OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

April 21, 2009

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

<u>RECOMMENDATION:</u>

Receive and file the attached Purchasing Card Audit.

<u>DISCUSSION:</u>

The Office of the City Auditor has completed an audit of the City of Long Beach Purchasing (P-Card) Program. The objective of this audit was to verify whether P-Card transactions were in compliance with the established policies and procedures set forth in the User Guide and the City's Administrative Regulations and to evaluate the adequacy of internal controls over the Program.

Overall, the P-Card Program has been successful in reducing administrative processes for purchasing business-related goods. However, during our audit, we noted several areas within the internal control environment that could be improved. Our procedures, findings, and recommendations for improvement are discussed at length in the attached report.

We appreciate the time, information, and cooperation provided by Financial Management and other City Departments involved in the P-Card Program.

<u>TIMING CONSIDERATIONS:</u>

Action by the City Council is not time sensitive.

<u>FISCAL IMPACT:</u>

Approving this action would have no fiscal impact.

<u>SUGGESTED ACTION:</u>

Approve recommendation.

Respectfully submitted,

Laura L. Doud

LAURA L. DOUD, CPA
CITY AUDITOR

Attachment

Audit Report

Purchasing Card Audit
April 2009

Audit Staff

City Auditor: Laura L. Doud
Assistant City Auditor: James Johnson
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Senior Auditor: Sotheary Hul
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Executive Summary

The City of Long Beach Purchasing Card (P-Card) Program was first introduced in January 2002. The City's purchasing card, a MasterCard credit card issued through JPMorgan Chase, was established to provide a more convenient and efficient method for employees to purchase business-related goods directly from suppliers without the need of a purchase order. The benefits of the program include expediting purchases and reducing the number of purchase orders, invoices, and checks that would otherwise be processed.

The P-Card program policies and procedures are prescribed in the Purchasing Card User Guide (User Guide) and are administered by the Purchasing Division of Financial Management. The purpose of these policies and procedures is to ensure that P-Card purchases are appropriate, properly documented, reviewed and authorized.

The Office of the City Auditor has completed an audit of the City of Long Beach P-Card Program for the audit period April 5, 2007 through November 5, 2007. The objective of this audit was to verify whether P-Card transactions were in compliance with the established policies and procedures set forth in the User Guide and the City's Administrative Regulations.

Overall, the P-Card Program has been successful in reducing administrative processes for purchasing business-related goods. However, during our audit, we noted several areas within the internal control environment that could be improved. Listed below is a summary of our key findings.

There was a lack of compliance with the established policies and procedures in the following areas:

Documentation for Authorization of P-Card Issuance
- o 37% of cardholder files lacked the required signatures on one or both of the two required cardholder forms.
- o 31% of the online approver files lacked the required signatures on one or both of the two required online approver forms.

Documentation for Closed Accounts
- o 98% of closed account files lacked the required Cardholder Account Form, manager email requesting account closure, or both documents.
- o 52% of Cardholder Account Forms or manager emails did not document reasons for account closure.

Documentation for Authorization of Limit Increases
- o 21% of cardholder files tested did not have the required document authorizing an increase in the single transaction limit; 20% did not have the required document authorizing an increase in the billing cycle limit.

Supporting Documentation for Purchases
- o 34 transactions totaling $29,150 were either unauthorized or did not have the required supporting documents.

Transaction Limits
- o Transactions totaling $24,874 appear to have been split to avoid the transaction limit.

- Increased management oversight of cardholder accounts is needed to ensure that all cards are accounted for and that P-Cards for transferred or terminated employees are closed.

- P-Card policies and procedures are not established as a City Manager-approved Administrative Regulation.

- The User Guide lacks policies and procedures regarding:
  - o Financial Management's role and responsibilities over the P-Card program; and
  - o Selection of appropriate online approvers and managers.

- One department has an insufficient number of online approvers compared with the number of cardholders and transactions to provide adequate oversight.

Background

Introduction of Program

The City of Long Beach Purchasing Card (P-Card) Program, which began in January 2002, was initiated to provide a more efficient, cost-effective method of purchasing and payment processing. The City's P-Card, a MasterCard credit card issued through JPMorgan Chase, replaced the use of imprest cash for small City-related purchases and allows the cardholder to purchase business-related goods directly from suppliers without a purchase order. P-Card holders may make purchases of up to $1,000 per transaction and $5,000 per month. Those limits may be increased on a case-by-case basis with department head approval. Consequently, the use of the P-Card reduces the number of purchase orders, invoices, and checks that otherwise would be processed.

The P-Card Program policies and procedures prescribed in the Purchasing Card Program User Guide (User Guide) are administered by the Purchasing Division of Financial Management to ensure that P-Card purchases are appropriate, properly documented, reviewed and authorized.

Overview of Program

Obtaining a P-Card
The P-Card application consists of four forms; two forms, the Employee Purchasing Card Agreement and Cardholder Account Form, pertain to the P-Card applicant; the remaining two forms, the Online Approver and Manager Purchasing Card Agreement and Online Approver Form, prescribe the responsibilities of the P-Card approver and manager and provide approver information. All four forms must be completed and submitted to the Purchasing Card Administrator, ensuring that each form is approved and signed by the department head or designee.

A P-Card applicant, subsequent to training and agreeing to practice the prescribed record-keeping and review procedures, is then issued a P-Card by the Purchasing Division.

Using, Processing and Monitoring the P-Card
P-Card holders are required to record each purchase on a transaction log to the level of detail necessary, and retain a sales receipt, invoice and/or packing slip with the log. Once per week, the cardholder reconciles charges to Smart Data Online (SDOL), a web-based system used by cardholders to monitor their P-Card transactions, enters a description and purpose for each transaction, and corrects the default charge point if necessary.

Once a week the P-Card holder submits an SDOL expense report, transaction log and receipts to their online approver. The online approver verifies the transaction log and

receipts to the web-based statement and clicks the 'reviewed' and 'apply' options to accept the transaction.

Within four days of the billing cycle close date, the cardholder must sign the SDOL Expense Report. As a final review, the manager signs the SDOL Expense Report within five (5) calendar days of the close of the billing cycle as validation that the transactions were "approved."

The SDOL Expense Report, Transaction Log, and receipts are retained in the department, available for review.

Audit Objectives, Scope, and Methodology

The Office of the City Auditor has recently concluded the audit of the P-Card Program for the City of Long Beach. The objective of the audit was to verify whether P-Card transactions are in compliance with the established policies and procedures set forth in the User Guide and the City's Administrative Regulations.

The scope of this audit was limited to the period April 5, 2007 to November 5, 2007. We performed the following procedures:

- Reviewed and summarized the P-Card User Guide and related Administrative Regulations.

- Reviewed the prior Purchasing Card Audit Report and considered the report findings and recommendations in planning this audit.

- Interviewed P-Card program members, such as the Purchasing Card Administrator, managers, online approvers, and cardholders, to gain an understanding of the P-Card policies and procedures, transactions completed, and internal control structure.

- Obtained a schedule of cardholders from JPMorgan Chase and Financial Management, compiled a comprehensive schedule of cardholders, and identified all open and closed accounts.

- Reviewed closed account files for account closing dates, reason for account closure, and required account closure documentation.

- Reviewed open accounts to determine the following:
  o Authorization forms are properly completed and submitted prior to the issuance of a P-Card;
  o All cardholders are current City employees and are employed in the department listed in JPMorgan's cardholder listing;
  o The number of approvers is adequate to effectively review cardholder transactions within the presented deadlines; and
  o P-Card account numbers are not susceptible to fraud through duplicate or sequential account numbering.

- Obtained a schedule of transactions made by all cardholders during the audit period to identify any unusual transactions:
  o Weekend Transactions;
  o Holiday Transactions;
  o Split Transactions;
  o Single transactions over $1000; and
  o Total monthly transactions over $5000.

- Selected a sample of unusual transactions from each department and determined whether:
  - Transactions were recorded on the transaction log;
  - Transaction logs were reconciled by both the cardholder and online approver on a weekly basis;
  - Required supporting documents for each transaction were retained with the transaction log;
  - Monthly Expense Reports were reviewed, signed, and dated by both the cardholder and online approver/manager; and
  - Authorization was provided for transactions over the typical $1,000 single transaction limit and over the typical $5,000 billing cycle limit.

- Tested additional transactions that were not included in the unusual transaction category for compliance with P-Card policies and procedures.

We conducted this performance 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 findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Issues and Recommendations

Issue #1 – Non-Compliance with Established Purchasing Guidelines

Our audit testwork found that from April 5 through November 5, 2007, cardholders processed over 6,800 P-Card transactions totaling approximately $1,214,570 (see Exhibit B). We selected a sample of 648 transactions totaling approximately $360,400 for review. Based on our review, we identified the following issues of non-compliance with established policies and procedures:

Documentation for Authorization of P-Card Issuance

The User Guide states that prior to obtaining a P-Card, four forms need to be completed and submitted to the Purchasing Card Administrator. The Employee Purchasing Card Agreement and Cardholder Account Form, pertain to the P-Card applicant; the remaining two forms, the Online Approver and Manager Purchasing Card Agreement and Online Approver Form, prescribe the responsibilities of the P-Card approver and manager and provide approver information.

We sampled 30 cardholder files and 13 online approver files and noted the following:

- Of the 30 cardholder files tested, 11 or 37% cardholder files lacked the manager's and/or department head's signature on one or both of the two required cardholder forms.

- From the sample of 13 online approver files reviewed, 4 files or 31% lacked the manager's and/or department head's signature on one or both of the two required online approver forms.

P-Card forms are necessary to ensure that P-Cards are properly authorized, responsible online approvers and managers are identified, and P-Card holders, approvers and managers sign affidavits agreeing to follow the applicable terms set forth in the User Guide.

Documentation for Closed Accounts

According to the User Guide, both a Cardholder Account Form and an email must be submitted to the Purchasing Division's P-Card Administrator for account closures. We identified 63 accounts closed during the audit period, and found that 62 out of 63 (or 98%) closed account files lacked one or both of these documents. In addition, of the closed account files that contained either a Cardholder Account Form or manager email, 11 (or 52%) did not document reasons for account closure. Documenting reasons for account closure is necessary to identify any unusual or recurring circumstances related to the account closure that management should be aware of (i.e., fraudulent charges, lost/stolen card, improper support for transactions, etc).

Documentation for Authorization of Limit Increases

Authorization for increases to a cardholder's single transaction and/or billing cycle limit requires a revised Cardholder Account Form approved by the cardholder's department head as stated in the P-Card User Guide. However, our review of Financial Management's cardholder files revealed that 21% of the cardholders' files tested lacked the required document authorizing an increase in the single transaction limit, and 20% lacked the required document authorizing an increase in the billing cycle limit.

Supporting Documentation for Purchases

The User Guide requires the retention of an itemized sales receipt, invoice and/or packing slip, weekly-reconciled transaction log, and management-approved monthly expense report. Some purchases require additional management authorization. Specifically, expenses for meals such as City award luncheons and dinners are not authorized unless approved by the City Manager. Purchases of computer hardware and peripherals are restricted; cardholders must obtain written authorization from the Technology Services Department before making any computer-related purchases.

Based on our review of the cardholders' transaction files, we noted 28% of the transactions were not supported by all required documents.

Retention of these documents is necessary for weekly reconciliation by the cardholder and online approver and to assist auditors in determining whether transactions were for allowable purchases. See Chart 1 for a summary of our citywide P-Card transaction audit. Exhibit C is also an available summary of our citywide P-Card transaction audit by department.

Chart 1: Summary of Citywide P-Card Transaction Review

Sample Size: 648 Transactions   Sample Amount: $360,400

	Not on Trans Log	Trans Log Not Reconciled Wkly	Documentation Procedures Not Followed	Mthly Stmts not Mgmt-approved	Lack required documents or approvals
# of Transactions	48	416	182	167	34
% of Sample Size	7%	64%	28%	26%	5%

As seen in Chart 2 below, we identified 34 transactions totaling $29,150 that lacked the required supporting documents, e.g., sales receipts, transaction logs, signed expense reports or management authorization. Approximately 84% of the $29,150 in unsupported and/or unauthorized transactions were made by the Department of Parks, Recreation and Marine. Expenditures that require additional management authorization include employee recognition events and computer hardware and peripherals purchases. Refer to Exhibit A for a detailed listing of unsupported and/or unauthorized transactions.

Chart 2: Lack of Documentation and/or Authorization By Department

Department	# of Transactions	Amount ($)
Civil Service	1	$114
Community Development	3	$2,873
Fire Department	1	$685
Parks, Recreation & Marine	23	$24,592
Public Works	6	$886
Total	**34**	**$29,150**

Transaction Limits

Generally the cardholder dollar limit is $1,000 per single transaction and $5,000 per month. However, this card limit may be revised based on need with approval from the cardholder's department head and Financial Management. Cardholders are prohibited from making purchases greater than the approved limit. Splitting a transaction to avoid the transaction limit is not allowed.

We found instances where cardholders appear to split transactions to avoid exceeding the single transaction limit. Refer to Chart 3 below.

Chart 3: Split Transactions

Department	# of Split Transactions	Amount ($)
City Clerk	2	$2,453
Community Development	5	$9,912
Financial Management	2	$2,214
Parks, Recreation and Marine	4	$10,295
Total	**13**	**$24,874**

Recommendations:

- Strengthen policies and procedures to include additional documentation requirements, such as attendance lists and/or program flyers/brochures, to support certain transactions that may otherwise be construed as unauthorized use of a P-Card (i.e., purchase of gift cards, lunch meetings, employee incentive awards, field trips, etc.)

- Require regular training for all cardholders, online approvers and managers to review procedures for P-Card account issuance, documentation requirements, account closures, transaction limit increases, and reconciliation of transactions.
- Consider suspending accounts of cardholders who do not maintain adequate documentation for purchases.

Issue #2 – Discrepancies in Cardholder Accounts Found - Regular Reconciliation of P-Card Accounts Needed

The Purchasing Division of Financial Management is responsible for administering the Purchasing Card Program. Those administrative duties include verifying that all cardholder accounts are properly tracked and authorized, and P-Cards for transferred or terminated employees are closed.

We noted discrepancies between Financial Management's records of active cardholder accounts (181 active accounts) and JPMorgan's records of active accounts (198 active accounts). In addition, during our review of cardholders' transaction files, we identified three cardholders from Community Development and one cardholder from Health and Human Services that were transferred to a different department or were no longer with the City, but were still in possession of P-Cards. Cardholders who have transferred to a different department or who are no longer with the City should have their P-Card accounts closed.

Lack of review of cardholder accounts exposes the City to increased opportunities of P-Card misuse.

Recommendations:

- Regularly update and review Financial Management's records of cardholder accounts to ensure that all accounts are properly tracked and cardholders are properly authorized by their current departments to have P-Cards.
- Close P-Card accounts of transferred or terminated employees.

Issue #3 – City Manager-Approved Administrative Regulation for P-Card Policies and Procedures Recommended

Although P-Card policies and procedures have been established by Financial Management, they have not been formalized into a City Manager-approved Administrative Regulation. Establishing an Administrative Regulation provides the authority of a uniform, citywide policy and procedure that will place accountability of the P-Card program on its members. During the course of the audit, the City's Purchasing Agent indicated that the draft policy was in process.

Recommendation

- Establish a City Manager-approved Administrative Regulation for P-Card policies and procedures.

Issue #4 – Lack of Formal Written Policies and Procedures Over the P-Card Review, Selection of Online Approvers and P-Card Application Process

The P-Card User Guide sets forth policies and procedures to ensure purchases are appropriate, properly documented, reviewed and authorized. However, during our review we noted that the User Guide does not document the following controls:

- Purchasing Division staff perform P-Card internal control and review procedures, which include: (1) conducting independent reviews of transactions prior to remitting payment to JPMorgan; (2) reviewing schedule of cardholder accounts to ensure that each cardholder only has one active account at any one time; (3) identifying and reporting negligent cardholders and/or improper use of P-Cards; (4) safeguarding confidential information; and (5) providing follow-up training to departments.

- The consideration of job classifications before online approvers and managers are appointed. Without such considerations, a conflict of interest may arise if staff approves management transactions.

Recommendation:

- Establish written policies and procedures to include internal control and review procedures and the consideration of job classifications when appointing online approvers and managers, as noted above.

Issue #5 – Insufficient Number of Online Approvers to Ensure Proper Oversight

A sufficient number of online approvers are necessary to ensure that transactions are adequately reviewed before they are approved and unauthorized transactions are identified. Our audit identified one department, Parks, Recreation and Marine (PRM), in which the number of online approvers appears to be inadequate to ensure that cardholders and their transactions are properly overseen. In PRM, two online approvers are each responsible for overseeing 36 of 74 (49%) cardholders. During the audit period, PRM had over 4,300 transactions totaling approximately $785,000.

Internal controls are designed to assist an organization in achieving their mission, goals, and objectives through effective and efficient operations. The lack of sufficient oversight increases the likelihood of exposing the City to improper, abusive and/or fraudulent use of the P-Card.

Recommendation:

- Appoint an additional online approver to PRM bureaus with significant amount of P-Card transactions. In doing so, online approvers can ensure that transactions are adequately reviewed and unauthorized transactions are identified.

Management's Response

This report was sent to Management for comments on February 18, 2009. As of the issue date of this report, Management's comments have not been received.

Exhibit A
Unauthorized or Unsupported Transactions

	Vendor	Amount	No Trans Log	No Orig. Sales Receipt	No Mgmt-App Mthly Exp Rep	Other	Comment
					Reason for Exception		
Civil Service							
1	OFFICE DEPOT	114	X		X		
	Dept. Total	$114					
Community Development							
1	CHILI'S GRILL	450				X	Purchase Request Form only authorized a $193 transaction amount
2	OFFICE DEPOT	1,523	X	X	X		
3	ICSC	900		X	X	X	Amount on transaction log ($600) did not reconcile to charged amount
	Dept. Total	$2,873					
Fire Department							
1	NAT'L ASSOC. OF EMS ED	685	X	X			
	Dept. Total	$685					
Parks, Recreation and Marine							
1	CHEAP STUFF LLC	226		X			
2	SNAPFISH	39	X	X	X		
3	SNAPFISH	183	X	X	X		
4	SSG*BSN/COLLEGIATE PAC	834	X	X	X		
5	JOHN'S INCREDIBLE PIZZA	1,513		X		X	No attendance list provided
6	LONE STAR	3,000				X	Requested documentation of City Manager approval for employee recognition luncheon, but none provided
7	PFDC POWERFLARE	1,637	X	X	X		
8	LONE STAR	2,800			X	X	Requested documentation of City Manager approval for employee recognition luncheon, but none provided
9	LONE STAR	2,450			X	X	Requested documentation of City Manager approval for employee recognition luncheon, but none provided
10	THE HOME DEPOT	320	X	X	X		
11	THE HOME DEPOT	216	X	X	X		
12	HOMETOWN BUFFET	357				X	No attendance list provided
13	HOMETOWN BUFFET	22				X	No attendance list provided
14	TAQUERIA VISTA HERMOSA	1,299				X	No attendance list provided
15	BEST BUY	1,454			X	X	Requested documentation of approval from Technology Services prior to purchase of computer monitor, but none provided

Exhibit A
Unauthorized or Unsupported Transactions

	Vendor	Amount	No Trans Log	No Orig. Sales Receipt	No Mgmt-App Mthly Exp Rep	Other	Comment
					Reason for Exception		
16	BEST BUY	449			X	X	Requested documentation of approval from Technology Services prior to purchase of computer printer, but none provided
17	BEST BUY	300			X	X	Requested documentation of approval from Technology Services prior to purchase of computer printer, but none provided
18	TARALUNA	127	X	X	X		
19	SKATE DEPOT	189				X	Approved for 58 attendees, but attendance list documented 22 people
20	SKATE DEPOT	189				X	See comment above
21	POSITIVE PROMOTIONS IN	3,273		X	X		
22	POSITIVE PROMOTIONS IN	2,680		X	X		
23	RECY-CAL SUPPLY CO	1,035		X	X		
	Dept. Total	$24,592					
Public Works							
1	DS *DRUGSTORE.COM	128	X	X	X		
2	OFFICE DEPOT	359	X	X	X		
3	OFFICE DEPOT	114	X	X	X		
4	OFFICE DEPOT	4	X	X	X		
5	OFFICE DEPOT	179	X	X	X		
6	OFFICE DEPOT	102	X	X	X		
	Dept. Total	$886					
	TOTAL	$29,150					

Exhibit B

Summary of City's P-Card Transactions by Department
April 5, 2007 – November 5, 2007

Department	Cardholder Accounts	Online Approvers	# of Transactions	Total Expenditures	Average Transaction
City Attorney	1	1	124	$18,451	$149
City Clerk	2	1	54	$11,335	$210
City Manager	1	1	0	$0	$0
Civil Service	14	3	158	$23,866	$151
Community Development	27	8	1,202	$214,654	$179
Financial Management	2	2	92	$13,768	$150
Fire Department	2	1	9	$1,777	$197
Gas & Oil	5	1	137	$23,679	$173
Health & Human Services	2	1	56	$22,830	$408
Human Resources	2	1	2	$1,197	$599
LB Development Services	5	1	148	$21,341	$144
Library Services	46	2	289	$33,452	$116
Parks, Recreation & Marine	74	4	4,320	$785,168	$182
Police	4	1	0	$0	$0
Public Works	1	1	111	$17,346	$156
Technology Services	3	2	44	$13,428	$305
Water	4	1	79	12,275	$155
Total	**195**	**32**	**6,825**	**$1,214,567**	**$193**

Source: JPMorgan Smart Data Online (SDOL)

Exhibit C

Summary of P-Card Transaction Review
April 5, 2007 – November 5, 2007

Department	Sample Size (# of Trans)	Sample Amount ($)	Not on Trans Log	Trans Log Not Recorded Wkly	Documentation Procedures Not Followed	Mo. Stmts not Mgmt-approved	Lack documents or approvals (Note 1)
City Attorney	6	$2,130	0	6	2	0	0
City Clerk	17	$3,421	5	17	13	0	0
Civil Service	23	$11,804	3	22	4	14	1
Community Development	130	$85,866	8	117	43	37	3
Financial Management	30	$6,249	0	30	11	0	0
Fire Department	5	$1,452	5	5	1	0	1
Gas & Oil	27	$5,481	0	6	0	0	0
Health and Human Services	18	$11,141	3	18	1	0	0
Human Resources	2	$1,197	0	0	0	0	0
LB Development Services	39	$8,444	0	39	5	22	0
Library Services	36	$5,929	0	5	23	0	0
Parks, Recreation & Marine	262	$202,352	13	106	66	88	23
Public Works	24	$5,494	6	17	10	6	6
Technology Services	20	$6,878	0	19	1	0	0
Water	9	$2,561	5	9	2	0	0
Total	**648**	**$360,399**	**48**	**416**	**182**	**167**	**34**
% of Sample Size			**7%**	**64%**	**28%**	**26%**	**5%**

Note 1: "Lack Documents or Approvals" includes transactions that were not sufficiently documented or lacked appropriate management approvals.