



OFFICE OF THE CITY AUDITOR
COLORADO SPRINGS, COLORADO

13-26
City Purchasing
Card Audit

December 2013



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Purpose

The purpose of the audit was to evaluate the adequacy of the internal control environment as it relates to purchasing card purchases, and to determine that purchases were made in accordance with governing policies and procedures.

Highlights

We conclude that overall, purchasing card related internal controls were strong and purchases were made in accordance with governing policies and procedures.

The Purchasing Card audit was last conducted in 2010 for the period January 1, 2009, to December 31, 2009. The audit period for this report covered January 1, 2013, to July 31, 2013. During our audit period, there were approximately 670 cardholders and 16,674 purchasing card transactions that totaled \$6.4 million.

The City purchasing card program has been in place since 1996. The City participates in a purchasing card consortium as a way to combine purchasing volume for a higher rebate amount. The City received a rebate of approximately \$163,000 for purchases from May 2012 through April 2013.

On a rotational basis, Accounts Payable reviews 100% of a department's purchasing card transactions for a selected month. Accounts Payable reviews each department's purchasing card activity at least twice yearly.

(Continued on page 2)

Management Response

Management was generally in agreement with our recommendations. Responses can be found in the attached report.

Recommendations

1. Accounts Payable should review the active cardholder listing on a regular basis to ensure all cardholders are active employees
2. Accounts Payable should provide senior management with a summarized report noting significant issues or trends noted during reviews. Policy should be formalized to include approvers for appointed and elected officials.

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(Highlights continued from page 1)

From a review of all active purchasing cards compared to current employees, we found six instances where separated employees were still included on the active purchasing card listing. No transactions occurred on these purchasing cards after the employee terminated from City employment.

The purchasing card approver listing provided by Accounts Payable did not indicate the responsible approver for appointed and elected officials.

Accounts Payable provided the department's management a memo noting all issues found during the review. While no significant misuses were found, policy could be improved to require such instances to be communicated to the Chief of Staff and Chief Financial Officer.



OFFICE OF THE CITY AUDITOR PUBLIC REPORT

Date: December 31, 2013

To: President King, President Pro-Tem Bennett, and Members of City Council

Re: 13-26 City Purchasing Card Audit

We conducted an audit of the City purchasing card program. The purpose of the audit was to evaluate the adequacy of the internal control environment as it relates to purchasing card transactions, and to determine that purchases were made in accordance with governing policies and procedures.

The purchasing card audit is completed on a recurring basis by the Office of the City Auditor. This audit was last conducted in 2010 for the period of January 1, 2009, to December 31, 2009. The audit period for this report covered January 1, 2013, to July 31, 2013.

Our audit included interviews with key personnel, review of purchasing card policies, rebates and purchasing card activity. We also reviewed to ensure all cardholders were active employees.

We conclude that overall, purchasing card related internal controls were strong and purchases were made in accordance with governing policies and procedures. During the course of the audit, we did identify two areas where we believe internal controls could be strengthened. As always, feel free to contact me if you have any questions.

Sincerely,

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

Cc: Mayor Steve Bach
Laura Neumann, Chief of Staff
Kara Skinner, Chief Financial Officer
Patti McFarland, Supervisor, Accounts Payable



OFFICE OF THE CITY AUDITOR PUBLIC REPORT

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REPORT DETAILS

PURPOSE AND SCOPE

The purpose of the audit was to evaluate the adequacy of the internal control environment as it relates to purchasing card transactions, and to determine that purchases were made in accordance with governing policies and procedures.

Our audit included a review of the purchasing card policy to gain an understanding of how to obtain a purchasing card, guidelines for making purchases, and the reconciliation process. We also interviewed City Accounts Payable Department staff to gain an understanding of the process used to review purchasing card transactions. Our audit procedures included, but were not limited to, the following:

- Reviewed the 2012 purchasing card rebate.
- Compared the current cardholder listing to the active employee listing to ensure all purchasing cardholders were active employees.
- Reviewed for purchases over the card limits.
- Tested a sample of blocked merchant category codes to verify purchases were not made to blocked codes.
- Reviewed all transactions on 25 statements to ensure they followed the City's purchasing card policies.

This purchasing card audit is completed on a recurring basis, every 3 to 5 years, by the Office of the City Auditor.

BACKGROUND

The purchasing card audit was last conducted in 2010 for the period of January 1, 2009, to December 31, 2009. The audit period for this report covered January 1, 2013, to July 31, 2013. During the prior audit, the Accounts Payable Department reported to the City Contracting Department, but now reports to the City Finance Department.

The City purchasing card program has been in place since 1996. The City participates in a purchasing card consortium as a way to combine purchasing volumes for a higher rebate amount. The City received a rebate of approximately \$163,000 for purchases from May 2012 through April 2013.

Accounts Payable implemented a new purchasing card review process in 2013. On a rotational basis, Accounts Payable reviews 100% of a department's purchasing card transactions for a selected month. Accounts Payable will review each department's purchasing card activity at least twice yearly. During our audit period, there were approximately 670 cardholders and 16,674 purchasing card transactions that totaled \$6.4 million.



Office of the City Auditor City Purchasing Card Audit

Employees were required to complete the purchasing card application and attend training before receiving a purchasing card. All cardholders were required to read and understand the purchasing card policies. The policy provided guidelines for allowable and non-allowable purchases. All receipts must be maintained and each month the cardholder was responsible to reconcile and sign the monthly statement. The statements were then reviewed by management to ensure the reconciliation was accurate and that all expenditures were authorized.

COMMENDABLE PRACTICES

We reviewed The Government Finance Officers Association (GFOA) best practices for Purchasing Card Programs. Accounts Payable had implemented the majority of the practices in their purchasing card program. These practices included

- Training
- Written policies and procedures
- Periodic audits

CONCLUSION

We conclude that overall, internal controls related to purchasing cards were strong and purchases were made in accordance with governing policies and procedures. During the course of the audit, we did identify two areas where we believe internal controls could be strengthened. These areas are discussed on the pages that follow.



OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

OBSERVATION 1 – PURCHASING CARDS WERE NOT PROMPTLY CANCELLED FOR SIX SEPARATED EMPLOYEES

During our review period, there were approximately 670 active purchasing cardholders and approximately 2,700 employees. From a review of all active purchasing cards to current employees, we found six instances where separated employees were still included on the active vendor purchasing card listing. Four of these employees terminated in 2013, one terminated in 2011 and one terminated in 2010. The purchasing card vendor cancels any card in which there was 22 months of inactivity and the account from 2010 had been closed. No transactions occurred on these purchasing cards after the employee terminated from City employment. Accounts Payable subsequently closed these accounts.

When an employee terminated employment with the City, procedures required the department to notify the Accounts Payable Supervisor to deactivate that employee's purchasing card. In addition, a termination listing was forwarded to Accounts Payable every pay period. This listing was compared to the active cardholder listing to ensure all terminated employee's purchasing cards had been deactivated. Controls were in place to deactivate employee purchasing cards at the time of separation. A periodic validation of active purchasing cards to active employees would improve controls.

AUDITOR'S RECOMMENDATION

Accounts Payable should review the active cardholder listing, on an annual or semiannual basis, to ensure all cardholders are active employees. Alternatively, an automated mechanism could be developed to compare the cardholder listing to the active employee file.

CITY RESPONSE

Finance agrees with the observation and recommendation and will review the cardholder listing to the active employee file in May of 2014 and November of 2014. Finance will work with the City Auditor's office which currently has the software to compare these files to alleviate a manual process. Of the six employees that were not deactivated, two of them were on a terminated listing not received by Accounts Payable. The other four employees were missed when the terminated listing was compared to the active list of cardholders. Since this was brought to light in this audit, employees conducting this comparison have been made aware of the inaccuracy and are required to double check the terminated listing. In addition, Finance will work with the Information Technology Department and Human Resources on a more robust intake/outtake process and employee access database to mitigate risk associated with terminating employees.



OBSERVATION 2 –POLICIES DID NOT CLEARLY DEFINE ALL APPROVERS OR REQUIRE SUMMARY REPORTS OF MONITORING ACTIVITIES

- Approver levels were not clear for appointed and elected officials.
- Results of Accounts Payable’s monitoring reviews were not summarized annually and reported to senior management.

In our testing, we noted that policy required purchasing card reconciliation approval by managers. However, since appointed and elected officials do not have a manager, the purchasing card approver listing provided by Accounts Payable did not indicate their responsible approver.

Accounts Payable schedules reviews for at least two months of purchasing card transactions for each department in the City annually. Accounts Payable provided the department’s management a memo noting all issues found during their review. While no recurring or significant misuses of Purchasing Cards were found, policy could be improved to require such instances to be communicated to the Chief of Staff and Chief Financial Officer.

AUDITOR’S RECOMMENDATION

Purchasing card policies should be updated for the following:

- Include authorized approvers for appointed and elected officials.
- Require communication to senior management in the event of significant or recurring purchasing card exceptions.

CITY RESPONSE

Finance partially agrees with the observation and recommendation. There is only one appointed official who has a purchasing card which is the City Auditor and he reports directly to City Council. Accounts Payable made the determination that the President of City Council should approve his expenditures since that is the reporting structure. In the past the Chief Financial Officer approved expenditures of the City Auditor but that created some resistance with one City Auditor who is not the current City Auditor. With discussion and agreement of the current City Auditor and the Chief Financial Officer, the current Chief Financial Officer could sign these statements again. Accounts Payable will update the Visa Policies and Procedures to include approval by City Council of City Auditor Visa statements.

Any expenditure that Accounts Payable felt was an irregular use of the purchasing card was always made known to the Chief Financial Officer for her review and input. This has not been done in a formal memo as no misuses were notated. Accounts Payable will update the internal policies and procedures to include the notification of the Chief Financial Officer of any irregular uses of the Visa Cards.

CITY COUNCIL'S OFFICE OF THE CITY AUDITOR

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. 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

The audit was conducted in a manner that meets or exceeds the International Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors, with the exception of the requirements under standards 1312 and 1321 to obtain an external quality assurance review once every five years. We do not believe this non-compliance impacted the quality of our audit.

The audit included interviews with appropriate personnel and such tests of records and other supporting documentation as deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests. Sufficient competent evidential matter was gathered to support our conclusions.