



CITY OF SAN ANTONIO

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November 17, 2014

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Councilman, District 8

SUBJECT: Audit Report of the Purchasing Card Program

Mayor and Council Members:

We are pleased to send you the final report of the Purchasing Card Program Audit. This audit began in December 2013 and concluded with an exit meeting with department management in July 2014. Management's verbatim response is included in Appendix C of the report. The Finance Department management and staff should be commended for their 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,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of the Finance Department

Purchasing Card Program

Project No. AU14-015

November 17, 2014

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Purchasing Card Program. The audit objectives, conclusions, and recommendations follow:

Is the Purchasing Card Program managed in compliance with policies and procedures?

No, the Purchasing Card Program (aka P-Card Program) is not managed in compliance with policies and procedures.

Finance management has made significant improvements to the P-Card process and the P-Card program is meeting its objectives for allowing small dollar items to be purchased in an efficient manner. However, we identified areas where internal controls are lacking and/or are not working as expected. The following control deficiencies were identified:

- A. Program guidelines and policies do not provide enough detail to be effective and are outdated in some areas.
- B. Control processes outlined in the P-Card Policy are not being conducted and/or are weak. This includes annual reviews, customer services visits, and audits. Additionally, training is not required for Site Administrators.

P-Card purchases are not consistently approved prior to payment. An excessive amount of unapproved purchases in the Works system are being paid via a process known as sweeping; these purchases are not being monitored. In FY2013, \$279,698 (9%) of purchases were swept into SAP and processed for payment.

- C. Information Technology controls for the Works System are weak.

We recommend that the Director of Finance:

- A. Update the guidelines within the policy and the website and ensure that updates are communicated to all applicable employees to include managers approving purchases, Site and Program Administrators and Cardholders. Guidelines should be kept current, dated and approved by management.

- B. Ensure that internal controls are in place and utilized for monitoring of purchases by complying with current guidelines relating to annual reviews, customer service visits and audits. Additionally, training should be required for Site Administrators.

Implement a standard reconciliation process to include the identification and reclassification of swept transactions. Additionally, limit the number of users with access to sweep transactions and ensure that swept transactions are communicated to the Site Administrators and managers of the appropriate department

- C. Strengthen Information Technology general controls by:

1. Ensuring that the Program Administrators gain a thorough understanding of the Works system roles and privileges.
2. Appropriately segregating duties by limiting the Program Administrators' access and restricting cardholders from approving their own purchases in Works.
3. Complying with Administrative Directive 7.8E *User Account Management* by conducting reviews to ensure that individuals are only given access to the minimum necessary resources they need to perform their duties associated with their position in the City.

The Finance Department Management's verbatim response is in Appendix C on page 11.

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Background

The Citywide Purchasing Card Program (P-Card) was developed to allow departments the ability to readily purchase small dollar non-biddable items through the use of a City issued credit card. The program objective is to establish an effective, efficient and convenient process to facilitate small dollar purchases and their settlement. As part of the consolidation of the Purchasing and Finance departments, a detailed analysis was conducted from March 2012 through June 2013. A committee consisting of subject matter experts was organized to review the P-Card program. The goal of the committee was to improve existing processes. The P-Card program has been in existence since March of 2001 and was the procurement channel for over \$3.2 million of purchases in FY2013. In 2013, 359 cards were used for purchases throughout 30 departments. Exhibits 1 and 2 in Appendix A summarize the departments participating in the program and the top 10 P-Card purchases by merchant categories.

Since January 2008, the program has been administered through the Works system which is a Web-based application supported by Bank of America. The P-Card program and Works system is primarily managed by two Program Administrators in the Finance department. The Program Administrators are responsible for issuing P-Cards, conducting training, granting user access to the Works system and monitoring the program and the Works system at the City-wide level. Designated Site Administrators assist with managing the process at the operating department level. Site Administrators are responsible for reviewing and approving transactions for cardholders within their department. Additionally, the Site Administrator functions as the departmental contact and ensures communication to the Program Administrators. The cardholder's manager is also responsible for reviewing P-Card purchases.

Audit Scope and Methodology

The audit scope was FY 2013. Our methodology included a review of current processes, user roles in the Works system, department policies and procedures, related city administrative directives and staff interviews. Additionally, we created a standard questionnaire and sent it to the respective department Site Administrators to gain an understanding of the individual department's P-Card processes.

We selected seven out of the 32 departments with P-Card usage. Several factors were considered in our selection: percentage of total P-Card spending, number of P-Cards issued per department, cardholder to approver ratios, and percentage of department cards without Merchant Category Code

restrictions. We then reviewed 128 transaction packages randomly selected from the various departments to ensure that purchases were valid, supported and approved by two authorized approvers.

We relied on computer-processed data in the Works system. The Works system is used to review transactions per card, code purchases to the appropriate funding source, track the approval workflow and ultimately to import transactions into SAP to issue payment to Bank of America. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included reviewing the data within Works. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Audit Results and Recommendations

A. Program guidelines and policies are ineffective.

A.1 Guidance for allowable purchases is vague:

We noted purchases that were for industrial and business goods and equipment that could be deemed as items that should be purchased with a vendor under contract. For example, home supply purchases such as ladders, paint, tools, etc. were made at Lowes and Home Depot using P-Cards. However, the City has an existing contract with Home Depot.

Of the 7 departments selected for invoice testing; only 1 included additional support that indicated a review of contracts took place.

Based on additional analysis conducted, we concluded that the majority of purchases made in FY2013 were for industrial and business goods. Please refer to Exhibit 2 in Appendix A for more detail of purchases by merchant categories.

The P-Card guidelines specify allowable purchases are non-biddable items such as membership dues, registration fees, travel, and postage. Furthermore, guidance states that P-Cards may not be used for goods and services that are included in existing City of San Antonio annual contracts. However, a listing of those annual contracts is not readily available. Consequently cardholders could inadvertently purchase items that are available under contract. Additionally, these purchases could be for goods that are subject to procurement processes outlined in Administrative Directive 1.6 Purchasing Procedures¹.

A.2 Information on the P-Card website is outdated:

Information stated on the website that serves as a communication tool to participants was outdated for the following:

- The contact information for the Program Administrators was not current.

¹ The purpose of Administrative Directive (A.D.) 1.6 Purchasing Procedures is to establish purchasing procedures for all goods, non-professional and professional service contracts. It provides solicitation guidelines for anticipated frequent or recurring purchases that meet specific thresholds and criteria.

- The Training Schedule was outdated. The last date listed was November 28, 2012.
- The allowable items checklist was outdated. It listed food, hotel, and airfare as restricted items. However, the Director of Finance identified these purchases as allowable items in a memo sent to management dated July 2013.

Due to unclear and outdated P-Card guidelines, the risk of non-compliance with guidelines exists. Additionally, the risk that the City issues a payment to Bank of America for purchases of disallowed items is also increased.

Recommendation

We recommend that the Director of Finance update the guidelines within the policy and the website to ensure that they reflect current processes. Updates should be communicated to all applicable employees to include Managers approving purchases, Site and Program Administrators and Cardholders and should be kept current, dated and approved by management.

B. Defined control processes not conducted and/or are weak.

B.1 The P-Card Handbook and guidelines direct multiple control processes for management of the P-Card program. Program Administrators are not performing several of these processes. These include:

- Annual reviews of usage and spending to determine if cards need adjustments or the card should be cancelled for non-use.
- Customer service department visits to provide departments with feedback related to their records and record keeping practices. Additionally, they are to provide hands on training, best practice procedures and feedback regarding P-Card processes.
- Internal reviews to determine that card use and charges are appropriate and in compliance with P-Card and City of San Antonio regulation and sales and use tax charges.

B.2 Training is not required for Site Administrators:

Based on discussion with Program and Site Administrators, only card users are required to attend training. However, Site Administrators, Supervisors and Managers play a significant role in monitoring the card usage. Per best practices, supervisors should be provided with ongoing training.

B.3 P-Card purchases are not consistently approved prior to payment:

To ensure P-Card payments are made on-time, transactions are sometimes paid without review or approval of purchases reported in the Works system. This process is known as 'sweeping' the transactions. For FY2013, 1,466 transactions totaling \$279,698 were swept without approval. This accounts for 9% of the total P-Card purchases. In addition, swept transactions are swept into a default cost center and GL account and are not being reclassified to the appropriate accounts.

While most accounts that are swept are processed by Finance, some are processed at the department level. There is no communication between Finance and user departments when accounts are swept and no evidence of transaction approval after the sweeping occurs.

Without proper controls in place to ensure the appropriate monitoring and accounting of purchases, the risk of inappropriate purchases and inaccurate reporting increases.

Recommendation

We recommend that the Director of Finance:

1. Ensure that internal controls are in place and utilized for monitoring of purchases, by complying with current guidelines relating to annual reviews, customer service visits and audits. Additionally, training should be required for Site Administrators.
2. Implement a standard reconciliation process to include the identification and reclassification of swept transactions. Additionally, limit the number of users with access to sweep transactions and ensure that swept transactions are communicated to the Site Administrators and managers of the appropriate department.

C. Information Technology controls are weak.

C.1 Users assigned non-standard merchant codes in the Works system lacked formal approval as required by Policy.

All merchants that accept credit cards are assigned a merchant category code to identify the types of goods or services that they provide. Cardholder profiles are set up in the system with a set of standard merchant categories that will restrict purchases from merchants with merchant category codes that provide normally disallowed items such as fuel and IT hardware and software.

When necessary, deviations from the standard merchant category codes require Site Administrator approval. Of a sample selection of 37 cardholders tested, four deviations were present and three did not have evidence of department approval.

C.2 Inappropriate System Privileges:

User access is inappropriate and excessive for staff with Accountant access, terminated employees and Program Administrators.

The Accountant role in Works enables an individual to sweep unapproved transactions which ultimately are paid without any evidence of proper review or approval. Forty users had inappropriate access to sweep transactions using the Accountant user access role in Works.

We tested user access for 100% of the population and noted that 372 users had active P-Cards. At the time of test work, we noted that three terminated employees' P-Cards were still active. Additional testwork was conducted to ensure that purchases had not been made with the terminated users P-Cards. We concluded that there have been no purchases made with these cards.

Program Administrators also have excessive administrative and operational access to the Works system resulting in inadequate segregation of duties.

Program Administrators currently have the sole responsibility and authority to perform all aspects of the program. This includes receiving and distributing P-Cards, creating new accounts, approving transactions, setting security restrictions, paying monthly statements, and monitoring cardholder's activity. In addition, the Administrators have complete access within the Works system to sweep accounts.

Additionally, Site Administrators for small departments may have approval privileges to make purchases and approve their own transactions.

Without appropriate user access roles, profiles and appropriate segregation of duties, the risk of inappropriate purchases is increased. To ensure that accounts and permissions are responsibly managed for as long as they are needed user access permissions should keep pace with user needs. Unmanaged access privileges can significantly contribute to breaches in the confidentiality, integrity or availability of the City of San Antonio IT resources

Recommendation

The Director of Finance should strengthen Information Technology general controls by:

1. Ensuring that the Program Administrators gain a thorough understanding of the Works system roles and privileges. Additionally, they should retain appropriate support for all deviations from standard user access such as merchant category codes.
2. Appropriately segregating duties by limiting the Program Administrators' access and restricting cardholders from approving their own purchases in Works.
3. Complying with Administrative Directive 7.8E *User Account Management* by conducting reviews to ensure that individuals are only given access to the minimum necessary resources they need to perform their duties associated with their position in the City.

Appendix A – Supplemental Information

Exhibit 1: P-Cards with Transactions and Spending by Department

Department	P-Cards with Transactions	Total Spending FY2013
Building & Equipment Services	62	\$ 552,322.58
Parks & Recreation	73	\$ 398,472.71
Fire	30	\$ 334,882.82
Aviation	25	\$ 326,330.79
Public Works	12	\$ 199,327.83
Convention & Sports Facilities	31	\$ 189,091.17
Police	7	\$ 140,733.75
Convention & Visitors Bureau	6	\$ 129,244.97
City Council Offices	2	\$ 116,531.74
Finance	3	\$ 93,072.03
Downtown Operations	18	\$ 92,312.92
Animal Care Services	7	\$ 90,563.15
Human Resources	6	\$ 77,774.61
Library	4	\$ 58,835.10
Health	12	\$ 43,498.75
Development Services	15	\$ 40,829.23
City Auditor	1	\$ 39,814.20
Office of Sustainability	4	\$ 37,567.27
Information Technology Services	13	\$ 37,054.57
Economic Development	3	\$ 31,363.15
Capital Improvement Management Services	3	\$ 24,993.00
City Clerks Office	4	\$ 21,040.82
Intergovernmental Relations	2	\$ 17,423.71
Cultural Affairs	2	\$ 16,226.92
Municipal Court	1	\$ 14,614.27
Planning & Community Development	6	\$ 12,199.70
Pre K for SA	2	\$ 7,410.14
Management & Budget	3	\$ 5,897.97
Communications & Public Affairs	1	\$ 2,195.84
Solid Waste Management	1	\$ 7.46
Total	359	\$ 3,151,633.17

Source: Bank of America Works System

Exhibit 2: Top 10 P-Card Purchase Categories

Top 10 P-Card Purchases by Merchant Categories	FY13 Spending
Miscellaneous Industrial Supplies	\$ 314,704.74
Miscellaneous Business Services	\$ 141,279.55
Miscellaneous and Specialty Retail Stores	\$ 119,666.47
Automotive Parts and Accessories Stores	\$ 114,117.76
Miscellaneous Professional Services	\$ 95,182.63
Electrical Parts and Equipment	\$ 93,959.86
Nurseries, Lawn and Garden Supply Stores	\$ 88,863.05
Home Supply Warehouse Stores	\$ 87,296.69
Miscellaneous Commercial Equipment	\$ 84,878.89
Hardware Stores	\$ 77,380.75
Total	\$ 1,217,330.39

Source: Bank of America Works System

Appendix B – Staff Acknowledgement

Sandra Paiz, CFE, Audit Manager
Christopher Moreno, CFE, Auditor
Michelle Garcia, CPA, Auditor

Appendix C – Management Response

CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

October 28, 2014

Kevin W. Barthold, CPA, CIA, CISA
 City Auditor
 San Antonio, Texas

RE: Management's Corrective Action Plan for AU14-015 Audit of the Purchasing Card Program

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

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	<p>Program guidelines and policies do not provide enough detail to be effective and are outdated in some areas.</p> <p>The Director of Finance should update the guidelines within the policy and the website and ensure that updates are communicated to all applicable employees to include managers approving purchases, Site and Program Administrators and Cardholders. Guidelines should be kept current, dated and approved by management.</p>	3	Accept	Melanie Seale/ Asst Director	October 2014

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><u>Action plan:</u></p> <p>The City's Finance Department has made significant improvements to processes and controls as they relate to the P-Card program since the consolidation of the Purchasing Department with the Finance Department in Fiscal Year 2012.</p> <p>An internal audit report was issued on the P-Card program in September 2009 which identified several areas of needed improvement. As part of the consolidation of the Purchasing and Finance Departments, a detailed analysis was conducted from March 2012 through June 2013 of the business processes supporting the procurement functions to include the P-Card program. A committee consisting of subject matter experts from Purchasing, Accounting, Compliance and Resolution and shared services personnel was organized to review the P-Card process and controls. Improved processes were developed taking into consideration the recommendations from the 2009 Internal Audit. The enhancements to the processes included strengthening controls and segregation of duties between the City departments, fiscal administrators, Accounting, Purchasing and the Program Administrators. The updated processes were communicated via multiple channels and rolled out to departments alongside the other major process revisions related to the procurement functions. Training was conducted of the impacted staff as well as mandatory sessions for the executive staff.</p> <p>Once the updated processes were implemented and training provided, Finance began updating the P-Card Manual. At the time of internal audit's fieldwork, the updated P-Card Manual was pending management's review. However, Finance intentionally delayed releasing the revised P-Card Manual to incorporate any potential changes recommended as part of the audit, as well as to incorporate any changes resulting from the expiration of the existing contract with Bank of America and conversion to a new P-Card program administered by Wells Fargo. The new contract with Wells Fargo was effective on July 1, 2014. The new P-Card Manual is scheduled to be released in October 2014.</p> <p>The Finance Department website has been updated to provide training materials, future training dates and a point of contact for the P-Card program. The Manual will also be loaded onto the website when completed.</p>				

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
2	<p>Control processes outlined in the P-Card Policy are not being conducted and/or are weak.</p> <p>The Director of Finance should ensure that internal controls are in place and utilized for monitoring of purchases by complying with current guidelines relating to annual reviews, customer service visits and audits. Additionally, training should be required for Site Administrators.</p> <p>Implement a standard reconciliation process to include the identification and reclassification of swept transactions. Additionally, limit the number of users with access to sweep transactions and ensure that swept transactions are communicated to the Site Administrators and managers of the appropriate department</p>	4	Accept	Melanie Seale/Asst Director & Marion Gee/Asst Director	October 2014

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>Action plan:</p> <p>As mentioned above, Finance is finalizing revisions to the P-Card manual as a result of the conversion to a new P-Card program administered by Well Fargo. The revised manual is scheduled to be released in October 2014. Revisions include establishing monthly reports to be distributed to departments that list transactions that charged sales tax, declines, and transactions not re-allocated or swept at posting. These reports will increase visibility and accountability for P-Card purchases. Any exceptions will be monitored by the Finance Department to ensure resolution.</p> <p>Finance will additionally add to its FY2015 Review Plan that the Compliance & Resolution Division conduct site visits and reviews of department controls established in support of the P-Card program.</p> <p>As part of the transition of the P-Card from Bank of America to Wells Fargo, all P-Card users had to be re-authorized by their departments for card usage and had to complete a new and mandatory P-Card training prior to a new card being issued to them. This training was held July 29 & 30, 2014. Department site administrators and fiscal administrators were provided additional training specific to their responsibilities regarding the new process and system. Scheduled training will be established throughout the year as a refresher for current Cardholders and administrators as well as for new individuals for whom cards are requested. All P-Card Program Participants are required to attend training and pass an exam before receiving access.</p> <p>The "sweeping" process has been strengthened in conjunction with the implementation of the new P-Card program with Wells Fargo. Each month P-Card transactions are accumulated in the Wells Fargo system and must be allocated to the correct G/L classification by Department personnel prior to the close of the month. In the event that the City Department does not assign a G/L account to a P-Card transaction it is swept to a default general ledger 5402999 entitled "Unclassified P-Card Charges". In order to ensure P-Card expenses are properly classified, the Finance Department will monitor the default general ledger and ensure all transactions have been properly classified prior to closing the month end. The ability to sweep or upload transactions into SAP has been revised and limited to solely Finance Department accounting personnel.</p>				

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
3	<p>Information Technology Controls for the Works System are weak.</p> <p>The Director of Finance should strengthen Information Technology general controls by:</p> <ol style="list-style-type: none"> 1. Ensuring that the Program Administrators gain a thorough understanding of the Works system roles and privileges. 2. Appropriately segregating duties by limiting the Program Administrators' access and restricting cardholders from approving their own purchases in Works. 3. Complying with Administrative Directive 7.8E <i>User Account Management</i> by conducting reviews to ensure that individuals are only given access to the minimum necessary resources they need to perform their duties associated with their position in the City. 	6	Accept	Melanie Seale/Asst Director & Marion Gee/Asst Director	Completed

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>Action plan:</p> <p>With the transition of the P-Card program from Bank of America's WORKS to Wells Fargo's System, the Program Administrators have been provided the necessary training to understand the roles, process flow and mechanics of the Wells Fargo System. The Program Administrators additionally will be meeting with the vendor quarterly for status updates, new features and trainings as well as to address any concerns.</p> <p>During the transition process to Wells Fargo the Program Administrators worked with departments to ensure that users and cardholders were provided the appropriate roles. Additionally, the Compliance & Resolution Division has conducted a review of newly assigned user roles and the functions within each role to ensure that conflicts do not exist. The new system also contains built in controls that will not allow a user to occupy multiple roles which prevents conflicts. The roles in the new system include a cardholder, reconciler, approver, viewer and program administrator.</p> <p>Improvements have been implemented to comply with Administrative Directive 7.8E regarding <i>User Account Management</i>. Processes have been implemented requiring a monthly review by the Compliance and Resolution Administrator of new and delimited users, as well as all profile changes. Additionally, on an annual basis, a list of cardholders, users, and their usage/roles will be sent to Department Fiscal Administrators for review and update.</p>				

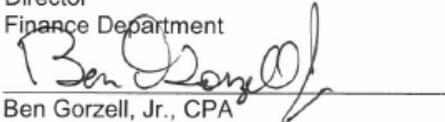
We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,



Troy Elliott, CPA
 Director
 Finance Department

10/28/14
 Date



Ben Gorzell, Jr., CPA
 Chief Financial Officer
 City Manager's Office

10/28/14
 Date