



**OFFICE OF THE CITY AUDITOR**  
**COLORADO SPRINGS, COLORADO**

**11-14**  
**City of Colorado Springs**  
**Procurement Card**  
**(P-Card) Audit**

**August 2011**



# OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

## 11-14 City Procurement Card Audit

August 2011

### **Purpose**

To evaluate the effectiveness of internal controls related to the City's Purchasing Card (P-Card) program and determine compliance with City policies and procedures.

### **Highlights**

The City's P-Card program was administered by the Accounts Payable Unit (A/P). However, managers in user departments were responsible for key internal controls over P-card purchases such as reviewing reconciliations and receipts to ensure purchases complied with City policy. P-card usage for 2009 encompassed 30,000 transactions and \$13 million.

The A/P, which reports to City Procurement Services audited a sample of P-card transactions. These audits are a key control over the process. The possibility of being audited increases the compliance commitment by employees and approving managers.

During this audit period, A/P reviewed for unusual transactions and conducted numerous regular audits of statement reconciliations for the first half of 2009. These controls provided a good control environment around all P-Card Purchases. However, in July 2009, A/P stopped the regular audits of statement reconciliations. While we did not identify any major violation of P-Card policies in our review, the internal control was weakened when the audits of statement reconciliations were curtailed. We have included three recommendations to strengthen internal controls. City Management has indicated they have either implemented or will develop a timeline to implement our recommendations.

### **Management Response**

Management agreed with our recommendations. City Management has indicated they have either implemented or will develop a timeline to implement our recommendations. The complete responses can be found in the body of the detailed report.

### **Recommendations**

- 1) Statement reconciliations for P-cards used by the Accounts Payable Unit (A/P) should be reviewed and approved by someone outside of A/P in addition to the internal review process in place. This review has been implemented.
- 2) A/P should revise their audit and administrative procedures to increase effectiveness and enhance internal controls.
- 3) Reports of charges on P-Cards should be forwarded to all cost center managers to ensure they are aware of statements that need to be reviewed and approved.

See Observations, Recommendations, and Responses section of this report for more details.

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# OFFICE OF THE CITY AUDITOR PUBLIC REPORT

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Date: August 15, 2011

To: President of Council Hente, President Pro Tem Martin, and Members of City Council

Re: 11-14 City Procurement Card Audit

We performed an audit of the City of Colorado Springs Procurement Card (P-Card) program. The audit was performed for the period January 1 through December 31, 2009.

The purpose of the audit was to evaluate the adequacy of the control environment as it relates to P-Card purchases and to determine that expenditures were being made in accordance with approved policies and procedures.

During the audit period, transaction limits over P-Card purchases were increased. This change placed more responsibility on department managers to review P-Card transactions and ensure employees are complying with both P-Card policies and procedures and with City Contracting procedures.

For the sample of transactions we reviewed, we noted error rates that were not significant. Because Accounts Payable reviews for unusual transactions and, prior to July, 2009, conducted reviews of statement reconciliations, we believe the risk of significant weakness in internal controls during our audit period was relatively low. We noted that curtailing audits of statement reconciliations weakened the control environment. We have included three recommendations to strengthen internal controls. Management has indicated they have either implemented or will develop a timeline to implement our recommendations.

As always, feel free to contact me if you have any questions.

Sincerely,

Denny Nester  
City Auditor  
MBA, CPA, CIA, CGFM, CFE, CGAP

Cc: Mayor Steve Bach  
Steve Cox, Chief of Staff  
Kara Skinner, Fiscal Planning Manager  
Curt DeCapite, Procurement Services Manager  
Patti McFarland, Accounts Payable Supervisor

# City Procurement Card Review

## Office of the City Auditor

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## REPORT DETAILS

### PURPOSE

To evaluate the effectiveness of internal controls related to the City's Purchasing Card (P-Card) program and determine compliance with City policies and procedures.

### SCOPE

We performed an audit of the City's P-Card program for the period beginning January 1, 2009 through December 31, 2009. During the audit period, the City utilized P-Cards to complete approximately 30,000 purchases totaling \$13,008,554. At the time of our review, there were 714 active cardholders. The purpose of the audit was to examine the existing accounting procedures and internal control measures and determine if P-Card use was in compliance with applicable policies and procedures.

### BACKGROUND

The City P-Card program has been in place since 1996. The City participates in a P-Card consortium comprised of the City of Colorado Springs, Colorado Springs Utilities, and El Paso County, the City of Manitou Springs as well as a few smaller governmental agencies to combine purchasing volume. By combining purchasing volume, the City received a rebate of approximately \$154,000 for 2009 P-Card purchases. The Accounts Payable Unit (A/P), which reports to City Procurement Services Division, was responsible for administering the P-Card program. In addition, the City paid no annual fee per P-Card and had no liability for fraud.

Effective April, 2009, City Procurement Services increased the per-transaction and monthly credit limits allowable under the P-Card program. This policy change coincided with increases in the dollar amounts over which competition and formal bids are required, and allowed the City to maximize the rebate on purchases under the P-Card program.

City employees must have completed training on policies and procedures over the P-Card program prior to being issued a procurement card. Additionally, employees completed an application requiring manager approval, and signed an agreement that they would comply with City P-Card policies and procedures.

Under the City's P-Card procedures, monthly statements were sent to cardholders, who were to attach receipts to the statement, reconcile all charges, and obtain manager approval on the reconciliation. The statement was then retained in the user department.

As part of our review, we reviewed statement reconciliation, support and approvals related to 30 sample statements. Additionally, we reviewed for potential unusual transactions and obtained explanation and support for 19 additional transactions. For the sample of transactions reviewed, we noted error rates that were not significant.

During the course of our audit, we identified areas where we believe internal controls can be strengthened. These areas are listed on the pages that follow.

#### COMMENDABLE PRACTICES

A/P, which reports to City Procurement Services, provides oversight to the P-Card program. Although the level of oversight has varied due to reduced staffing and decentralization of purchasing activity, A/P staff exhibited a commitment to P-Card policy compliance and education. This commitment was evidenced, for example, by their implementation of some of our recommendations prior to the issuance of this report.

#### CONCLUSION

As noted in the background section of this report, the City's P-Card program was coordinated and administered by A/P; however, managers in user departments were responsible for implementation of key internal controls over P-Card purchases. Department managers were responsible to ensure that all cardholder statements were reconciled, included all receipts, and that P-Card purchases complied with City policy.

During this audit period, A/P reviewed for unusual transactions and conducted numerous regular audits of statement reconciliations for the first half of 2009. These controls provided a good control environment around all P-Card purchases. However, in July 2009, A/P stopped the regular audits of statement reconciliations. While we did not identify any major violation of P-Card policies in our review, we believe the internal control was weakened when the audit of statement reconciliations were curtailed. We have included three recommendations to strengthen internal controls. City management has indicated they have either implemented or will develop a timeline to implement our recommendations.

**OBSERVATIONS, RECOMMENDATIONS AND RESPONSES**

**OBSERVATION 1 – PURCHASE CARD STATEMENT RECONCILIATIONS FOR CARDS USED BY ACCOUNTS PAYABLE SHOULD BE REVIEWED BY SOMEONE OUTSIDE OF THE ACCOUNTS PAYABLE UNIT**

The City's Accounts Payable Unit (A/P) made payments to certain vendors using P-Cards assigned to A/P. This process was in place to increase the amount of the rebate earned by the City under the P-Card program. Invoices such as lease or software maintenance agreement were approved as required by policy in operating departments, and then forwarded to A/P for payment via charges to the P-Cards assigned to A/P. A/P was responsible for assigning the account to which the expenditure was charged and for reconciling the P-Card statement. The limits on these cards were \$1 million to \$1.5 million per transaction.

This procedure was intended to maximize the City's rebate on high dollar invoices where the vendor accepted credit card payment. A/P had an internal review process in place that included the A/P Supervisor's review of reconciliations for these cards.

However, during our audit period, no one outside of A/P reviewed the statement. The risk of improper charges made by A/P was deemed to be mitigated by the possibility of detection by the user department in their review of cost center expenditure reports.

**AUDITOR'S RECOMMENDATION**

We recommend a manager other than the A/P Supervisor review and approve the reconciliation for credit cards assigned to A/P.

We understand that subsequent to our review and prior to the issuance of this report, the City Procurement Services Manager began reviewing and approving the card reconciliations.

**CITY OF COLORADO SPRINGS RESPONSE**

The City's Procurement Services Manager continues to review and approve reconciliations for credits cards assigned to Accounts Payable staff.

**OBSERVATION 2 – ACCOUNTS PAYABLE SHOULD REVISE CURRENT AUDIT AND ADMINISTRATIVE PROCEDURES TO INCREASE THE EFFECTIVENESS OF THEIR CONTROL PROCESSES**

P-Card usage, audits and transaction reviews: Under the P-Card program, users receive and agree statements to receipts, which were attached and forwarded to a manager for approval. The P-Card statements were then retained in the user department.

During our review period, A/P and Procurement Services staff levels were reduced. For this reason and to increase rebate earnings on purchases, P-Card limits were increased from \$5,000 to \$10,000 per transaction with a limit of \$50,000 per month. At the same time, the amounts over which informal quotes and formal competition (bids) were required, were raised from \$5,000 to \$19,999 and from \$50,000 to \$199,999, respectively.

Additionally, the Procurement Services Manager has approved increased card limits for seven cards over the above thresholds. Three of these cards were used by A/P for payment purposes and have limits of \$1 million to \$1.5 million per transaction, and the remainder were assigned to employees in user departments (per transaction limits of \$20,000-\$50,000 and monthly limits of \$75,000-\$250,000). These limits were raised to increase the rebate obtained. These higher limits were granted by the Procurement Services Manager in instances in which the risk of non-compliance was deemed low. Therefore, under the new policies significantly more City dollars would be disbursed using P-Cards.

Prior to July, 2009, A/P audited a sample of statements to ensure all receipts were attached and the appropriate manager approved the statement. From July, 2009 to July, 2010 A/P was directed to curtail audits and review only mass transaction data listings for unusual items, which were then researched with the user department. Significant staff reductions in A/P also took place during this time period. However, given the increases in card limits as well as the increased responsibility for vendor selection in the user departments, we contend A/P's audit of cardholder statement should not have been curtailed. The Office of the City Auditor believes that audits of cardholder statement reconciliations can be reduced from the previous levels, where the objective was to audit one statement per cardholder per year. However, knowing there is a possibility of being audited usually increases user compliance.

P-Card transaction error tracking: The P-Card policy indicated that disciplinary action may be taken if the cardholder does not comply with City policies and procedures. However, there was no formal policy indicating the number of errors after which disciplinary action would be taken. Under the process in place, errors were brought to the attention of the user department manager and if significant, to the Financial Services Director for resolution. Error related email correspondence was retained by the A/P Supervisor, but a centralized tracking spreadsheet of errors was not maintained. Also, A/P did not prepare annual reports of audit findings for user departments or Finance Department management summarizing all errors noted.

Automated Review: A/P did not utilize an automated process to assist in the identification of charges to blocked merchant category codes or duplicate transactions, or charges to cards of terminated employees. Use of automation could also assist with identification of possible splitting of charges to avoid transaction limits. Using automation is a cost efficient method for reviewing transaction data.

#### AUDITOR'S RECOMMENDATION

We recommend the following:

1. The P-Card audits should include reviews of statements with all receipts, to ensure the key controls of reconciliation and approvals are in place in the user department. The volume and timing of these audits should be balanced with competing priorities and related risk for the maximum cost benefit.
2. A/P should enhance P-Card error tracking and reporting to include:
  - Compilation of a centralized error tracking spreadsheet by user and reviewer
  - Audit user departments with a higher error rate and higher card limits more frequently
  - A/P's audit results should be summarized and formally reported to management
  - Consider formalizing the process followed in cases of non-compliance
3. City Procurement Services should consider implementation of an automated process to help identify instances of possible errors or non-compliance with policies and procedures.

#### CITY OF COLORADO SPRINGS RESPONSE

1. Staff Response: Department Directors, Division Managers and Supervisors are responsible for ensuring that all P-card expenditures are appropriate and that all of their employees adhere to the Visa Policies, including timely reconciliation and approval of credit card statements. The AP Supervisor will audit at a minimum a small sampling of P-Card statements each year. However, following previous audits, it was determined that a greater focus should be placed on daily monitoring of P-card transactions for unusual activity in order to more readily detect problems.
2. Accounts Payable should include in error tracking and reporting:
  - Compilation of a centralized error tracking spreadsheet by user and reviewer  
Staff Response: The AP Supervisor will compile a summary report of the review efforts.
  - Audit user departments with a higher error rate and higher card limits more frequently  
Staff Response: Daily activity is monitored as well as higher card limits and higher transactions and AP will continue to do so.
  - Account's Payable's audit results should be summarized and formally reported to senior management

## City Procurement Card Review

### Office of the City Auditor

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Staff Response: AP has and will continue to monitor daily P-card activity. Any indication of P-card abuse will be reported to appropriate management. The reporting of inappropriate activity is outlined below.

- Consider formalizing the process followed in cases of non-compliance

Staff Response: A process is in place to address non-compliance cases. That process includes notification of the impacted Department Director as well as the Procurement Services Manager and the Financial and Administrative Services Director. This process will be added to the Visa Policies. As outlined in the Visa policies, consequences ranging from suspension of cards to termination of employment will be invoked for improper use of the program. AP will continue to monitor and enforce compliance as necessary.

- City Procurement Services should consider implementation of an automated process to help identify instances of possible errors or non-compliance with policies and procedures.

Staff Response: Review of P-card expenditures has been conducted through “Access-on-Line”, an on-line reporting tool. In addition, a new audit tool will be available on “Access-on-Line” effective the fourth quarter of 2011 that will enhance this review process. Once this tool is in place, staff will review its capabilities, and to the extent available, automate additional monitoring processes.

**OBSERVATION 3 – A REPORT OF ALL CHARGES ON P-CARDS FOR EACH COST CENTER SHOULD BE UTILIZED BY THE RESPONSIBLE MANAGER TO ENSURE ALL P-CARD TRANSACTIONS ARE APPROVED**

Approval of P-Card transactions through review and approval of statements occurs after the purchase has been made and requires employee compliance to submit receipts. Although P-Card transactions were recorded as cost center expenditures, detail reports would have to be generated by each cost center to isolate all employees that had charges for the month.

Monthly, Accounts Payable forwarded a report of all P-Card transactions to the P-Card administrator or the responsible manager for five of the larger cost centers. This report was available to these five cost centers to determine which employees had charges for the month and should submit reconciliations for approval. This process was not in place for the remaining cost centers.

A monthly report of all P-Card purchases for all employees in a manager's department would help ensure employee's receipts and statements are received and transactions are authorized. It is otherwise possible for an improper P-Card purchase to be made by an employee that would not be detected.

**AUDITOR'S RECOMMENDATION**

We recommend P-Card transaction reports be developed for all managers in all cost centers to ensure all statements are reconciled, reviewed, and approved. Policies should be developed to document management responsibility to verify all P-Card transactions were authorized. Report generation should be automated to minimize time required of Accounts Payable staff.

**CITY OF COLORADO SPRINGS RESPONSE**

The Accounts Payable Supervisor will develop reports for managers to actively examine via "Access-on-Line" and review weekly, monthly, or as agreed upon. However, the most effective review is timely statement reconciliations by each department manager and supervisor.

# CITY COUNCIL'S OFFICE OF THE CITY AUDITOR

## COLORADO SPRINGS, COLORADO

### **About our Office**

The mission of the Office of the City Auditor is to provide City Council with an independent, objective and comprehensive auditing program for operations of the City. Our auditing program includes:

- Evaluating the adequacy of financial controls, records and operations
- Evaluating the effectiveness and efficiency of organizational operations
- Providing Council, management and employees objective analysis, appraisals, and recommendations for improving systems and activities

The Office of the City Auditor is responsible for auditing the systems used by the City of Colorado Springs and its enterprises, including Colorado Springs Utilities, Memorial Health System, and Colorado Springs Airport. We perform a variety of audits for these entities, including financial audits, performance audits, contract audits, construction audits, and information system audits. We also perform follow-up on a periodic basis to monitor and ensure management actions have been effectively implemented.

### **Authorization and Organizational Placement**

Our audits are conducted under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically parts 703, 705 and 706 of the Code. The Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council.

### **Audit Standards**

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors. The audit included interviews with appropriate personnel and included such tests of records and other supporting documentation as deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests were performed. Sufficient competent evidential matter was gathered to support our conclusions.