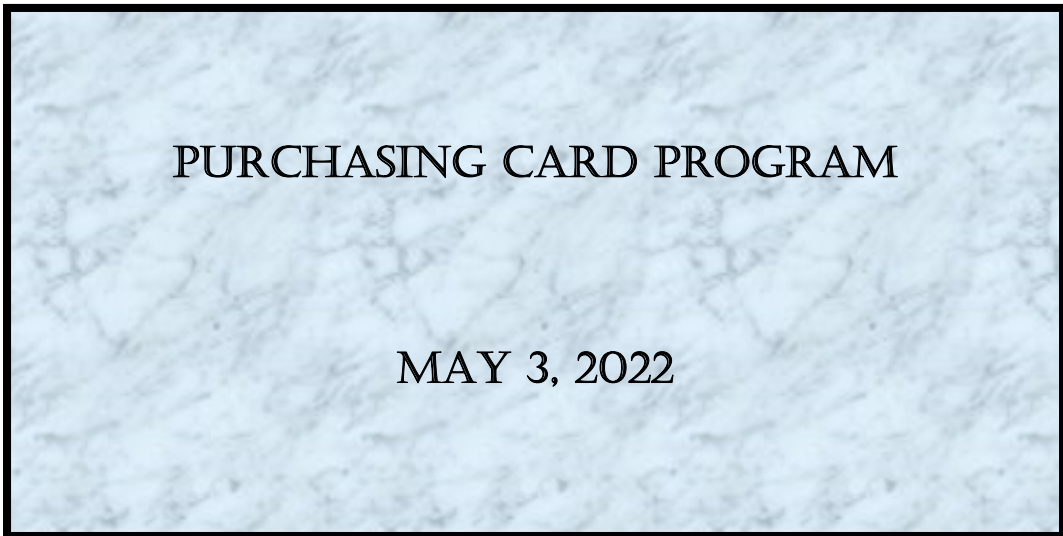


AUDIT TEAM

***Matt Weller, CPA, Interim City Auditor
Janet McWilliams, CPA, Audit Manager***



MAYOR AND CITY COUNCIL

<i>David Holt</i>	<i>Mayor</i>
<i>Bradley Carter</i>	<i>Audit Committee, Ward 1</i>
<i>James Cooper</i>	<i>Ward 2</i>
<i>Barbara Young</i>	<i>Audit Committee, Ward 3</i>
<i>Todd Stone</i>	<i>Ward 4</i>
<i>David Greenwell</i>	<i>Audit Committee, Ward 5</i>
<i>JoBeth Hamon</i>	<i>Ward 6</i>
<i>Nikki Nice</i>	<i>Ward 7</i>
<i>Mark K. Stonecipher</i>	<i>Ward 8</i>



May 3, 2022

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 4 months ended April 26, 2021. Based on the results of our audit, we believe that:

- Established controls over purchasing card purchases by selected cardholders are adequate and operating effectively, except for reviews of documentation supporting cardholder purchases at Lake Hefner Golf Course.
- Recommendations included in our previous report dated May 14, 2019, have been substantially addressed as of April 26, 2021, except for the extent of golf course purchasing card oversight provided by the Trust Specialist assigned to managing golf course business activities in the Parks Department.

During this audit, we identified purchasing card purchases by a cardholder at Lake Hefner Golf Course that were deemed fraudulent by golf course management. Purchases identified as fraudulent or presumably fraudulent because of missing receipts totaled \$11,060.

Evidence relating to the fraudulent purchases has been provided to law enforcement. The cardholder's other job responsibilities were also assessed for opportunities to commit other fraudulent acts. The results of that work are reported separately in the Lake Hefner Golf Course Restaurant Investigation Report.

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 items in this report. Responses to this report from management are attached.

Handwritten signature of Matt Weller in black ink.

Matt Weller
Interim City Auditor

Handwritten signature of Janet McWilliams in black ink.

Janet McWilliams
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 four months ended April 26, 2021.
- Evaluate the status, as of April 26, 2021, of recommendations and related management responses included in our previous purchasing card program audit report dated May 14, 2019

The purchasing card program reduces administrative costs for higher volume, smaller dollar purchases by eliminating the need for issuance of traditional purchase orders. Current City purchasing card policies require purchasing card use for purchases less than \$5,000 when possible. Purchasing card purchases totaled more than \$21 million for fiscal year 2021. The Finance Department's Procurement Division manages the purchasing card program.

Procedures performed during our audit included examination of documentation supporting purchases and physical inspection of selected items purchased by selected cardholders; 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.

The following section of this report includes recommendations intended to provide constructive suggestions for improving purchasing card program controls. 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 Lake Hefner Golf Course.

City purchasing cards were used by 128 cardholders for 9,322 purchases totaling approximately \$7.1 million during the four months ended April 26, 2021. We reviewed 3,733 purchases by 19 cardholders in 9 departments totaling approximately \$2.5 million. Except for the lack of

supporting documentation review for Lake Hefner 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 291 purchasing card purchases made by three Lake Hefner Golf Course cardholders totaling \$155,182 during the audit period. The Golf Director approved the purchases in PeopleSoft without reviewing supporting documentation.

During our audit period, one tested Lake Hefner Golf Course cardholder had 23 purchasing card purchases with items totaling \$2,231 that golf course management deemed to be fraudulent personal purchases. Additionally, another purchase for \$1,346 did not have supporting documentation and is presumed to be fraudulent. See Status 2.

Additional golf course management review of the cardholder's purchases from card issuance through termination in August 2021 found 72 other fraudulent personal purchases totaling \$5,452 and 9 other purchases totaling \$2,031 without supporting documentation that are also presumed to be fraudulent. Fraudulent and presumably fraudulent purchases totaling \$11,060 were identified on 105 purchasing card purchases by the cardholder totaling \$26,730.

Purchasing card policies require that documentation supporting all purchases be retained by cardholders and reviewed for overall validity and compliance with City purchasing policies, at least monthly, when transactions are approved in PeopleSoft. Fraudulent purchases can occur without detection in the absence of complete supporting documentation review.

Recommendation 1

Supporting documentation for all Lake Hefner Golf Course purchasing card purchases should be retained by cardholders and reviewed at least monthly when the purchases are approved in PeopleSoft.

Parks & Recreation Department Response 1

Agree. Effective immediately, the PCard holder shall be required to provide supporting documentation for each purchase in the form of itemized invoices and/or receipts, packing slips when available, and a written description of the purchase in PeopleSoft Financials. This procedure is included during preliminary PCard Holder training courses provided by the Purchasing Department. PCard holder shall submit such documentation and a cover sheet listing the appropriate budget line item to the Golf Director prior to the Cycle Approval Deadline. Golf Director will review all purchases and assess validity on all purchases that are not clear and obvious to the normal operations of the golf course.

Comment 2

Payment for one of the Lake Hefner Golf Course cardholder's fraudulent personal purchases discussed in Comment 1 included use of Sam's Club store credit obtained by redeeming earned Sam's Plus membership cash rewards¹. The cardholder also received a promotional shopping card for purchasing a Sam's Plus membership that was apparently kept for personal use.

We also were notified by a department during the audit of a cardholder using a tax-exempt Sam's Club membership purchased with City funds for a tax-free purchase with their personal credit card. Management could not review the cardholder's online Sam's membership account for other such purchases because access to the account is restricted to the member.

City purchasing card policies and procedures do not address use of cash rewards earned on City purchases using personal Sam's Plus memberships, or management access to City-purchased, tax-exempt Sam's membership accounts. Eight cardholders had Sam's Club or Plus memberships purchased with City funds during the audit period, while 10 others used personal memberships for City purchases during the 12 months ending April 30, 2021.

Cardholder decisions to purchase Sam's memberships or purchase from Sam's could be for personal gain rather than to obtain high quality goods at the lowest cost, if not addressed.

Recommendation 2

The Procurement Services Division should revise purchasing card policies and procedures to:

- Require cardholders use redeemed, personal Sam's Plus membership cash rewards earned on City purchases only for City purchases,
- Prohibit cardholder personal use of City-purchased, tax-exempt Sam's memberships, and
- Limit City-purchased memberships to basic Sam's Club memberships and require that those membership accounts be accessible to management and subject to review.

Finance Department Response 2

Agree. By June 30, 2022, the Procurement Services Division will revise purchasing card policies and procedures and training material to incorporate these recommendations. As part of the revision, Procurement Services will also modify the Cardholder Agreement Form and Receipts and Limits Form by June 30, 2022, to ensure cardholders are fully aware of this program condition.

¹ Two different Sam's memberships are available, a basic Club membership and a higher priced Plus membership. The Plus membership allows cash rewards to be earned on qualifying purchases and redeemed annually for cash or store credit at Sam's Club locations.

Comment 3

Supporting documentation evidencing receipt of purchased items or completion of provided services at other City locations was not available for 8 purchasing card purchases totaling approximately \$57,000 by a cardholder in the Finance Department's Risk Management Division. Purchases included workplace safety equipment delivered directly to and/or installed at other City locations and repairs at other City locations apparently stemming from insurance claims.

Payments should not be made without confirming that purchased goods have been received or provided services are complete. Purchasing card policies suggest that cardholders obtain and retain documentation from the receiving party when cardholders do not personally receive purchased items.

Payments could be made for goods that were not received or services that were not completed if delivery receipt or service performance is not confirmed.

Recommendation 3

The Risk Management Division should obtain and retain evidence (e.g., emails, signed invoices or packing slips) of receipt of purchased items or completion of provided services from other receiving parties when not received by the cardholder or when completion of the services is not verifiable by the cardholder.

Finance Department Response 3

Agree. All employees that are tasked with purchasing have been made aware of the need to obtain and retain delivery receipts that accompany the items purchased and received by Risk Management Division. This same standard is expected when items (purchased by Risk Management) are delivered to other department/locations. In instances when a service is provided, such as with Property Restoration, the Risk Management purchasing staff will obtain and retain an acceptance of service delivery (also known as All's Good Confirmation) from the department/location where the service has been provided.

Comment 4

Procurement Services Division cardholder audit procedures do not include confirming that purchasing card transaction approvers are reviewing documentation supporting cardholder purchases when approving transactions. Current audit procedures are limited to confirming transaction approvers are authorized for those duties by department management.

Purchasing card policies and procedures specify that approving the validity and compliance of purchasing card transactions with policies and procedures includes reviewing documentation supporting those transactions. Undetected fraudulent purchasing card purchases are more likely if approver review control weaknesses are not detected timely.

Recommendation 4

Procurement Services Division cardholder audit procedures should include inquiries confirming that cardholders provide documentation supporting purchasing card purchases to approvers and approvers review the documentation before approving the purchases in PeopleSoft.

Finance Department Response 4

Agree. The Buyers monthly Purchasing Card Audit Form for cardholders was updated December 2021 and requires the cardholder to confirm how documentation is submitted to Approver before approving purchases in PeopleSoft. The Division's cardholder audit procedures will be updated to include this requirement by June 30, 2022.

Comment 5

The Procurement Services Division's training records did not include a purchasing card reviewer and approver training completion date for 40% or 18 of 45 approvers during our audit period. Those training records, which covered an 8-year period, also did not include the date when employees were assigned purchasing card transaction approver responsibilities.

Purchasing card policies and procedures specify that training is required every 3 years for staff who review and/or approve purchasing card transactions. Procurement Services encourages but does not enforce compliance with this policy. This approach is reasonable for experienced approvers barring significant policy and procedure changes however, it is not clear from the training records if those without training completion dates are new or experienced approvers.

Accurate and complete training records are necessary to ensure purchasing card reviewers and/or approvers have been made aware of all related responsibilities. Fraudulent purchasing card purchases could occur without detection in the absence of adequate review.

Recommendation 5

The Procurement Services Division should confirm all current purchasing card transaction approvers have been trained and add the date when approver responsibilities were assigned to training records to allow easier identification of new approvers that need to be trained.

Finance Department Response 5

Agree with modification. Approver training is captured through the Human Resource module in PeopleSoft and includes the date approver training was completed. The Procurement Services Division also refers to the Authorized Signature List maintained by the Information Technology department as to the date the employee became an authorized approver. The Procurement Services Division will develop and offer on-line refresher training for Approvers that will include a quiz on approver procedures, responsibilities and track attendees' completion of the course.

The Division will compare current approvers against the HR list to identify anyone that does not have a record of approver training and require the individual to comply with the training requirement. This will be implemented and completed by June 30, 2022.

STATUS OF RECOMMENDATIONS FROM PREVIOUS REPORTS

Recommendations included in our previous reports have been substantially addressed, except for the extent of golf course purchasing card oversight provided by the Trust Specialist assigned to managing golf course business activities in the Parks Department.

Status 1

Implemented. Documentation supporting cardholder purchases is retained and supporting documentation for each purchase is reviewed by the James Stewart Golf Course Director.

Parks & Recreation Department Response – Status 1

Agreed as stated in the report.

Status 2

Partially Implemented. Oversight of golf course purchasing card purchases by the Parks Trust Specialist responsible for managing City golf course business activities is limited to the bi-annual purchasing card statement review required by City purchasing card policies and procedures. Those reviews have not included examination of documentation supporting purchases to verify cardholders are retaining appropriate supporting documentation.

Missing cardholder receipts have been identified at 3 different golf courses during the last two purchasing card audits, including those presumed to be fraudulent personal purchases by the Lake Hefner Golf Course cardholder discussed in Comment 1. Also see Status 1 and Status 7.

Supporting documentation should be examined for a sample of purchasing card purchases for each golf course cardholder semi-annually as part of oversight responsibilities performed by the Parks Trust Specialist for golf course purchasing card purchases.

Parks & Recreation Department Response - Status 2

Agreed. Effective immediately, the Park's Trust Specialist will begin performing purchasing card audits and reviewing documentation quarterly at each golf course to ensure cardholders are collecting and storing the required documentation for their purchases.

Status 3

Implemented. The Information Technology Department no longer pays to include City facility phone numbers in the yellow pages section of The Real Yellow Pages publication and charges those costs to the departments responsible for those facilities. Though none have done so, the responsible departments may directly arrange and pay for those listings if deemed necessary.

Information Technology Department Response - Status 3

Agree as stated in the report. This was implemented/completed prior to the FY20 fiscal year.

Status 4

Implemented. Development Services' Animal Welfare Division has established controls to ensure prepaid credit cards received from vendors as rebates or rewards on purchases are appropriately secured and only used for valid City purchases.

Development Services Department Response - Status 4

Agree with status as reported.

Status 5

Implemented. The Procurement Division revised City Purchasing policies and procedures to require departments to establish controls ensuring prepaid credit cards are only accepted when the only option for receiving rebates or rewards on City purchases and to establish policies for appropriately securing and using prepaid credit cards when received as rebates or rewards.

Finance Department Response – Status 5

Agree with status as reported.

Status 6

Implemented. Documentation supporting each cardholder purchase is reviewed by the Trooper Park Golf Course Director.

Parks & Recreation Department Response – Status 6

Agreed as stated in the report.

Status 7

Implemented. Documentation supporting all Lincoln Park Golf Course cardholder purchasing card purchases is retained.

Parks & Recreation Department Response – Status 7

Agreed as stated in the report.



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Matt Weller, Interim City Auditor

THROUGH: Craig Freeman, City Manager *CF*

DATE: April 8, 2022

FROM: Melinda McMillan-Miller *MM*
Director, Parks & Recreation Department

SUBJECT: Purchasing Card Program Audit – Golf Course Responses

1. Recommendation 1 Response:

Agree. Effective immediately, the PCard holder shall be required to provide supporting documentation for each purchase in the form of itemized invoices and/or receipts, packing slips when available, and a written description of the purchase in PeopleSoft Financials. This procedure is included during preliminary PCard Holder training courses provided by the Purchasing Department. PCard holder shall submit such documentation and a cover sheet listing the appropriate budget line item to the Golf Director prior to the Cycle Approval Deadline. Golf Director will review all purchases and assess validity on all purchases that are not clear and obvious to the normal operations of the golf course.

2. Status 1 Response:

Agreed as stated in the report

3. Status 2 Response:

Agreed. Effective immediately, the Park’s Trust Specialist will begin performing purchasing card audits and reviewing documentation quarterly at each golf course to ensure cardholders are collecting and storing the required documentation for their purchases.

4. Status 6 Response:

Agreed as stated in the report.

5. Status 7 Response:

Agreed as stated in the report.



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Matt Weller, Interim City Auditor

THROUGH: Craig Freeman, City Manager *Lead for CF*

FROM: Brent Bryant, Finance Director *Brent*

DATE: April 28, 2022

SUBJECT: AUDIT 20-21 Purchasing Card Program

Following are management's responses to recommendations outlined in the recent Purchasing Card Program.

2. *"Agree. By June 30, 2022, the Procurement Services Division will revise purchasing card policies and procedures and training material to incorporate these recommendations. As part of the revision, Procurement Services will also modify the Cardholder Agreement Form and Receipts and Limits Form by June 30, 2022, to ensure cardholders are fully aware of this program condition."*
3. *"Agree. All employees that are tasked with purchasing have been made aware of the need to obtain and retain delivery receipts that accompany the items purchased and received by Risk Management Division. This same standard is expected when items (purchased by Risk Management) are delivered to other department/locations. In instances when a service is provided, such as with Property Restoration, the Risk Management purchasing staff will obtain and retain an acceptance of service delivery (also known as an All's Good Confirmation) from the department/location where the service has been provided."*
4. *"Agree. The Buyers monthly Purchasing Card Audit Form for cardholders was updated December 2021 and requires the cardholder to confirm how documentation is submitted to Approver before approving purchases in PeopleSoft. The Division's cardholder audit procedures will be updated to include this requirement by June 30, 2022."*
5. *"Agree with Modification. Approver training is captured through the Human Resource module in PeopleSoft and includes the date approver training was completed. The Procurement Services Division also refers to the Authorized Signature List maintained*

by the Information Technology department as to the date the employee became an authorized approver. The Procurement Services Division will develop and offer on-line refresher training for Approvers that will include a quiz on approver procedures, responsibilities and track attendees' completion of the course. The Division will compare current approvers against the HR list to identify anyone that does not have a record of approver training and require the individual comply with the training requirement. This will be implemented and completed by June 30, 2022."

Following is management's response to recommendations outlined in previous reports:

5. *"Agree with status as reported."*

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MEMORANDUM

The City of
OKLAHOMA CITY



TO: Matt Weller, Interim City Auditor
THROUGH Craig Freeman, City Manager *for CF*
FROM: Schad Meldrum, I.T. Director *WSM*
DATE: April 5, 2022
SUBJECT: IT Response to Auditors Purchasing Card Program Follow-Up Audit 20-01

I.T.'s Response to Auditors "Purchasing Card Program" Follow-Up Audit as of April 26, 2021.

Status 3 - Agree

Agree as stated in the report. This was implemented/completed prior to the FY20 fiscal year.

