



CITY OF SAN ANTONIO

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

September 8, 2009

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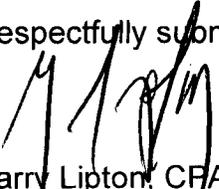
Mayor and Council Members:

SUBJECT: Purchasing and General Services Audit Report

We are pleased to send you the audit report of the Purchasing and General Services Department. This audit began in June 2008 and concluded with an exit meeting with department management in May 2009. Management's verbatim response is included in Appendix B of the report. The Purchasing and General Services Department should be commended for its cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,


Barry Lipton, CPA, DABFA
Deputy City Auditor
City of San Antonio

Distribution:

Sheryl L. Sculley, City Manager

Sharon De La Garza, Assistant City Manager

Janie Cantu, Director, Purchasing and General Services Department

Michael D. Bernard, City Attorney

Leticia Vacek, City Clerk

Robbie Greenblum, Chief of Staff, Office of the Mayor

Jaime Castillo, Communications Director, Office of the Mayor

Ruby A. Perez, Assistant to the Mayor, Office of the Mayor

Edward Benavides, Executive Assistant to the City Manager

Stanley Blend, Audit Committee Member

Manuel Long, Audit Committee Member

CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of Purchasing and General Services Department

Purchasing Card Program

Project No. AU08-008

September 8, 2009

Executive Summary

As part of our annual audit plan, we conducted an audit of the Purchasing and General Services Department, Purchase Card Program. The audit objective, conclusions and recommendations follow:

Should the P-card Program be expanded?

No. Management should not expand the P-card Program until internal controls are improved and operating effectively. The current program requires additional personnel and controls in the areas of administration, monitoring and training.

In addition, the City's Ethics Code does not prohibit most procurement related staff from having financial interests in City contracts.

We Recommend that the Director of Purchasing:

- Allocate an appropriate number of Purchasing staff to the P-card Program. This includes assigning staff with adequate systems knowledge to instruct City staff on the proper usage of the WORKS System.
- Include adequate information on WORKS and on the City's procurement policies and procedures in the Users Manual.
- Periodically request cardholders provide information on their satisfaction with P-card training and support services.

We Recommend that the City Manager:

Ensure that purchasing agents and other employees whose primary responsibility is to purchase or contract for the City do not have a financial interest in City contracts. This effort may include submitting a proposal to the Ethics Committee to update the Ethic's Code or implementing an internal policy or Administrative Directive

Table of Contents

Executive Summary	i
Background.....	1
Audit Scope and Methodology	3
Audit Results and Recommendations	5
A. Lack of Personnel and Controls over the P-card Program	5
B. Most Procurement Related Staff not Prohibited from having Financial Interests in City Contracts	7
Appendix A – Potentially Conflicting Procurement Related Job Functions for Employees Contracting with the City.....	9
Appendix B – Management Response.....	11

Background

The Purchasing and General Services Department (Purchasing) is responsible for the administration of the Purchase Card (P-card) Program. This includes:

- processing P-card applications,
- maintaining cardholder information,
- reconciling payments,
- reviewing policies and procedures, and
- monitoring P-card transactions for appropriateness.

A Program Administrator is responsible for these functions. Departments utilizing the P-card must also adhere to the City's purchase authorization and competitive bidding requirements. Each Department is responsible for monitoring and ensuring compliance with all relevant procurement rules and regulations.

The P-card Program began in March 2001 with the City Council accepting a proposal from Bank of America (the Bank) to provide the City with purchase processing services. The purpose of the program was to streamline the purchasing process and provide an efficient, cost-effective method for processing small dollar transactions. Four City departments participated in the P-card pilot program beginning in Fiscal Year 2001. By December 2003, the program was expanded to all Departments and the City entered into a new contract with the Bank.

On July 1, 2006, the contract was amended to include a Rebate Program that allowed the City to earn revenue based on monthly P-card transaction volume and dollar amounts. As of June 2008, the City had earned over \$37,000 in revenue based on approximately \$4.6 million in P-card transactions from January 2006 to June 2008.

Since January 2008, the program has been administered through the WORKS system which is a Web-based application supported by the Bank. Prior to this time, the City used a P-card System known as EAGLS but was required to change systems when the Bank implemented WORKS. Accounts are manually set up by a Program Administrator in WORKS after the Bank issues a new card. An employee must attend a mandatory training class before receiving a P-card. This training is provided by Purchasing staff.

Purchasing Management has been considering expanding the P-card Program to raise card limits for select cardholders and to facilitate payments in excess of \$3,000 to specific contractors. This effort would presumably provide additional efficiencies and increase the overall number of P-card transactions and expenditures, resulting in higher rebate revenue from the Bank. Purchasing Management obtained the services of an outside consultant to review the overall

procurement process and provide suggestions for improvement. In addition, the City Auditor's Office was asked to consider the prospect of expanding the program while conducting our audit of the P-card Program.

Audit Scope and Methodology

The original scope of this audit consisted of reviewing the propriety of P-card transactions for the period June 2007 through June 2008. However, in January 2008 the Department converted from its previous system (EAGLS) to the WORKS system. Therefore, we limited our scope to activities associated with the new system. This included the period January to August 2008. During our audit planning, Purchasing Management requested that we consider whether expansion of the P-card Program was advisable. After preliminary testing, we changed our objective from an audit of departmental transactions to a review of the overall internal control structure of the P-card Program.

We conducted inquiries of City and Bank staff, reviewed state and local regulations, policies and procedures, financial records, and other pertinent documentation. In addition, we researched and reviewed internal control best practices from the Committee of Sponsoring Organization (COSO)¹ of the Treadway Commission's Internal Control Framework and the Information Systems Audit and Control Association's (ISACA)² Control Objectives for Information and Related Technology (COBIT).

We relied on computer-processed data in the WORKS P-card system. We conducted test work on all 396 active accounts as of August 2008. We directly tested the data instead of evaluating the systems' general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our tests. Although we observed some gaps and errors in the data, we determined that the reliability of the data was sufficient for our purposes.

We conducted this audit from June 2008 to December 2008, in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for

¹The Committee of Sponsoring Organizations (COSO) is comprised of five organizations: American Accounting Association, American Institute of Certified Public Accountants, Financial Executives International, Institute of Management Accountants, and the Institute of Internal Auditors. COSO provides guidance to executive management and governance entities on the establishment of more effective, efficient, and ethical business operations by providing guidance based on analysis and best practices in the areas of Internal Controls, Fraud, and Enterprise Risk Management.

² Information Systems Audit and Control Association (ISACA) is a pace-setting global organization for information governance, control, security and audit professionals. Its information systems (IS) auditing and IS control standards are followed by practitioners worldwide. Through education, research, publications and audit certification, ISACA has become the standard-setting organization for the IS audit and assurance profession. ISACA's Control Objectives for Information and related Technology (COBIT) is an increasingly internationally accepted set of guidance materials for information technology governance.

our findings and conclusions based on our audit objectives. The audit also included tests of internal controls that we considered necessary under the circumstances.

Staff Acknowledgement

Brian K. Williams, MBA, CIA, CFE, CGAP, Audit Manager
Kimberly A. Weber, CIA, CFE, CGAP, Auditor-in-Charge
Alejandro Valadez, CISA, Staff Auditor
Kristy Cyr, MSA, CPA, Staff Auditor

Audit Results and Recommendations

A. Lack of Personnel and Controls over the P-card Program

Management should not expand the P-card Program until internal controls are improved and operating effectively. The current program requires additional personnel and controls in the areas of administration, monitoring and training.

Administration and Monitoring

The Department did not assign sufficient personnel resources to the Program. The Program Administrator has sole responsibility and authority to perform all aspects of the program. This includes approving applications, receiving and distributing P-cards, creating new accounts, setting security restrictions, paying monthly statements, and monitoring cardholder activity. In addition, the Administrator has complete access within the WORKS system to independently approve departmental transactions and adjust general ledger accounts.

The Committee of Sponsoring Organization (COSO) of the Treadway Commission's Internal Control Framework, states that key duties should be adequately divided, or segregated among different staff to reduce the risk of error or inappropriate actions. Continuous monitoring helps to ensure the quality of a program's performance and the reporting of errors or inappropriate actions to management.

Key duties were not segregated because only one person was assigned to the Program. Assigning one individual sole responsibility for all aspects of a program does not meet the test of effective internal controls and, the City could experience undetected monetary loss due to human error or deliberate misappropriation. For example, rebate checks totaling in excess of \$37,000 included the Administrator's name as well as the City on the payee line. This increases the risk of an employee successfully misapplying the rebate funds. However, we traced all rebate revenue to the City's financial accounting system and did not determine that any improprieties had occurred.

We identified 135 exceptions in 127 accounts out of 396 active P-card account profiles tested in the WORKS system. **Table 1** (on page 6) describes the various types of exceptions. Lack of sufficient staff to monitor cardholder accounts contributed to the high number of these undetected exceptions.

Table 1 Description and Number of Exceptions

<i>Description of Exceptions</i>	<i>Total</i>
Terminated Employees with Open Accounts (2006-2008)	20
Employees with Two or more Open Accounts	6
Accounts with an Incorrect Cost Center Listed	49
Accounts with an Incorrect Department Name Listed	24
*Site Administrators and/or Approvers within P-card System with Open Accounts	25
Employees with Open Accounts without Security Restrictions	2
Employees with Single Transaction Limits in Excess of \$3,000	9
Total Number of Exceptions	135

**Note: Site Administrators are defined in the P-card Program manual as, "Department Heads, or designated individuals that will oversee Managers and Cardholders, recommend purchase limits, approve cardholders and their limits, and make final approval of cardholders, and transaction limit changes."*

Training and Support

The Department did not provide P-card holders adequate training and support on the use of the WORKS system. Inadequate P-card training resulted in significant processing errors and cardholders having to rely heavily on their own understanding to utilize the system. Various cardholders stated that the P-card Administrator, the sole trainer of the Program, did not adequately respond to technical questions regarding the system. Although the Purchasing Department had staff with information systems knowledge, they were not utilized to train staff or assist with the implementation of the WORKS System.

Additionally, the P-card User's Manual was incomplete. It did not contain sufficient information on key procurement policies and procedures. Moreover, the manual did not contain information on the WORKS system.

According to the Information Systems Audit and Control Association's (ISACA) Control Objectives for Information and Related Technology (COBIT), effective training of users of IT systems requires identifying the needs of each user group and responding to those needs with the appropriate training resources. A successful training program increases effective use of technology by reducing user errors and ensuring user compliance with policies and procedures. Additionally, this process includes defining and executing a strategy for effective training and measuring the results.

Recommendations

A.1 The Purchasing Director should assign an appropriate number of Purchasing staff to the P-card Program.

A.2 The Purchasing Director should assign staff with adequate systems knowledge to instruct and support cardholders on the proper usage of the WORKS System.

A.3 The Purchasing Director should ensure that adequate information on WORKS and on the City's procurement policies and procedures are included in the Users Manual.

A.4 The Purchasing Director should ensure cardholders are periodically surveyed to determine their satisfaction with P-card training and support services.

B. Most Procurement Related Staff not Prohibited from having Financial Interests in City Contracts

Most employees with the authority to purchase or contract for the City are not prohibited from entering into contracts with the City.

The City adopted a Code of Ethics that established standards of conduct, disclosure requirements, and enforcement mechanisms relating to City officials, employees, and others whose actions affect public faith in city government. The Code prohibits conduct incompatible with the City's best interests thus minimizing the risk of the appearance of impropriety. To achieve this, the Code established certain prohibitions that apply to all City employees, such as: Section 2-43 *Conflict of Interest* and Section 2-44 *Unfair Advancement of Private Interests*.

However, the City's Ethics Code does not preclude most purchasing agents and those employees with the authority to purchase or contract for the City from having a financial interest in contracts with the City. The City Ethics Code, Section 2-52 (a) Charter Provision: The City of San Antonio Charter (Section 141) states, "no officer or employee of the city shall have a financial interest, direct or indirect, in any contract with the city, or shall be financially interested, directly or indirectly, in the sale to the city of any land, materials, supplies or service, except on behalf of the city as an officer or employee." However, the City's Ethics Code Section 2-52 (e) states that for the purposes of enforcing Section 141 of the City Charter, an "employee" is defined as any employee of the City who is required to file a Financial Disclosure Statement. We determined that most employees involved in the procurement/contracting process are not required to file City Financial Disclosure Statements.

We conducted a benchmark study of four major Texas City Charters: Dallas, Houston, Fort Worth, and Austin. According to our study, it appears that Dallas, Houston, and Fort Worth prohibit all employees from contracting with their respective cities. Austin does not preclude all employees from contracting with the city. However, the Austin Charter does not permit specific employees, including city purchasing agents and employees with the authority to purchase or contract from entering into contracts with the city of Austin.

Currently, various City procurement related positions such as; Purchasing Manager, Procurement Specialist, Contract Officer, Contract Coordinator, etc. are tasked with job functions that are perceived as conflicting if these employees were to contract with the City (See **Appendix A** for a list of conflicting roles with these and other procurement related positions). For example, tasks assigned to the Purchasing Manager position include:

- Preparing the tabulations of bids, analyzing and comparing bids with specifications, and making recommendations concerning the best source of supply.
- Reviewing all bid proposals.
- Participating in the buying of high value or complex items.

To avoid the appearance of City employees having a financial conflict of interest or unfair advantage, purchasing agents and employees with the authority to purchase or contract for the City should be specifically prohibited from entering into City contracts. For instance, we determined that in FY2000, a key Purchasing employee's spouse received over \$18,000 for services provided to the City. In addition, it was also determined that this same employee had an active undisclosed business. While we did not identify any improprieties, the appearance of a conflict of interest or unfair advantage may exist.

Recommendation

B.1 The City Manager should ensure that purchasing agents and other employees whose primary responsibility is to purchase or contract for the City do not have a financial interest in City contracts. This effort may include submitting a proposal to the Ethics Committee to update the Ethic's Code or implementing an internal policy or Administrative Directive.

Appendix A – Potentially Conflicting Procurement Related Job Functions for Employees Contracting with the City

Job Title	Job Class	Essential Job Functions
Contract Coordinator	0156	<ul style="list-style-type: none"> • Performs initiation, monitoring, or compliance activities for City contracts. • Performs special reviews, projects, and programs, and may prepare Requests for Proposals (RFP's). • Oversees all negotiations, terminations, and renegotiations of contracts. • Approves or rejects requests for deviations from contract specifications and delivery schedules.
Contract Manager	0178	<ul style="list-style-type: none"> • Provides direction in implementing the practices and procedures established for contract initiation, monitoring and compliance. • Provides for oversight of initiation, monitoring, and compliance projects. • Identifies need for and develops improvements to contracting programs, policies, and procedures.
Contract Administrator	0157	<ul style="list-style-type: none"> • Establishes, implements, and updates citywide business contract management standards for contract planning and solicitation. • Establishes and implements citywide contract administration and monitoring practices and procedures. • Establishes and implements citywide contract compliance practices and procedures.
Contract Officer	0929	<ul style="list-style-type: none"> • Prepares contracts, reviews contract provisions, and monitors contract compliance. • Formulates and coordinates the procurement of bids and proposals. • Consults with management regarding contracts, departmental issues, problems, and related matters. • May take part in negotiations, terminations, and renegotiations of contracts.

Appendix A (continued) – Potentially Conflicting Procurement Related Job Functions for Employees Contracting with the City

Job Title	Job Class	Essential Job Functions
Purchasing Manager	0813	<ul style="list-style-type: none"> • Reviews and assigns all purchase requisitions to buyers. • Reviews and approves all purchase orders. • Prepares the tabulations of bids, analyzes, compares bids with specifications, and makes recommendations concerning the best source of supply. • Reviews all bid proposals. • Participates in the buying of high value or complex items.
Procurement Specialist	0814	<ul style="list-style-type: none"> • Consults with user departments on purchases and recommends the most suitable products or services. • Prepares formal bids submitted to City Council for approval. • Secures data and prepares detailed specifications on commodities for formal or informal bids. • Prepares purchase requisitions. • Interviews vendors and/or representatives to obtain product and price information. • Tabulates and evaluates responses from formal and informal bid request. • Prepares informal and formal bid invitations. • Negotiates contracts with vendors for services or merchandise.
Purchasing and Contract Administrator	2036	<ul style="list-style-type: none"> • In the absence of the Director, may be requested to act on behalf of the Director of Purchasing. • Plans and manages the on-going acquisition of annual contract requirements for daily department operations. • Plans, directs, and manages the purchase of goods and/or commodities assigned to the unit. • Approves bid proposals and specifications.

Source: The City of San Antonio Human Resources Department's On-line Intranet Job Description Center: <https://ww4.sanantonio.gov/hrjobdescr/jobs/search.aspx>.

Appendix B – Management Responses



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

August 24, 2009

Park E. Pearson
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of the Purchase Card Program.

The Purchasing and General Services Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A	Internal Controls over the Purchase Card Program				
A.1	The Purchasing Director should assign an appropriate number of Purchasing staff to the P-card Program.	6	Accepted	Janie Cantu / Director	Completed - June 2009
A.2	The Purchasing Director should assign staff with adequate systems knowledge to instruct and support cardholders on the proper usage of the WORKS System.	7	Accepted	Janie Cantu / Director	Completed-Sr. DSS will provide support
A.3	The Purchasing Director should ensure that adequate information on WORKS and on the City's procurement policies and procedures are included in the Users Manual.	7	Accepted	Janie Cantu / Director	Completed – January 2009
A.4	The Purchasing Director should ensure cardholders are periodically surveyed to determine their satisfaction with the P-card training and support services.	7	Accepted	Janie Cantu / Director	Completed-Quarterly Surveys implemented July 2009

Appendix B (continued) – Management Responses

<u>Action plan:</u>				
A.1	More staff has been assigned to the program which will assist in the internal controls in the areas of administration and monitoring. The Fiscal Operations Manager for Procurement reviews all transactions by the P-card Program Administrator. New card orders are approved by the Fiscal Operations Manager, ordered by the P-card Program Administrator, and received and issued by the Purchasing Accountant II.			
A.2	General training in the WORKS system is provided as part of the Cardholder training to all Cardholders, Managers, and Site Administrators. Additional training is available and may be requested through the Program Administrator and the Sr. Department Systems Specialist. Training aides are also available through the WORKS system. A survey is provided at the end of each training session which allows participants an opportunity to grade and comment on the training provided by the System Administrator and the Sr. Systems Specialist.			
A.3	The User Manual now includes City procurement policies and procedures. The User Manual also includes basic information on the WORKS program for users. More information on the WORKS system is available upon request from the Program Administrator or from the help menu within the WORKS system.			
A.4	All card holders are surveyed upon completion of the Cardholder training. A survey has already been incorporated and sent out to all cardholders on a quarterly basis to determine satisfaction with the program and support services in regards to the program.			
B	Most Procurement Related Staff not Prohibited from having Financial Interests in City Contracts			
B.1	The City Manager should ensure that purchasing agents and other employees whose primary responsibility is to purchase or contract for the City do not have a financial interest in City contracts. This effort may include submitting a proposal to the Ethics Committee to update the Ethic's Code or implementing an internal policy or Administrative Directive.	8	Accepted	Sharon De La Garza / Assistant City Manager
				October 2009
<u>Action plan:</u>				
B1	The City Manager's Office will identify applicable personnel and administratively implement a directive to address this issue.			

Appendix B (continued) – Management Responses

The P-card program was implemented in March 2001 in order to provide an efficient method of procurement for small dollar purchases and to allow Purchasing to gain better control and management of low dollar expenditures.

The development of the P-card program included assistance from Finance, ITSD, City Attorney, City Auditor and departments selected to participate in the pilot program. As per recommendations from the Finance Department, the program was set up as a primarily paper based program. This was also due to the number of field staff without access to computers. This allowed the capturing of signatures for transactions and manual files for historical tracking.

The P-card program is supported by a software system which is a proprietary system of Bank of America. This system is used by the City primarily for funds reallocation. In January of 2008 Bank of America changed its software system from the EAGLS to WORKS system. The audit coincided with Bank of America and the City's implementation and transition to the new system. The initial implementation resulted in a number of conversion as well as systems issues. The issues were in the process of being addressed at the onset of the audit.

The audit noted a number of exceptions. Of the 135 exceptions, 73 were due to Department reorganization/budget issues, 26 were due to Department Site Administrators failure to submit proper documentation regarding staffing status, and 27 exceptions were not in violation of our current policy. Additionally many of these exceptions had been corrected during the year of the transition and/or corrected when the audit began.

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,


Janie B. Cantu, C.P.M.
Director
Purchasing and General Services Department


Sharon De La Garza
Assistant City Manager
City Manager's Office