12 Marimon Business Mac-Houston TX	13	6,671	513
13 San Antonio Tourism-San Antonio TX	3	6,600	2,200
14 Rocky Hill Equip Renta-Selma TX	3	6,452	2,151
15 American Assoc of Bioa-Brownsville TX	4	6,008	1,502
16 Texas Engineering Ext-College Stat TX	2	6,000	3,000
17 Equipment Depot-San Antonio TX	2	5,988	2,994
18 Five Star Electric Mot-San Antonio TX	2	5,710	2,855
19 Texas Air Products-San Antonio TX	2	5,700	2,850
20 EDC Moving Systems 963 TX	6	5,624	937
21 O'Reilly Automotive-San Antonio TX	2	5,558	2,779
22 Texas Travel Ind. As-Austin TX	5	5,500	1,100
23 National Tour Associat-Lexington KY	5	5,425	1,085
24 BVA Scientific-San Antonio TX	4	5,284	1,321
25 Smith Travel Research-Hendersonvil TN	7	5,250	750
Subtotal	149 (19%)	\$ 225,144 (55%)	1,511
All other merchants	634 (81%)	187,815 (45%)	296
Totals	783 (100%)	\$ 412,959 (100%)	527

Source: BOA EAGLS System

ATTACHMENT 3A

**All City Departments
Top 20 Merchant Category Codes
For the Period of October 2004 through March 2005 (6 months)**

MCC Code	MCC Code Description	Number of Purchases	Total Amount Purchased	Average Purchase Amount
1	5999 Miscellaneous and Specialty Retail Stores	363	\$ 75,029	\$ 207
2	7399 Business Services (Not Elsewhere Classified)	210	53,256	254
3	5085 Industrial Supplies (Not Elsewhere Classified)	254	50,001	197
4	5251 Hardware Stores	527	44,229	84
5	5211 Building Materials, Lumber Stores	337	30,989	92
6	5533 Automotive Parts, Accessories Stores	304	29,559	97
7	5969 Direct Marketing--Other Direct Marketers (Not Else	95	29,013	305
8	5200 Home Supply Warehouse	415	27,854	67
9	5047 Dental/Laboratory/Medical/Ophthalmic	31	23,999	774
10	5065 Electrical Parts and Equipment	120	22,376	186
11	5231 Glass, Paint, Wallpaper Stores	151	21,738	144
12	5046 Commercial Equipment (Not Elsewhere Classified)	81	21,236	262
13	5732 Electronics Sales	81	20,692	255
14	5532 Automotive Tire Stores	63	18,129	288
15	7394 Equipment Rental, Leasing, Furniture Tool Rental	54	17,900	331
16	8699 Organizations, Membership	46	17,460	380
17	5039 Construction Materials (Not Elsewhere Classified)	85	15,879	187
18	5399 Miscellaneous General Merchandise	22	13,145	598
19	8299 Schools and Educational Services	36	13,109	364
20	5733 Music Stores	17	12,359	727
	Subtotal	3,292 (64%)	\$ 557,954 (63%)	169
	All other MCC Codes	1,870 (36%)	322,550 (37%)	172
	Total	5,162 (100%)	\$ 880,504 (100%)	171

Source: BOA EAGLS System

ATTACHMENT 3B

**All City Departments
Top 20 Merchants
For the Period of October 2004 through March 2005 (6 months)**

	Merchant	MCC Code	Number of Purchases	Total Amount Purchased	Average Purchase Amount
1	Moore Supply Co. 141	5251	89	\$ 12,554	\$ 141
2	Acme Safe & Lock Co	7399	42	10,730	255
3	Chemsearch	5085	8	8,164	1,020
4	Tire Centers Inc	5532	17	8,117	477
5	Triple S Steel Supply	5999	6	7,111	1,185
6	Sam Ash Music #59	5733	6	6,997	1,166
7	Lowe's #1645	5211	71	6,836	96
8	O'Reilly #632	5533	61	6,692	110
9	ICI Dulux Paints #869	5231	10	6,097	610
10	Chemguard Inc	5999	2	5,940	2,970
11	E Flume Bldg Special	5211	20	5,677	284
12	WW Grainger 704	5085	41	5,501	134
13	Henry Schein Inc	5047	3	4,856	1,619
14	Infolab Austin	5047	6	4,853	809
15	Cleaning Ideas #12	5999	14	4,847	346
16	Texas Recreation & Pk	8299	12	4,460	372
17	Coleman Enterprises	5943	3	4,449	1,483
18	Grande Ford Truck Sale	5511	34	4,385	129
19	BVA Scientific	7399	7	4,367	624
20	The Home Depot 6544	5200	53	4,257	80
	Subtotal		505 (10%)	\$ 126,889 (14%)	251
	All other merchants		4,657 (90%)	753,615 (86%)	162
	Total		5,162 (100%)	\$ 880,504 (100%)	171

Source: BOA EAGLS System

ATTACHMENT 3C

All City Departments
Top Ten Blocked Merchant Category Codes Overridden
For the Period of October 2004 through March 2005 (6 months)

Merchant Code Description	MCC Code	Number of Purchases	Total Amount Purchased	Average Purchase Amount
1 Schools and Educational Services	8299	36	\$ 13,109	\$ 364
2 Office, School Supply, and Stationery Stores	5943	26	10,254	394
3 Postal Services--Government ONLY	9402	57	7,249	127
4 Colleges, Universities, Professional Schools	8220	14	6,598	471
5 Organizations, Charitable and Social Service	8398	29	5,082	175
6 Quick Copy, Reproduction , and Blueprint Services	7338	22	4,214	192
7 Associations Civic, Social, and Fraternal	8641	15	2,966	198
8 Stationery, Office Supplies, Printing	5111	24	2,876	120
9 Cleaning and Maintenance, Janitorial Services	7349	27	2,753	102
10 Government Services (Not Elsewhere Classified)	9399	32	2,265	71
Subtotal		282 (71%)	\$ 57,366 (70%)	203
All other MCC Codes		114 (29%)	24,852 (30%)	218
Total		396 (100%)	\$ 82,218 (100%)	208

Source: BOA EAGLS System

ATTACHMENT 4

**All City Departments
Declined Transactions by Cardholder for all Reasons
For the Period of October 2004 through March 2005 (6 months)**

	Employee's Position Title	Department	Number of Transactions	Total Transaction Amount	Average Transaction Amount
1	Account Executive	Convention and Visitors Bureau	37	\$ 30,853	\$ 834
2	Building Maintenance Manager	Asset Management	11	24,913	2,265
3	Carpenter II	Asset Management	11	19,722	1,793
4	Special Project Coordinator	San Antonio Metro Health District	22	16,316	742
5	Account Executive II	Convention and Visitors Bureau	32	16,313	510
6	Technical Systems Supervisor	Alamodome	6	15,399	2,567
7	Stock Control Supervisor	Fire	11	14,151	1,286
8	Administrative Assistant	Convention and Visitors Bureau	22	13,469	612
9	Administrative Aid	Convention and Visitors Bureau	11	13,334	1,212
10	Department Facilities Coordinator	Alamodome	4	13,310	3,328
11	Visitor Service Supervisor	Convention and Visitors Bureau	19	12,534	660
12	Building Maintenance Superintendent	Alamodome	17	12,152	715
13	Equipment Technician Crew Leader	Purchasing and General Services	12	9,917	826
14	Services & Supplies Supervisor	Public Works	7	8,024	1,146
15	Custodial Services Supervisor	Asset Management	6	7,198	1,200
16	HVAC Technician Supervisor	Alamodome	4	6,940	1,735
17	Management Analyst	Aviation	14	6,675	477
18	Building Maintenance Officer	Convention Facilities	3	6,216	2,072
19	Executive Secretary	Fire	2	6,000	3,000
20	Equipment & Facilities Manager	Informations Systems Department	9	5,815	646
21	Building Maintenance Superintendent	Alamodome	8	5,763	720
22	Nature Preserve Superintendent	Parks & Recreation	6	5,624	937
23	Assistant Marketing Manager	Convention and Visitors Bureau	12	5,349	446
24	Administrative Assistant	Convention and Visitors Bureau	7	5,250	750
25	Video Production Technician	Alamodome	3	5,225	1,742
	Subtotal		296 (38%)	\$ 286,462 (69%)	968
	All other P-cardholders declined		487 (62%)	126,497 (31%)	260
	Totals		783 (100%)	\$ 412,959 (100%)	527

Source: BOA EAGLS System and SAP

ATTACHMENT 5

Overview of P-card Program for Each Department Audited

Public Works						
Fiscal Year	Number of Users During Year	Total Dollar Amount of Purchases	Number of Purchases	Average Purchase Amount	Total Transaction Limits	Total Monthly Credit Limit
2002	58	NA*	NA*	NA*	\$ 74,000	\$760,000
2003	70	\$448,098	2,252	\$ 199	\$100,000	\$813,000
2004	70	\$252,712	1,823	\$ 139	\$100,000	\$813,000
* Data not gathered						

Parks and Recreation						
Fiscal Year	Number of Users During Year	Total Dollar Amount of Purchases	Number of Purchases	Average Purchase Amount	Total Transaction Limits	Total Monthly Credit Limit
*2002	-	\$ -	-	\$ -	\$ -	\$ -
2003	134	\$198,837	2,784	\$ 71	\$ 70,835	\$187,825
2004	153	\$228,246	2,739	\$ 83	\$ 76,384	\$204,825
* Did not participate in the P-card Program.						

Aviation						
Fiscal Year	Number of Users During Year	Total Dollar Amount of Purchases	Number of Purchases	Average Purchase Amount	Total Transaction Limits	Total Monthly Credit Limit
2002	13	\$226,073	791	\$ 286	\$ 39,000	\$ 100,000
2003	13	\$220,190	742	\$ 297	\$ 39,000	\$ 100,000
2004	12	\$103,728	434	\$ 239	\$ 36,000	\$ 95,500

Source: Purchasing and General Services and BOA EAGLS system

ATTACHMENT 6

**Public Works Department
Ten Highest P-card Users' Profile
For Fiscal Years 2003 and 2004**

Rank	Employee's Position Title**	Department	Division	Total Amount Purchased*	Percent
1	Supervisor of Storeroom (1)	Asset Management	Building Maintenance	\$ 134,262	19%
2	Equipment Operator	Public Works	Storm Water	54,516	8%
3	Building Maintenance Manager	Asset Management	Building Maintenance	50,777	7%
4	Building Maintenance Superintendent	Public Works	Building Maintenance	49,781	7%
5	HVAC Technician	Asset Management	Building Maintenance	32,779	5%
6	Accountant II	Public Works	Parking	29,119	4%
7	Carpenter II	Asset Management	Building Maintenance	28,696	4%
8	Service and Supply Superintendent	Public Works	Traffic	25,022	4%
9	Building Maintenance Mechanic	Public Works	Parking	21,672	3%
10	Drainage Supervisor	Public Works	Storm Water	18,201	3%
Sub-Total Highest P-Card Purchases				\$ 444,825	63%
All Other Public Work P-Card Purchases				255,985	37%
Total Public Works P-Card Purchases				\$ 700,810	100%
Total City-wide Purchases in FY 2003 and 2004				\$ 3,066,685	
Percent Purchases by Ten Highest P-card Users compared with City-Wide Purchases				15%	

Source: *Purchasing and General Services Department
 **Human Resources Department

Note (1): A majority of the total purchases, \$52,000 of the \$134,000, were made from one particular vendor, which amounted to 39 percent of the employee's total purchases. Ninety-six percent of \$52,000 was made in Fiscal Year 2003.

ATTACHMENT 7

**Public Works Department
P-card Purchases
For Fiscal Years 2003 and 2004**

P-Card Purchase Transaction Ranges	Number of Purchases	Percent	Total Amount Purchased	Percent	Average Purchase Amount
\$1 - \$499	3,733	91%	\$ 322,421	46%	\$ 86
\$500 - \$999	198	5%	141,149	20%	713
\$1,000 - \$1,999	106	3%	144,984	21%	1,368
\$2,000 - \$3,000	<u>38</u>	<u>1%</u>	<u>92,256</u>	<u>13%</u>	2,428
TOTAL DEPARTMENT	<u>4,075</u>	<u>100%</u>	<u>\$ 700,810</u>	<u>100%</u>	172
Total City-wide Purchases in FY 2003 and 2004			<u>\$ 3,066,685</u>		
Percent Public Works Purchases compared with City-wide Purchases			<u>23%</u>		

Source: Purchasing and General Services Department

ATTACHMENT 8

Parks and Recreation

**Division Usage of P-cards in Transaction Limit Ranges
For the Period of October 2002 through November 2004 (26 months)**

Division	Single Transaction Limit Range	Number of Users	Number of Purchases	Total Amount Purchased	Average Purchase Amount
Administration					
26 employees	\$2,000 - \$3,000	1	20	\$ 2,548	\$ 127
9 P-cards	\$1,000 - \$1,999	1	54	4,378	81
	\$1 - \$499	7	154	6,240	41
Contract Services					
46 employees	\$2,000 - \$3,000	1	3	\$ 1,850	\$ 617
13 P-cards	\$500 - \$999	4	372	21,084	57
	\$1 - \$499	8	330	16,715	51
Golf Operations					
95 employees	\$2,000 - \$3,000	1	10	\$ 3,118	\$ 312
13 P-cards	\$500 - \$999	2	52	5,342	103
	\$1 - \$499	10	210	11,836	56
Park Operations					
381 employees	\$1,000 - \$1,999	4	781	\$ 74,931	\$ 96
58 P-cards	\$500 - \$999	16	711	59,446	84
	\$1 - \$499	38	1,606	92,064	57
Park Police					
118 employees	\$2,000 - \$3,000	1	14	\$ 1,318	\$ 94
4 P-cards	\$500 - \$999	2	74	7,179	97
	\$1 - \$499	1	85	4,374	51
Park Project Services					
19 employees	\$1 - \$499	3	36	\$ 4,119	\$ 114
3 P-cards					
Proposition 3					
6 employees	\$1,000 - \$1,999	1	96	\$ 14,066	\$ 147
5 P-cards	\$1 - \$499	4	126	7,994	63
Recreation Services					
184 employees	\$2,000 - \$3,000	1	80	\$ 14,744	\$ 184
22 P-cards	\$1,000 - \$1,999	6	222	47,738	215
	\$500 - \$999	3	167	12,365	74
	\$1 - \$499	12	549	32,143	59
San Jose Burial Park					
8 employees	\$500 - \$999	1	18	\$ 1,394	\$ 77
2 P-cards	\$1 - \$499	1	117	9,137	78
TOTALS					
883 employees	\$2,000 - \$3,000	5	127	\$ 23,578	\$ 186
129 P-cards	\$1,000 - \$1,999	12	1,153	141,113	122
	\$500 - \$999	28	1,394	106,810	77
	\$1 - \$499	84	3,213	184,623	57
		<u>129</u>	<u>5,887</u>	<u>\$ 456,124</u>	<u>77</u>

Source: BOA EAGLS System and Parks and Recreation Department

ATTACHMENT 9

Parks and Recreation
Division Usage of P-cards by Transaction Limit Ranges
For the Period of October 2002 through November 2004 (26 months)

Limit Ranges	Division	Number of Users	Number of Purchases	Total Amount Purchased	Percent of Purchases
<u>\$2,000 - \$3,000</u>					
	Administration	1	20	\$ 2,548	
	Contract Services	1	3	1,850	
	Golf Operations	1	10	3,118	
	Park Police	1	14	1,318	
	Recreation Services	1	80	14,744	
	Subtotal	5	127	\$ 23,578	5.2%
<u>\$1,000 - \$1,999</u>					
	Administration	1	54	\$ 4,378	
	Park Operations	4	781	74,931	
	Proposition 3	1	96	14,066	
	Recreation Services	6	222	47,738	
	Subtotal	12	1,153	\$ 141,113	30.9%
<u>\$500 - \$999</u>					
	Contract Services	4	372	\$ 21,084	
	Golf Operations	2	52	5,342	
	Park Operations	16	711	59,446	
	Park Police	2	74	7,179	
	Recreation Services	3	167	12,365	
	San Jose Burial Park	1	18	1,394	
	Subtotal	28	1,394	\$ 106,810	23.4%
<u>\$1 - \$499</u>					
	Administration	7	154	\$ 6,240	
	Contract Services	8	330	16,715	
	Golf Operations	10	210	11,836	
	Park Operations	38	1,606	92,064	
	Park Police	1	85	4,374	
	Park Project Services	3	36	4,119	
	Proposition 3	4	126	7,994	
	Recreation Services	12	549	32,143	
	San Jose Burial Park	1	117	9,137	
	Subtotal	84	3,213	\$ 184,622	40.5%
<u>TOTALS</u>					
	<u>By Division</u>				
	Administration	9	228	\$ 13,166	2.9%
	Contract Services	13	705	39,649	8.7%
	Golf Operations	13	272	20,296	4.5%
	Park Operations	58	3,098	226,441	49.6%
	Park Police	4	173	12,872	2.8%
	Park Project Services	3	36	4,119	0.9%
	Proposition 3	5	222	22,060	4.8%
	Recreation Services	22	1,018	106,990	23.5%
	San Jose Burial Park	2	135	10,531	2.3%
		129	5,887	\$ 456,124	100%

Source: BOA EAGLS System and Parks and Recreation Department

ATTACHMENT 10

**Parks and Recreation
P-Card User Profile by Transaction Limit Ranges
For the Period of October 2002 through November 2004 (26 months)**

Employee's Position Title	Division	Cost Center	Number of Purchases	Total Amount Purchased	Average Purchase Amount
<u>\$2,000 - \$3,000 – All Users</u>					
Recreation Services Manager	Recreation Services	Rec. Serv. Admin.	80	\$ 14,744	\$ 184
Golf Operations Manager*	Golf Operations	Golf Ops. Admin.	10	3,118	312
Management Analyst	Administration	Director's Office	20	2,548	127
Contract Services Manager*	Contract Services	Contract Serv. Admin.	3	1,850	617
Park Police Chief	Park Police	Park Police	14	1,318	94
Golf Operations Manager	Golf Operations	Golf Ops. Admin.	0	0	0
Park Operations Manager	Park Operations	Park Ops. Admin.	0	0	0
Subtotal			<u>127</u>	<u>\$ 23,578</u>	<u>186</u>
<u>\$1,000 - \$1,999 – All Users</u>					
Horticulturist II	Park Operations	Botanical Gardens	417	\$ 27,466	66
Aquatics/Athletics Superintendent	Recreation Services	Athletics	122	24,463	201
Sr. Horticulturist	Park Operations	Botanical Gardens	145	17,075	118
Landscape Construction Supervisor	Park Operations	Botanical Gardens	145	16,078	111
Nature Preserve Coordinator	Park Operations	Natural Park Areas	74	14,312	193
Park Operations Supervisor	Proposition 3	Prop. 3--Operating	96	14,066	147
Recreation Services Supervisor	Recreation Services	Rec. Serv. Admin.	49	9,897	202
Special Program Superintendent	Recreation Services	Cultural	17	5,939	349
Executive Secretary	Administration	Director's Office	54	4,378	81
Recreation Services Superintendent	Recreation Services	Recreation	11	3,249	295
Recreation Services Supervisor	Recreation Services	After School	15	3,059	204
Administrative Assistant II	Recreation Services	Rec. Serv. Admin.	8	1,131	141
Subtotal			<u>1,153</u>	<u>\$ 141,113</u>	<u>122</u>
<u>\$500 - \$999 – Top Ten Users</u>					
Asst. Botanical Gardens Superintendent	Park Operations	Botanical Gardens	100	\$9,861	99
Building Maintenance Supervisor	Contract Services	Tower	117	9,587	82
Horticulturist I	Park Operations	River Operations	149	9,388	63
Community Center Coordinator	Recreation Services	Cultural	129	7,978	62
Parks Maintenance Crew Leader	Park Operations	River Operations	66	6,763	102
Custodial Services Crew Leader	Contract Services	Market Square	161	6,407	40
Fleet Maintenance Technician II	Park Operations	River Operations	110	5,901	54
Park Police Captain	Park Police	Park Police	38	5,559	146
Irrigation Supervisor	Park Operations	Hort. Services	81	5,257	65
Assistant Parks Maintenance Superintendent	Park Operations	Park Maintenance	41	4,603	112
Subtotal			<u>992</u>	<u>\$ 71,305</u>	<u>72</u>
All other users in this range			<u>402</u>	<u>35,505</u>	<u>88</u>
Total			<u>1,394</u>	<u>\$ 106,810</u>	<u>77</u>
<u>\$1 - \$499 – Top Ten Users</u>					
Park Maintenance Crew Carpenter II	San Jose Burial Park	San Jose	117	\$ 9,137	78
Administrative Assistant I	Park Operations	Park Maintenance	135	7,164	53
HVAC Technician Supervisor	Park Operations	Park Maintenance	80	7,052	88
Light Equipment Operator	Park Operations	Park Maintenance	134	6,409	48
Parks Construction Supervisor	Recreation Services	Recreation	219	6,203	28
Senior Recreation Specialist	Park Operations	Park Maintenance	114	6,058	53
Swimming Pool Mechanic Supervisor	Recreation Services	Cultural	94	5,783	62
Parks Construction Supervisor	Park Operations	Park Maintenance	90	5,602	62
Building Maintenance Supervisor	Park Operations	Park Maintenance	110	5,335	49
Subtotal			<u>94</u>	<u>5,214</u>	<u>55</u>
All other users in this range			<u>1,187</u>	<u>\$ 63,958</u>	<u>54</u>
Total			<u>2,026</u>	<u>120,665</u>	<u>60</u>
Total Purchases			<u>5,887</u>	<u>\$ 456,124</u>	<u>77</u>

*No longer a P-card holder in this position

Source: BOA EAGLS System and Parks and Recreation Department

ATTACHMENT 11

**Aviation Department
P-card User Profile
For the Period of October 2002 through November 2004 (26 months)**

Employee's Position Title**	Number of Purchases*	Total Amount Purchased*	Percent	Average Purchase Amount
Airport Facilities Superintendent, Building Maintenance	281	\$103,635	29.6%	\$369
Airport Facilities Superintendent, Airfield	197	99,660	28.4%	506
Fire Captain	205	48,721	13.9%	238
Airport Parking Manager	183	37,083	10.6%	203
Senior Administrative Assistant	95	20,874	6.0%	220
Public Relations Manager	104	15,362	4.4%	148
Department Systems Manager	84	8,951	2.6%	107
Airport Operations Manager	48	5,955	1.7%	124
Airport Manager	22	5,313	1.5%	241
Management Analyst	45	2,942	0.8%	65
Airport Police Lieutenant	10	1,988	0.6%	199
Administrative Assistant I	0	0	0.0%	0
Total all Aviation P-Card Users	1,274	\$350,483	100%	\$275

Source: *Bank of America EAGLS System

**SAP

ATTACHMENT 12

**Aviation Department
Excess Credit Limit in Highest Usage Month
For the Period of October 2002 through November 2004 (26 months)**

Employee's Position Title**	Month Occurred*	Number of Purchases*	Total Amount Purchased*	Credit Limit*	Amount of Credit not used
Airport Facilities Superintendent, Building Maintenance	June 2003	16	\$11,241	\$15,000	\$ 3,759
Airport Facilities Superintendent, Airfield	June 2003	20	15,651	25,000	9,349
Fire Captain	July 2003	12	5,258	15,000	9,742
Airport Parking Manager	April 2003	12	3,896	4,500	604
Senior Administrative Assistant	July 2003	6	1,956	4,500	2,544
Public Relations Manager	October 2002	9	1,954	4,500	2,546
Department Systems Manager	December 2002	7	1,674	4,500	2,826
Airport Operation Manager	September 2003	5	1,257	4,500	3,243
Airport Manager	January 2004	1	1,092	4,500	3,408
Management Analyst	October 2002	4	681	4,500	3,819
Airport Police Lieutenant	August 2004	3	812	4,500	3,688
Administrative Assistant I	NA	0	0	4,500	4,500

Source: *BOA EAGLS System

**SAP

ATTACHMENT 13

**Aviation Department
Excess Transaction Limit Compared to Highest Single Transaction
For the Period of October 2002 through November 2004 (26 months)**

Employee's Position Title**	Month Transaction Occurred*	Highest Single Transaction*	Single Transaction Limit**	Amount of Credit not used
Airport Facilities Superintendent, Building Maintenance	November 2003	\$ 2,952	\$ 3,000	\$ 48
Airport Facilities Superintendent, Airfield	December 2002	2,989	3,000	11
Fire Captain	September 2004	2,884	3,000	116
Airport Parking Manager	August 2003	2,819	3,000	181
Senior Administrative Assistant	July 2003	500	3,000	2,500
Public Relations Manager	December 2003	1,519	3,000	1,481
Department Systems Manager	November 2004	959	3,000	2,042
Airport Operations Manager	September 2003	1,020	3,000	1,980
Airport Manager	January 2004	1,092	3,000	1,908
Management Analyst	October 2002	302	3,000	2,698
Airport Police Lieutenant	July 2004	496	3,000	2,504
Administrative Assistant I	NA	0	3,000	3,000

Source: *BOA EAGLS System
**SAP



CITY OF SAN ANTONIO

P. O. BOX 839966
SAN ANTONIO TEXAS 78283-3966

April 20, 2006

City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the General Review of the Purchasing Card Program and Utilization by Public Works, Parks and Recreation, Aviation and Asset Management Departments

This audit generally reviewed five Departments in varying degrees: Purchasing and General Services, Public Works, Parks and Recreation, Aviation and Asset Management. While these Departments have reviewed this report, it was difficult to summarize their responses. As a result, the Assistant City Manager/Chief Information Officer assumes the responsibility for addressing responses on behalf of Departments and herein is a Corrective Action Plan for the recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
Executive Summary (ES)					
ES1	Issue a City-wide Administrative Directive and comprehensive guidelines for P-card Program. (Detailed Report Recommendation 1; Response Page 2)	4			
ES2	Appoint an Executive-level Program Sponsor. (Detailed Report Recommendation 1; Response Page 2)	4			
ES3	Perform effective analyses of P-card transactions to determine if commonly acquired products could be obtained through annual contracts. (Detailed Report Recommendation 8; Response Page 5)	4			
ES4	Develop written procedures for the Program's administrative duties performed within the Purchasing and General Services Department. (Detailed Report Recommendation 10; Response Page 5)	4			

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
ES5	<p>User Departments should increase scrutiny of purchases for procedure compliance and discipline cardholders who do not comply. (Detailed Report Recommendation 14; Response Page 6 regarding monitoring for split purchases; Detailed Report Recommendation 6; Response Page 4 for reduction of active cards no longer needed; and Detailed Report Recommendation 7; Response Page 4 for training a backup Site Administrator)</p> <p>Action plan: Each Department will review cards and cardholders bi-annually to reduce the number of inactive cards. Departments will continue to evaluate procurements to ensure split purchases are not done; Purchasing in turn will also review any procurement to ensure no split purchases occur and will forward any documented purchase to the appropriate department head. An appropriate backup p-card administrator will be trained to ensure continuity with the p-card program.</p>	4	Accept	<p>Department Directors</p> <p>OzParker Purchasing Manager</p>	Immediately
ES6	<p>Perform continuous monitoring of transactions through on-line reporting access. (Detailed Report Recommendation 1; Response Page 2)</p> <p>Action plan: Purchasing is already providing the continuous monitoring of all P-card transactions. We will periodically review transaction through the on-line report system.</p>	4	Accept	Terry Collazo P-card Administrator	Immediately
ES7	<p>Report periodically/annually the Program activity to City Manager and City Council. (Detailed Report Recommendation 2; Response Page 2)</p> <p>Action plan: Purchasing will begin reporting on procurement activity, including p-card activity, on a quarterly basis. This report will be furnished to the Council and City Manager.</p>	4	Partially Accept	Michael Armstrong ACM/CIO	Immediately
Detailed Report					
1.	<p>Executive Sponsorship, and Financial and Procurement Policy Directives</p> <ul style="list-style-type: none"> Issue policy guidance for the administration of the Program. 12 Accept Janie Cantu Purchasing & Gen Sev. Director Immediately Designate an Executive Sponsor who establishes criteria to measure the success of the Program and reports on how the Program has achieved objectives. 12 Accept Michael Armstrong ACM/CIO Immediately <p>Action plan: The Purchasing and General Services Department will issue additional policy guidance on the administration of the P-card program.</p> <p>The Assistant City Manager/Chief Information Officer will be the executive sponsor for the program. Reports summarizing the month's P-card purchases will be submitted to the Executive Team and the Assistant City Manager for review.</p>				

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
2.	Administration of the Program				
	• Strengthen controls over cardholder's eligibility by establishing criteria based on the Department needs, individual employee's needs and employee background checks.	14	Accept	Department Directors	Immediately
	• Obtain City Manager and Chief Financial Officer (CFO) approval for the User's Guide. Obtain CFO approval for all department-specific P-card procedures.	14	Accept	Janie Cantu Purchasing & Gen Sev. Director	Immediately
	• Update the User's Guide to accurately reflect current practices and provide a training program for updates.	14	Accept	Oz Parker, Purchasing Manager	Sept 1, 2006
	• Develop a process to provide Departmental Management with periodic reporting of critical P-card purchasing information.	14	Accept	Janie Cantu Purchasing & Gen Sev. Director	Immediately
	Action plan: Department Directors through their Site Administrators will establish P-card criteria based on Department requirements. The issue regarding background checks is similar to one being reviewed by the Cash Handling Action Team group. We will work with Human Resources to insure that our process is consistent with cash handling guidelines.				
	Purchasing is in the process of redoing the current User's guide. We will obtain approval of the user's guide not only from the City Manager, but also from the ACM's. This guide will be coordinated with departments before it becomes the official P-card guide. It has been the practice to require mandatory training for all new cardholders, provide them with a user's guide and require a signed agreement by the user.				
	We will also ensure that new changes are incorporated in the guide and passed on to the current users. In addition, The p-card program and the use of the p-card are for normal everyday small dollar purchase. When requested the P-card Administrator will provide critical information when requested by Directors or Site Administrators.				
3.	Effectiveness of Oversight and Monitoring				
	• Strengthen the transaction review process to detect purchases that do not comply with purchasing guidelines.	16	Accept	Oz Parker, Purchasing Manager	Immediately
	• Enhance P-card training by incorporating an overview of relevant laws and the consequences of non-compliance.	16	Accept	Oz Parker, Purchasing Manager	Immediately
	Action plan: Purchasing will continue to maintain oversight by monitoring purchases through the P-card program. Training is already conducted by the Legal Department and Purchasing Division on relevant laws applicable to procurement. We will continue to include training for all Site Administrators on the purchasing guidelines and assist them in their review of department. We will incorporate into the User guide and training presentations purchasing guidelines and consequences on non-compliance.				

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
4.	<p>Responsibility and Accountability Define specific review objectives; develop check lists to provide directions for review; and require management's participation in the P-card review.</p> <p>Action plan: Currently every P-card purchase is reviewed by each department's P-card Site Administrator and by the Department Director. After departmental review, P-card purchase documents are forwarded to the Purchasing Department where they are checked and verified by the P-card Program Administrator. We will also develop a checklist for all Site Administrators to assist them in monitoring their p-card purchases.</p>	17	Accept	Department Directors	Immediately
5.	<p>Review of Purchases</p> <ul style="list-style-type: none"> Document reviews and approvals by: Department Site Administrators, Division Managers, P-card Administrator and Purchasing Manager. 18 The Purchasing Manager should review the monthly reconciliation of P-Card statements prepared by the P-card Administrator. 18 <p>Action plan: P-card Administrator will ensure all statements and reconciliations have Site Administrator and appropriate Division Manager's signature. Currently, the Purchasing Manager reviews monthly reconciliation statements reports and annotates problems for appropriate corrective action or responses from departments.</p>	18	Partially Accept	Department Directors	May 1, 06
6.	<p>Infrequent Use of P-cards and Financial Exposure</p> <ul style="list-style-type: none"> Departments participating in the Program should analyze P-cards issued to determine if some could be eliminated. Reclaim cards where use is limited and where needs are not clearly demonstrated. 20 Consider reducing transaction and/or credit limits. 20 Strengthen separation of duties by eliminating P-cards issued to Site Administrators and Division Managers who review P-card transactions. 20 <p>Action plan: Currently we have 426 p-cards issued to employees representing 4% of the total workforce. The number of cards issued has decreased by 34% since the initial rollout. This reduction has occurred as a result of the departmental reviews of the number of cards issued, credit and transaction limits and the dollars spent by the individuals. Furthermore, when P-cards are up for renewal a user list is prepared and forwarded to the respective Department Director for their review. Directors then make their respective changes to credit limits, delete infrequent cardholders, and provide documentation for cancelling individual p-cards. In addition, Site Administrators and Division Managers who have p-cards do not review and nor sign their own envelopes. As a safe guard, we do not make any changes in the limits and restrictions to Site Administrators and Division Managers cards.</p>	20	Accept	Department Directors	Immediately

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
7.	<p>P-card Training and P-card Agreement</p> <ul style="list-style-type: none"> • Provide mandatory follow-up training annually to cardholders, and document attendance. • Ensure that Departments train a backup Site Administrator in case of illness, vacation or unforeseen circumstances. • Ensure that transaction and monthly limits are included in the contract signed by employee who is issued a P-card and his (her) supervisor. <p>Action plan: Every card holder will receive follow up training annually and proper documentation will be accomplished. Departments will be advised they submit annually a Site Administrator and alternate Site Administrator during their review of the p-card cardholders. In addition, Department Directors will provide a new list of employee with new monthly limits. Purchasing Manager will ensure these actions are accomplished at the annual review of cardholders by departments.</p>	21	Accept	Oz Parker, Purchasing Manager	Immediately
		21	Accept	Oz Parker, Purchasing Manager	Immediately
		21	Accept	Oz Parker, Purchasing Manager	Immediately
8.	<p>Review of Purchases for Possible Annual Contracts</p> <p>The Purchasing and General Services Department should more effectively analyze expenditures to determine if an annual contract should be sought.</p> <p>Action plan: The P-card administrator is already performing monthly analysis on P-card transactions. This report is forwarded to the Purchasing Manager, Director of Purchasing and General Services, and the Assistant City Manager for their review. P-card reports will be sent to the Central Buyers to ensure those items, which are procured by the department, are considered viable for putting on an annual contract. Purchasing will also continue to add more commodities for city personnel to use via the annual contract process.</p>	23	Partially Accept	Oz Parker, Purchasing Manager	Immediately
9.	<p>P-card Vendor</p> <p>Consider issuing a RFP to determine if competing P-card vendors can provide additional features or value through automated controls.</p> <p>Action plan: An RFP is currently being developed for Banking service; with possible inclusion of p-card program.</p>	24	Accept	Finance Director	Sept 1 2006
10.	<p>Develop Written Procedures for P-card Administration</p> <p>Develop written procedures on how to handle the Program in the absence of the P-card Administrator. Purchasing Management should review and approve them.</p> <p>Action plan: P-card procedures will be developed and an alternate P-card Administrator will be appointed to ensure the P-car program is administered in accordance with purchasing policy, state, and local laws.</p>	25	Accept	Oz Parker, Purchasing Manager	Immediately

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
11.	<p>Overrides of Established Controls</p> <ul style="list-style-type: none"> Reduce overrides to a minimum. When overrides are necessary, obtain written approval from the Purchasing Manager and document the circumstances. Department Site Administrators should review declined transactions to identify cards without a credit limit or attempted misuses. <p>Action plan: The issue of declined transactions noted in your report is not necessarily an indicator of misuse or lack of understanding of the program. Analysis of these transactions shows that the majority of these declines were attributed to the City's fiscal year end closeout process. Seventy-five percent of declines occurred during the first month of the fiscal year due to end of year processing. During that time, the Purchasing Department temporarily suspended P-card credit limits. Additionally, some of the declined transactions are based on internal controls implemented by Purchasing. We will continue to monitor overrides, and decline transactions. Overrides will only be authorized by the P-card administrator in conjunction with approval of Purchasing Manager or Director. A listing will be prepared on declined transactions and forwarded to the Department for explanation and possible retraining of the individual cardholder.</p>	26	Accept	Oz Parker, Purchasing Manager	Immediately
		26	Accept	Department Directors	Immediately
12.	<p>Merchant Category Codes</p> <p>Review frequency and dollar amounts of purchases made at vendors with blocked MCCs to determine the effectiveness of blocking controls.</p> <p>Action plan: Some Merchant Category Codes (MCC) were purposely blocked to ensure annual contracts for commodities such as office supplies, postage, janitorial supplies and lumber were used by the departments. Many of the items that have MCC codes blocked do not necessarily fall under the correct MCC code that best describes the purchase. These codes are bank/merchant categories and are not based on standard commodity classifications used by the City to procure goods and services however, we will continue to monitor MCC's.</p>	27	Accept	Terry Collazo P Card Administrator	Immediately
13.	<p>Termination of P-card Accounts</p> <ul style="list-style-type: none"> All City Departments should have an employee termination checklist identifying all items, such as P-card, to be cleared for the terminating employee. Department Site Administrators should notify the Purchasing P-card Administrator of the termination of a cardholder. The P-card Administrator should close accounts immediately upon termination of a cardholder and collect the P-card. Work with Bank of America to make sure there isn't a code vendors can use to override declined transactions. Continue to check for fictitious charges during transaction review and monthly reconciliation. <p>Action plan: To help reduce the risk that a cardholder can continue to charge on their P-card, or have charges made to the card's account after they have ended employment with the city, Purchasing will pursue additional control measures with Human Resources and department Site Administrators.</p> <p>It will still be the responsibility of Site Administrators to communicate with the Program Administrator of their employee when accounts need to be closed due to termination of employment. Site Administrators have the</p>	28	Accept	Department Directors	Immediately
		28	Accept	Department Directors	Immediately
		28	Accept	Terry Collazo, P-Card Administrator	Immediately
		28	Accept	Terry Collazo, P-Card Administrator	Immediately
		28	Accept	Terry Collazo, P-Card Administrator	Immediately

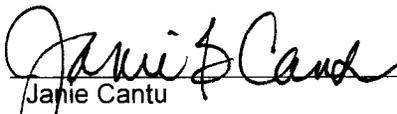
Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>ability to request the closing of an account in EAGLS and then forwarding a copy of the request with the card attached. This allows the card to be closed immediately. Program Administrator confirms the closing with vendor.</p> <p>The current notification procedure will remain in place and Human Resources will be consulted regarding employee information that is available for verification and confirmation purposes.</p>				
14.	Split Purchases				
	<ul style="list-style-type: none"> Establish reporting and provide guidance to transaction reviewers to identify split purchases. Re-emphasize in training that split purchases will result in serious disciplinary action. 	29	Accept	Oz Parker, Purchasing Manager	Immediately
	<ul style="list-style-type: none"> The City Manager should establish disciplinary actions for unauthorized P-cards transactions. 	29	Partially Accept	Janie Cantu, Purchasing Director	Immediately
	<ul style="list-style-type: none"> The Department Director should ensure that disciplinary action follows for the individuals violating City policy and User's Guide. Inform City Manager of all violations in a timely manner. 	29	Accept	Department Directors	Immediately
	<p>Action plan: P-card purchases will continue to be aggressively monitored by all departments and by management. Those purchases, which may be considered borderline, will continue to be addressed and justified by the Department Directors. Split purchases are not authorized under any circumstances. Confusion may result when multiple purchases from certain stores occur on the same day. This is not necessarily a case of split purchasing but is often the result of poor planning. We will incorporate in the user guide the definition of split purchase and the consequences for knowingly doing a split purchase. This topic will be included in Site Administrator and User training sessions.</p> <p>The availability of appropriate disciplinary measures will be discussed with Human Resources and modifications to existing policies made if warranted.</p>				
15.	Change of Management				
	The Purchasing Department should develop P-card procedures that address Departments in handling reorganizations. Re-assess the Department needs and individual needs for P-cards.	30	Accept	Janie Cantu Purchasing & Gen Sev. Director	Immediately
	<p>Action plan: Once reorganization is determined, Purchasing will submit a list of cardholders to gaining department for their reassessment of the current P-card holders.</p>				
16.	Safety Awards				
	The City Manager should update or retract Administrative Directive 4.69 for employees' safety awards.	31	Partially Accept	Michael Armstrong, Assistant City Manager/CIO	30 days
	<p>Action plan: Review Administrative Directive 4.69 with appropriate personnel and modify if necessary to provide more appropriate controls.</p>				

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
17.	Work Order Process versus Purchasing Process				
	<ul style="list-style-type: none"> Asset Management should ensure that purchases be approved and signed off on Departments' P-card Logs that are generally used for facility maintenance, in addition to the Work Orders. 	32	Accept	Shawn Eddy Interim Director	Immediately
	<ul style="list-style-type: none"> Asset Management should finalize and approve the draft Asset Management's Facility Services Handbook as the Building Maintenance Division's procedures. 	32	Accept	Shawn Eddy Interim Director	Immediately
	<p>Action plan: All P-Card purchases are now reviewed and signed by each employee's supervisor and the Division's Policies and Procedures were developed and implemented in June 2004.</p>				
18.	Safeguarding of Assets				
	<ul style="list-style-type: none"> Develop City-wide procedures for tracking high-risk items purchased with P-cards. 	33	Partially Accept	Department Directors	Immediately
	<ul style="list-style-type: none"> All City Departments should develop procedures that address the responsibilities of employees and contractors to safeguard assets, regardless of whether or not they are capitalized. 	33	Accept	Department Director	Immediately
	<p>Action plan: The P-card program is designed for low dollar value items, departments will continue to track high pilferable items procured through the p-card program. Departments will coordinate for identity of pilferable items and safeguarding of these items.</p>				

The Departments participating in the review appreciate the City Auditor's comments on the administration of the Purchasing Card Program as they provide insight into ways to improve a beneficial process used Citywide. They are committed to address the recommendations in the audit report and the plan of action presented.

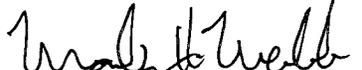
Sincerely,


 Michael Armstrong
 Assistant City Manager /
 Chief Information Officer
 (ACM/CIO)


 Janie Cantu
 Director
 Purchasing & Purchasing and
 General Services Department


 Tom Wendorf
 Director
 Public Works Department
 4/2/04


 Malcolm Matthews
 Director
 Parks and Recreation Department


 Mark Webb
 Interim Director
 Aviation Department


 Shawn Eddy
 Interim Director
 Asset Management Department