



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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22-02 City of Colorado Springs Procurement Card Program

January 2022

Purpose

The purpose of this audit was to evaluate the adequacy of the internal control environment as it relates to administration and oversight of the Procurement Card (p-card) program.

Highlights

We conclude, that overall procurement cards were issued and utilized in accordance with policies and procedures. However control deficiencies were noted related to the administration of the program. We identified three recommendations to improve p-card program internal controls.

Since 2015 our office has completed an annual review of employee purchases using a City issued procurement card. The annual employee purchase review ensures proper documentation was on file, proper approvals were completed, and no sales tax was charged, among other attributes for individual employee purchases. Our 2021 procurement card employee transaction review results will be reported in early 2022.

This audit included a review of the City's administration of the p-card program. The p-card administration audit objectives included:

- ◆ Review of card holder training
- ◆ Daily and monthly spend limits were in accordance with policy and no purchases were made outside those limits
- ◆ Review of user access management
- ◆ Review that separated employees no longer had p-cards
- ◆ Review of open or closed merchant codes (MCC's)
- ◆ Review of transition from a paper environment to a paperless environment

The p-card program is administered within the Procurement department. The program goal was to improve the efficiency of high volume, low dollar purchases while reducing transaction cost and eliminating petty cash needs. Without the p-card program, employees would need to create purchase orders and invoices would then be submitted for payment. Purchase order transactions are more time consuming and costly transactions.

Management Response

Management was in agreement with our recommendations.

Recommendations

1. Ensure transaction limits are within policy.
2. Review cardholder listing for cards with no activity.
3. Complete reviews for adherence to policy.

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During 2019 the Procurement department decided to move the program from a paper environment to a paperless environment hosted by the procurement card vendor. During the paper to paperless transition period the primary p-card administrator resigned their position impacting the transition.

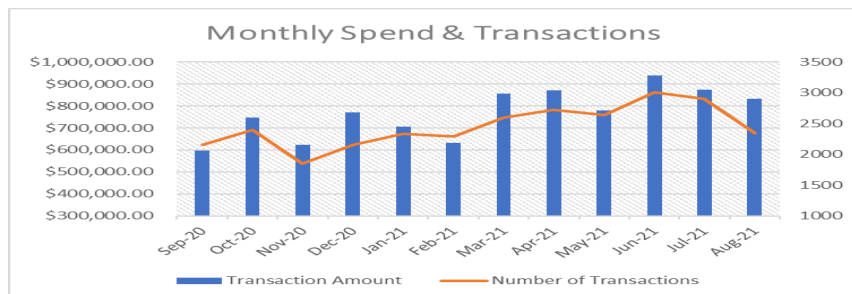
A new administrator was selected from within the Procurement department and a plan was created to have the transition completed by December 31, 2021. However, the Auditor's office observed the vendor was not responsive to Procurement staff requests for service negatively impacting internal controls over the program. Lack of vendor responsiveness has also delayed the paperless transition of more complex department users. p-card administrators plan to issue a request for proposal (RFP) with a plan to award a new p-card contract by late 2022.

Cardholders were required to complete training and managers were required to complete an application prior to employee p-card issuance. P-card administration was able to customize each card as it relates to daily and monthly spend limits and allowable merchant codes.

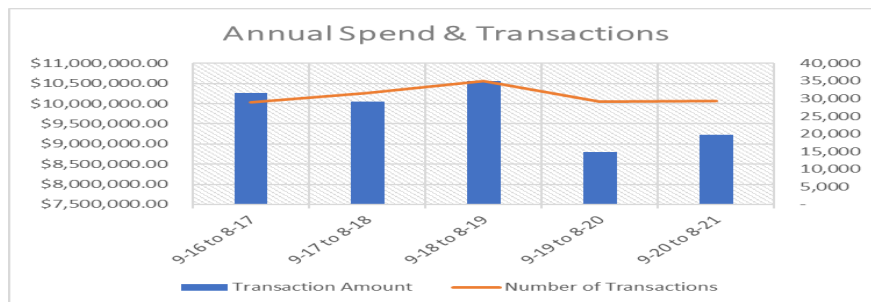
At the time of our review, cardholders were required to maintain all receipts and invoices for purchases made using their p-card. On a monthly basis cardholders and managers were required to review and approve all purchases made to ensure the charge was appropriate for City business and within policy and guidance.

Certain employees outside of the Procurement department were provided with authority to change daily and monthly limits, open or close MCC codes, and unlock cards. Procurement department p-card administrators reviewed all system changes on a monthly basis to ensure changes were appropriate and within policy. Administrators also review a listing of separated employees to ensure cards were properly closed.

We reviewed the 12 month period September 1, 2020 through August 31, 2021. During this period 29,397 transactions accounted for \$9,228,899.01 in purchases. At September 1, 2021 there were 713 active cardholders.



Over the 5 year period the number of transactions have been approximately 30,000 or greater. The amount spent during the period showed a decrease during 2020 and is showing an upward trend through 2021.



Thank you to p-card administration for supporting the audit especially during a time of transition and when a vendor is not providing support.

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Observation 1

Controls were not sufficient to ensure employee purchase limits were operating within policy.

Procurement card policy provides guidance related to the maximum transaction amount and monthly spend limits per employee card issued. The following transaction and monthly spend limits over the maximum were noted:

- 26 of 713 active cards were found to have larger transaction limits than policy allowed
- 5 of 713 active cards were found to have larger monthly spend limits than policy allowed
- Due to limited vendor support we were not able to determine the procurement card vendor controls for spend limits.

Management Response

Controls have been implemented to ensure purchase limits adhere to policy.

Future program enhancements include an exception to policy request form to be signed by the requestor and approver documenting the p-card change requested, to include the rationale for an exception, the duration of the exception and the change requested. We anticipate deploying this enhancement by January 31, 2022.

Recommendation

Implement recurring process controls to review p-card cardholder purchasing authorities are within limits per policy. Identified policy violations should be investigated and corrected.

Observation 2

Cardholders fees included a monthly \$1 charge per cardholder by the p-card vendor. We noted 107 cardholders that did not make a purchase in the 12 month period under review. In addition to the cost associated with an unused card, limiting card issuance to those who need and use the card for City business are best practices, stronger internal controls, and safeguards for fraudulent transactions.

P-card policy did not address card utilization requirements.

Management Response

We concur with the recommendation. In our review of these findings, we ran two different spend/usage reports, both purporting to identify open accounts with no spend; one resulted in identifying 50 cardholders who had no transactions in 2021 and another resulted in identifying 29 cardholders with no transactions across the same period. The discrepancies in the current vendor's reporting system are a serious cause for concern and one of the reasons Procurement is issuing an RFP for the p-card program.

In the first half of 2022, we will review cardholder requirements with each department. As we will need to issue new p-cards as a result of the RFP process, this will ensure all departments have reviewed whether cards are necessary for each current card-holding employee, and will provide the opportunity to remove all unnecessary and unused p-cards from the system. Our policy update post-RFP will address utilization requirements and will include an annual training and re-approval process for all cardholders, to ensure cardholders, approvers and sub administrators are regularly reviewing department p-card needs. This annual training/re-approval process will be initiated post-RFP, as a future p-card contract may include this functionality, or an ability to link our requirements to their system.

Recommendation

Review the cardholder listing on a periodic basis and close cards not being used for a determined period of time. Update policy and p-card training for cardholder usage requirements.

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Observation 3

P-card program administration lacked system transaction reviews such as:

- Transaction approval by cardholder and managers
- Assure merchant codes that are against policy such as cable services are closed
- Review purchases for compliance with p-card policy

During our review, we noted poor support from the vendor limiting p-card department in developing the above system reviews. The Procurement department plans to compete for a new contract in 2022.

P-card policy had not been updated to align with the paperless process.

Management Response

Timely vendor support and reliable system reporting is a requirement in the scope for the forthcoming RFP. The current p-card contract expires December 31, 2022. Procurement will post a solicitation for a new contract in the first quarter of 2022, to allow the p-card administration team time to finalize scope and requirements for the new program. This timing was intentionally scheduled to begin following conclusion of the p-card audit, to ensure all findings, recommendations and best practices were included in the scope development.

P-card policy does not address internal operating processes and procedures and is not intended to define standard operating practices. We concur that a paperless procedure is a best practice, and our intent is to implement best practices, including a paperless process across all departments, during the p-card transition.

We agree that the transition to paperless was not communicated well to departments in the past, and will ensure that p-card program and policy revisions establish paperless processing, and other best practices, as the standard business process.

Recommendation

Once a new vendor is in place the following reviews should be implemented on a monthly basis:

- Ensure cardholder and manager approvals are complete
- Close MCC codes that are not allowable purchases per policy
- Purchases adhere to p-card policy

Update policy to make sure it includes updates from the new paperless process.