

AUDIT TEAM

Jim Williamson, CPA, CIA, City Auditor
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PURCHASING CARD PROGRAM

MAY 14, 2019

MAYOR AND CITY COUNCIL

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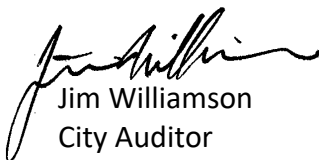
May 14, 2019

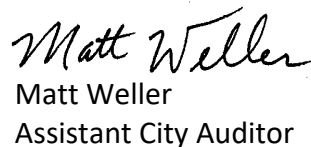
The Mayor and City Council:

The Office of the City Auditor has completed an audit of the purchasing card program including purchases by selected cardholders during the 8 months ended August 27, 2018. Based on the results of our audit, we believe that:

- Established controls over purchasing card purchases by selected cardholders were adequate and operating effectively, except for reviews of documentation supporting cardholder purchases at James Stewart Golf Course.
- Recommendations included in our previous report dated August 30, 2016 had been substantially addressed as of August 27, 2018, except for monthly review of supporting documentation for all Trosper Park Golf Course and Lincoln Park Golf Course purchasing card purchases.

All comments, recommendations, suggestions, and observations arising from our audit have been discussed in detail with appropriate representatives from management. These discussions were held to assure a complete understanding of the content and emphasis of the items in this report. Management's responses to the recommendations in this report are attached.


Jim Williamson
City Auditor


Matt Weller
Assistant City Auditor


Regina Story
Audit Manager

PURCHASING CARD PROGRAM

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of this audit were to:

- Evaluate the adequacy and determine the effectiveness of controls over purchasing card purchases by selected cardholders during the eight months ended August 27, 2018.
- Evaluate the status, as of August 27, 2018, of recommendations and related management responses included in our previous purchasing card program audit report dated August 30, 2016.

The purchasing card program was implemented in 2001 to reduce administrative costs related to small-dollar/high-volume purchases associated with issuing a traditional purchase order. The City also receives an annual rebate from the purchasing card service provider based on the amount of purchasing card program expenditures each fiscal year. A rebate of approximately \$296,000 was received for fiscal year 2018. The purchasing card program is managed by the Finance Department's Procurement Division.

Procedures performed during our audit included examination of documentation supporting purchasing card purchases and physical inspection of selected items purchased by selected cardholders; review of changes to cardholder credit limits and merchant commodity code restrictions; assessing the adequacy of the process for identification and disposition of duplicate payments; reviewing electronic purchasing card purchase approvals for self-approved transactions; interviews of program management personnel; and review of program policies and reports.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). GAGAS requires 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Each recommendation and status included in this report is immediately followed by management's response. Responses from management are attached to this report in their entirety.

ADEQUACY AND EFFECTIVENESS OF CONTROLS

Established controls over purchasing card purchases by selected cardholders are adequate and operating effectively, except for reviews of documentation supporting cardholder purchases at James Stewart Golf Course.

City purchasing cards were used by 139 cardholders for 20,823 purchases totaling approximately \$12.2 million during the eight months ended August 27, 2018, of which we reviewed 5,589 purchases by 16 cardholders in 9 departments totaling approximately \$2.9 million. Except for the lack of supporting documentation review for James Stewart Golf Course cardholder purchases, no material noncompliance with program policies or purchases without valid business purposes were identified during our audit.

Comment 1

Supporting documentation was not reviewed for all 423 purchasing card purchases totaling \$115,967 during the audit period by two James Stewart Golf Course cardholders. The Golf Pro only reviews supporting documentation when more information is desired for a purchase. Supporting documentation had not been retained by a tested cardholder for 17 purchases totaling \$7,770 and 3 of the cardholder's purchases included uncredited sales tax totaling \$90.

Purchasing card policies require that documentation supporting all purchases be retained by cardholders and reviewed at least monthly for overall validity and compliance with City Purchasing policies. Fraudulent purchases could occur without detection in the absence of complete supporting documentation review.

Recommendation 1

Supporting documentation for all James Stewart Golf Course cardholder purchases should be retained and reviewed at least monthly. See Recommendation 2 and Status 4.

James Stewart Golf Course Response 1

James Stewart and Trosper Golf Course agree with Recommendation 1 and Status 5. Beginning January 1, 2019, supporting documentation for all purchasing card purchases are being reviewed monthly.

Prior to the audit recommendations being suggested, all purchases were being reviewed on a monthly summary via Peoplesoft. Purchasing card holders had been counseled on importance of compliance with purchasing policy. Confirmed that all purchases were valid. Also confirmed that all purchases were from approved/registered vendors on current City contract. Will continue to do an in-depth monthly physical reconciliation of each department head's purchasing card documentation.

By doing a monthly review of all purchasing card transaction supporting documentation, addition of sales tax to any invoice will be more easily recognized. All invoices that had sales tax added by mistake are either corrected or in the process of being corrected.

Comment 2

The Trust Specialist in the Parks Department specifically assigned to managing City golf course business activities does not have any oversight responsibilities for golf course purchasing card purchases. However, the Trust Specialist approved 1,445 non-golf course Parks Department purchasing card purchases, the fourth most among all City approvers during the audit period.

Golf course purchasing card purchases were 14% of City purchasing card purchases during the audit period and totaled over \$1 million. The Trust Specialist's golf course-related duties are directed by the Oklahoma City Golf Commission¹.

The Trust Specialist's job responsibilities should include oversight of golf course purchasing card purchases, including compliance of those purchases with City policies. Noncompliance with City purchasing card policies has been identified at City golf courses during the current and previous audit. See Comment 1, Status 4, and Status 5.

Recommendation 2

The Parks Department should work with the Oklahoma City Golf Commission to include golf course purchasing card purchase oversight, including periodic reviews of those purchases for compliance with City purchasing card policies, in the Trust Specialist's job responsibilities. See Recommendation 1, Status 4, and Status 5.

Parks and Recreation Department Response 2

The Parks and Recreation Department agrees with Recommendation 2. Effectively immediately, the Golf Trust Specialist will provide purchasing card oversight to the golf courses. This will include periodic reviews of purchases to ensure compliance with City purchasing policies. In addition, the Golf Trust Specialist will act as a resource to assist cardholders with purchasing policy questions and provide ongoing training as requested.

Comment 3

The Information Technology Department's purchasing card purchases included approximately \$1,600 monthly for 28 City facility phone numbers to be in the yellow pages section of The Real Yellow Pages publication. Information Technology confirms the desire to include these numbers in the yellow pages with the City departments responsible for the facilities before paying and including the charges in their annual chargebacks but may not have clearly communicated the related costs to the departments.

¹ The Oklahoma City Public Property Authority Trust Specialist position assigned to the golf courses is jointly funded by the City golf courses.

The necessity of these expenditures, currently totaling more than \$19,000 annually, is questionable. Phone numbers for 26 of the facilities are included, along with numerous other City facility phone numbers, in either the separate business white page or government page sections of the publication at no charge to the City. The two phone numbers not included in the business white pages or government pages are available on-line.

Recommendation 3

Information Technology should consider discontinuing payment for these services and ask the departments responsible for the City facilities using these phone numbers to directly arrange and pay for these phone numbers to be included in the yellow pages section of The Real Yellow Pages publication. This will allow the departments to assess the ongoing business purpose and cost-benefit of publishing these phone numbers.

Information Technology Department Response 3

Agree. Additional information: this gap was created because the annual review of yellow page listing by departments did not occur with review of chargeback costs. Prior to this report IT had planned to detail yellow page listing costs by department in the chargeback for FY20.

After further discussion of this finding and during preparation of the FY20 budget proposal, it was determined that there was no justification for IT to continue to have yellow page listing as a technology charge back cost/service. IT will eliminate the chargeback for FY20 (but the current bills go through Oct 2019).

IT has met with stakeholder departments to discuss the actual costs and FY20 budget change. With recommendation from PIM and review of per department costs, no department indicated that they planned to renew their yellow page listings for the next year. We did tell departments that if they change their mind, they will need to get approval from PIM for the listing and would pay the bill themselves.

With PIM, we also started a process to clean up the government blue page listings and get those changes back to ATT before books are published next year. We expect ATT to pass the changes to book publishers. There is no cost for blue page listings.

Comment 4

A cardholder in the Development Services Department's Animal Welfare Division could not account for the use of 3 Visa cards totaling \$286 received as rebates for purchases of certain animal medications. Receipt by Animal Welfare cardholders of 11 Visa cards totaling \$1,922 since May 2017 as rebates for purchases of certain animal medications and medical supplies was discovered when 4 of the cards were used for a valid purchasing card purchase tested during the audit period. The cards include no restrictions on use and are essentially like cash.

City Purchasing policies and procedures do not address departmental responsibilities for establishing controls over the receipt and use of cash rebates or rewards received for City purchases. Visa rebate or reward cards received could be used for personal purchases without detection in the absence of controls over the receipt and use of such cards.

Recommendation 4

The Development Services Department should pursue rebates through credit memos or checks from the applicable suppliers or manufacturers. If Visa cards are the only means of receiving the rebates, controls should be established to ensure all received cards are appropriately secured and only used for valid City purchases.

Development Services Department Response 4

Agree with recommendation. By June 30, 2019, the Development Services Department will pursue rebates through credit memos or checks from the applicable suppliers or manufacturers. If Visa cards are the only means of receiving the rebates, controls will be established to ensure all received cards are appropriately secured and only used for valid City purchases.

Recommendation 5

The Procurement Division should revise City Purchasing policies and procedures to address the responsibility of departments to establish controls ensuring receipts of cash rebates or rewards on City purchases are pursued through credit memos or checks first, and prepaid credit cards, when the only option, are appropriately secured and only used for valid City purchases.

Finance Department Response 5

We concur with the recommendation to revise the City's Purchasing Policies and Procedures to address the responsibility of departments to establish controls ensuring receipts of cash rebates or rewards on City purchases are pursued through credit memos or checks first, and prepaid credit cards, when the only option, are appropriately secured and only used for valid City purchases. This update will be completed by June 30, 2019.

STATUS OF RECOMMENDATIONS FROM PREVIOUS REPORT

The recommendations included in our previous report have been substantially addressed, except for monthly review of supporting documentation for all Trosper Park Golf Course and Lincoln Park Golf Course purchasing card purchases.

Status 1

Implemented. The Procurement Division periodically compares purchasing card and Accounts Payable payment details to identify duplicate payments and ensures credits are received for duplicate payments identified.

Finance Department Response – Status 1

Agree with status.

Status 2

Addressed. Software updates were applied to PeopleSoft immediately following the previous audit period when cardholder purchases appearing to have been electronically self-approved were identified. Subsequently, the Procurement Division, working with the Information Technology Department, was unable to recreate an electronically self-approved cardholder purchase in PeopleSoft. The Procurement Division has reviewed for, but not identified, any electronically self-approved cardholder purchases since application of the PeopleSoft updates.

Finance Department Response - Status 2

Agree with status.

Status 3

Implemented. Supporting documentation for all Information Technology purchasing card purchases is reviewed monthly and documentation supporting purchasing card purchases occurring since termination of such reviews for the cardholder tested during the previous audit has been reviewed to confirm purchase validity and compliance with City Purchasing policies.

Information Technology Department Response - Status 3

Agree as stated in the report.

Status 4

Not Implemented. Supporting documentation is not reviewed for all Trosper Park Golf Course purchasing card purchases. The Golf Pro at James Stewart Golf Course is now also the Golf Pro for Trosper. See Comment 1. Trosper cardholders completed 464 purchasing card purchases totaling \$125,026 during the audit period.

Purchasing card policies require review of documentation supporting monthly purchases for overall validity and compliance with City Purchasing policies. Fraudulent purchasing card purchases could occur without detection in the absence of supporting documentation reviews.

Supporting documentation for all Trospen Park Golf Course purchasing card purchases should be reviewed at least monthly. See Recommendations 1 and 2.

Trospen Park Golf Course Response - Status 4

James Stewart and Trospen Golf Course agree with Recommendation 1 and Status 4. Beginning January 1, 2019, supporting documentation for all purchasing card purchases are being reviewed monthly.

Prior to the audit recommendations being suggested, all purchases were being reviewed on a monthly summary via Peoplesoft. Purchasing card holders had been counseled on importance of compliance with purchasing policy. Confirmed that all purchases were valid. Also confirmed that all purchases were from approved/registered vendors on current City contract. Will continue to do an in-depth monthly physical reconciliation of each department head's purchasing card documentation.

By doing a monthly review of all purchasing card transaction supporting documentation, addition of sales tax to any invoice will be more easily recognized. All invoices that had sales tax added by mistake are either corrected or in the process of being corrected.

Status 5

Partially Implemented. Documentation supporting Lincoln Park Golf Course purchasing card purchases is reviewed monthly. However, supporting documentation had not been retained by a tested cardholder for 55 purchases totaling \$9,060 during the current audit. Before issuance of this report, Lincoln personnel had obtained supporting documentation for all but 12 of the above purchases totaling \$107.

Purchasing card policies require documentation supporting all purchases be retained by cardholders. Fraudulent purchases could occur without detection in the absence of complete supporting documentation review.

Supporting documentation for all Lincoln Park Golf Course purchasing card purchases should be retained. See Recommendation 2.

Lincoln Park Golf Course Response – Status 5

Lincoln Park Golf Course agrees with Status 5. Management concurs with findings and recommendations. Management will work with all purchasing card personnel to insure compliance with guidelines and documentation retention.



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Jim Williamson, City Auditor

THROUGH: Craig Freeman, City Manager *CF*

FROM: Douglas R. Kupper, CPRP, Director
Parks and Recreation Department *D.R. Kupper*

DATE: May 8, 2019

SUBJECT: Audit 19-01 Purchasing Card Program Audit

Following are the Parks and Recreation and golf course responses from the purchasing card program review.

1. James Stewart and Trosper Golf Course agree with Recommendation 1 and Status 4. Beginning January 1, 2019, supporting documentation for all purchasing card purchases are being reviewed monthly.

Prior to the audit recommendations being suggested, all purchases were being reviewed on a monthly summary via Peoplesoft. Purchasing card holders had been counseled on importance of compliance with purchasing policy. Confirmed that all purchases were valid. Also confirmed that all purchases were from approved/registered vendors on current City contract. Will continue to do an in-depth monthly physical reconciliation of each department head's purchasing card documentation.

By doing a monthly review of all purchasing card transaction supporting documentation, addition of sales tax to any invoice will be more easily recognized. All invoices that had sales tax added by mistake are either corrected or in the process of being corrected.

2. The Parks and Recreation Department agrees with Recommendation 2. Effectively immediately, the Golf Trust Specialist will provide purchasing card oversight to the golf courses. This will include periodic reviews of purchases to ensure compliance with City purchasing policies. In addition, the Golf Trust Specialist will act as a resource

to assist cardholders with purchasing policy questions and provide ongoing training as requested.

3. Lincoln Park Golf Course agrees with Status 5. Management concurs with findings and recommendations. Management will work with all purchasing card personnel to insure compliance with guidelines and documentation retention.



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Jim Williamson, City Auditor

THROUGH Craig Freeman, City Manager *CF*

FROM: Schad Meldrum, I.T. Director *WSM*

DATE: April 15, 2019

SUBJECT: IT Response to Auditors Purchasing Card Program Follow-Up Audit

I.T.'s Response to Auditors "Purchasing Card Program" Follow-Up Audit as of March 25, 2019.

Recommendation 3 Agree

Additional information: this gap was created because the annual review of yellow page listing by departments did not occur with review of chargeback costs. Prior to this report IT had planned to detail yellow page listing costs by department in the chargeback for FY20.

After further discussion of this finding and during preparation of the FY20 budget proposal, it was determined that there was no justification for IT to continue to have yellow page listing as a technology charge back cost/service. IT will eliminate the chargeback for FY20 (but the current bills go through Oct 2019).

IT has met with stakeholder departments to discuss the actual costs and FY20 budget change. With recommendation from PIM and review of per department costs, no department indicated that they planned to renew their yellow page listings for the next year. We did tell departments that if they change their mind, they will need to get approval from PIM for the listing and would pay the bill themselves.

With PIM, we also started a process to clean up the government blue page listings and get those changes back to ATT before books are published next year. We expect ATT to pass the changes to book publishers. There is no cost for blue page listings.

Status 3 - Agree

Agree as stated in the report.



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Jim Williamson, City Auditor

THROUGH: Craig Freeman, City Manager *CF*

FROM: *BT* Bob Tener, Development Services Director

DATE: April 3, 2019

SUBJECT: Purchasing Card Program Audit

Following is management's response to the status of recommendation 4 outlined in the recent Purchasing Card Program Audit.

4. Agree with recommendation. By June 30, 2019, the Development Services Department will pursue rebates through credit memos or checks from the applicable suppliers or manufacturers. If Visa cards are the only means of receiving the rebates, controls will be established to ensure all received cards are appropriately secured and only used for valid City purchases.

Thank you for your professional review of this program.



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Jim Williamson, City Auditor

THROUGH: Craig Freeman, City Manager *CF*

FROM: Kenton Tsoodle, Interim Finance Director *KT*

DATE: April 11, 2019

SUBJECT: Audit No. 19-01 - Finance Department, Procurement Services Division—
Purchasing Card Program

Recommendation (5)

The Procurement Division should revise City Purchasing policies and procedures to address the responsibility of departments to establish controls ensuring receipts of cash rebates or rewards on City purchases are pursued through credit memos or checks first, and prepaid credit cards, when the only option, are appropriately secured and only used for valid City purchases.

Finance Department Response (5)

We concur with the recommendation to revise the City's Purchasing Policies and Procedures to address the responsibility of departments to establish controls ensuring receipts of cash rebates or rewards on City purchases are pursued through credit memos or checks first, and prepaid credit cards, when the only option, are appropriately secured and only used for valid City purchases. This update will be completed by June 30, 2019.

Status (1)

Implemented. The Procurement Division periodically compares purchasing card and Accounts Payable payment details to identify duplicate payments and ensures credits are received for duplicate payments identified.

Finance Department Response Status (1)

Agree with status.

Status (2)

Addressed. Software updates were applied to PeopleSoft immediately following the previous audit period when cardholder purchases appearing to have been electronically self-approved were identified. Subsequently, the Procurement Division, working with the Information Technology Department, was unable to recreate an electronically self-approved cardholder purchase in PeopleSoft. The Procurement Division has reviewed for, but not identified, any electronically self-approved cardholder purchases since application of the PeopleSoft updates.

Finance Department Response Status (2)

Agree with status.