

**AUDIT TEAM**

***Jim Williamson, CPA, CIA, City Auditor***  
***Matt Weller, CPA, Assistant City Auditor***  
***Janet McWilliams, CPA, Audit Manager***  
***Pamela Martindale, MBA, Senior Auditor***

**FINANCE DEPARTMENT  
PROCUREMENT DIVISION**

**PURCHASING CARD PROGRAM**

**JULY 3, 2012**

**MAYOR AND CITY COUNCIL**

<b><i>Mick Cornett</i></b>	<b><i>Audit Committee, Mayor</i></b>
<b><i>Gary Marrs</i></b>	<b><i>Ward 1</i></b>
<b><i>Ed Shadid</i></b>	<b><i>Ward 2</i></b>
<b><i>Larry McAtee</i></b>	<b><i>Audit Committee, Ward 3</i></b>
<b><i>Pete White</i></b>	<b><i>Ward 4</i></b>
<b><i>David Greenwell</i></b>	<b><i>Audit Committee, Ward 5</i></b>
<b><i>Margaret S. "Meg" Salyer</i></b>	<b><i>Ward 6</i></b>
<b><i>Ronald "Skip" Kelly</i></b>	<b><i>Ward 7</i></b>
<b><i>Patrick J. Ryan</i></b>	<b><i>Ward 8</i></b>



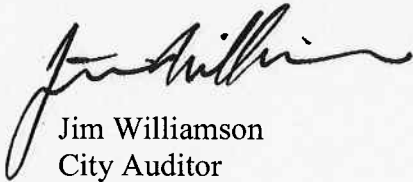
July 3, 2012

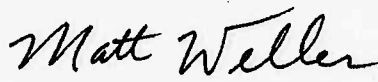
The Mayor and City Council:

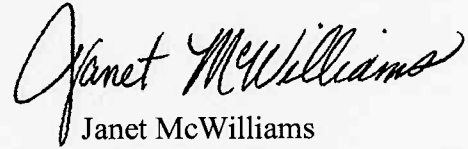
The Office of the City Auditor has completed an audit of the purchasing card (Pro-Card) program. Based on the results of our audit, we believe that:

- Established controls over Pro-Card purchases during the 6 months ended March 31, 2012 were adequate and operating effectively.
- While recommendations included in our previous report dated November 23, 2010 have been substantially addressed March 31, 2012, procedures for verifying vendor registration and on-site review of Pro-Card purchases could be further enhanced.

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 Manager

  
Janet McWilliams  
Audit Manager

## PURCHASING CARD (PRO-CARD) PROGRAM

### AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of this audit were to:

- Evaluate the adequacy and determine the effectiveness of controls over Pro-Card purchases during the six months ended March 31, 2012
- Evaluate the status as of March 31, 2012, of recommendations and related management responses included in the report dated November, 23, 2010 on our previous audit of the Pro-Card program.

The Pro-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 program is managed by the Finance Department's Procurement Division.

Procedures performed during our audit included examination of documentation supporting Pro-Card purchases; computer-assisted transaction analyses; 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 status and recommendation 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 Pro-Card purchases are adequate and operating effectively.*

The City Pro-Card was used for 13,911 purchases totaling approximately \$6.6 million during the six months ended March 31, 2012 of which we reviewed 1,967 purchases totaling approximately \$700,000. No material noncompliance with program policy or purchases without valid business purposes were identified during our audit.

## STATUS OF RECOMMENDATIONS FROM PREVIOUS REPORT

*While the recommendations included in our previous report have been substantially addressed, procedures for verifying vendor registration and on-site review of Pro-Card purchases could be further enhanced.*

### Status 1

**Substantially Implemented.** Vendor numbers appearing on Pro-Card transaction listings are periodically compared to registered vendors in the PeopleSoft financial system and cardholders responsible for purchases from unregistered vendors are asked to obtain completed vendor registration forms. However, cardholders selected incorrect City vendor identification numbers in the Pro-Card banking software for 69 Pro-Card purchases totaling approximately \$41,000 during the six months ending March 31, 2012. Incorrect vendor number selection prevented detection of 22 Pro-Card purchases totaling approximately \$18,000 from unregistered vendors.

City purchasing policies require registration of all vendors to ensure that:

- Vendor taxpayer identification numbers are obtained for 1099 reporting purposes.
- Vendors are eligible to bid on or furnish materials, goods, or services to the City.
- Vendors are aware of City Charter Section 11 prohibiting City employees from having an interest in City contracts.

Periodic comparison of vendor names associated with vendor numbers between the Pro-Card banking software and the PeopleSoft financial system would identify transactions where cardholders entered incorrect vendor numbers and allow assessment of those transactions to determine if the purchases were from unregistered vendors.

### **Management Response (1)**

*Concur. The Procurement Division implemented new online purchasing card software from the City's purchasing card vendor. A weekly interface from the PeopleSoft financial system is performed to ensure both systems contain the same information. Staff is now comparing information in an Excel spreadsheet to help identify when cardholders select incorrect vendors. A more efficient, permanent solution using an Access database will be implemented after the beginning of the new fiscal year.*

### Status 2

**Substantially Implemented.** On-site reviews of Pro-Card purchases are performed by Buyers in the Procurement Division. However, departments and their respective cardholders are reviewed in alphabetical order making selection for review predictable. Further, expectations for frequency of on-site reviews have not been established.

A less predictable method for selecting cardholders to review and spreading on-site reviews more evenly throughout the year would enhance the effectiveness of on-site review procedures.

***Management Response (2)***

*Concur. Beginning July 2012, The Purchasing Card Coordinator will change the predictable order of the audits assigned to Procurement Division Buyers. An existing database will allow the Purchasing Card Coordinator to track audits and will ensure all cardholders and supervisors are audited. The process will eventually be adjusted to a random process, but will still include targeted audits.*

*An internal policy is being written to provide a deadline to Procurement Division Buyers to perform audits by the 15<sup>th</sup> of the following month the audit was assigned. This will allow Buyers to reschedule audits when cancelled by unforeseen circumstances, and will ensure that audits are completed timely.*

**Status 3**

***Partially Addressed.*** Revised Pro-Card policies issued in August 2010 require annual confirmation of all cardholder credit limits with respective department directors. Cardholder credit limits were last confirmed in September 2009.

***Management Response (3)***

*Concur. In January of each calendar year, the Purchasing Card Coordinator will send a report to each department director which provides the average monthly spend, the credit limit and other security information for each cardholder. This information will allow department directors to make informed decisions on credit limits and security levels. Procurement will also make recommendations to department directors if concerns are identified prior to sending the report.*

**Status 4**

***Implemented.*** Pro-Card policies and forms posted on the City's intranet site and included in Pro-Card training materials are current.

***Management Response (4)***

*Concur. This recommendation has been implemented*

**Status 5**

***Partially Implemented.*** Efforts to enforce mandatory Pro-Card usage are limited. The Procurement Division reviews purchase orders less than \$2,500 and forwards names of non-participating vendors to the Pro-Card bank for use in recruiting the vendors for Pro-Card program participation. However, departments with large volumes of purchase orders less than

the mandatory usage threshold are not contacted to resolve issues preventing Pro-Card usage. Additionally, data for the Purchasing program measure “percentage of eligible purchasing card purchases made with the purchasing card” is not gathered and used to assess performance in this area.

***Management Response (5)***

*Concur. An internal policy will be written and training will be provided to ensure Buyers are requiring department to obtain Purchasing Agent approval each fiscal year for purchase orders less than \$2,500 where utilizing the purchasing card is an option. The Procurement Division will continue providing to the bank the names of vendors who do not accept the purchasing card. The measure for “percentage of eligible purchasing card purchases made with the purchasing card” will be implemented in July 2012. A consistent method of reporting the data has been identified and the query from the PeopleSoft financial system is currently being written to provide the data for this measure.*



# MEMORANDUM

The City of  
**OKLAHOMA CITY**



TO: Jim Williamson, City Auditor  
THROUGH: James D. Couch <sup>Joc</sup> City Manager  
FROM: Craig Freeman, Finance Director <sup>CF</sup>  
DATE: June 26, 2012  
SUBJECT: Finance Department – Purchasing Card Program Audit Response

## Status 1

**Substantially Implemented.** Vendor numbers appearing on Pro-Card transaction listings are periodically compared to registered vendors in the PeopleSoft financial system and cardholders responsible for purchases from unregistered vendors are asked to obtain completed vendor registration forms. However, cardholders selected incorrect City vendor identification numbers in the Pro-Card banking software for 69 Pro-Card purchases totaling approximately \$41,000 during the six months ending March 31, 2012. Incorrect vendor number selection prevented detection of 22 Pro-Card purchases totaling approximately \$18,000 from unregistered vendors.

City purchasing policies require registration of all vendors to ensure that:

- Vendor taxpayer identification numbers are obtained for 1099 reporting purposes.
- Vendors are eligible to bid on or furnish materials, goods, or services to the City.
- Vendors are aware of City Charter Section 11 prohibiting City employees from having an interest in City contracts.

Periodic comparison of vendor names associated with vendor numbers between the Pro-Card banking software and the PeopleSoft financial system would identify transactions where cardholders entered incorrect vendor numbers and allow assessment of those transactions to determine if the purchases were from unregistered vendors.

***Management Response (1)***

Concur. The Procurement Division implemented new online purchasing card software from the City's purchasing card vendor. A weekly interface from the PeopleSoft financial system is performed to ensure both systems contain the same information. Staff is now comparing information in an Excel spreadsheet to help identify when cardholders select incorrect vendors. A more efficient, permanent solution using an Access database will be implemented after the beginning of the new fiscal year.

**Status 2**

***Substantially Implemented.*** On-site reviews of Pro-Card purchases are performed by Buyers in the Procurement Division. However, departments and their respective cardholders are reviewed in alphabetical order making selection for review predictable. Further, expectations for frequency of on-site reviews have not been established.

A less predictable method for selecting cardholders to review and spreading on-site reviews more evenly throughout the year would enhance the effectiveness of on-site review procedures.

***Management Response (2)***

Concur. Beginning July 2012, the Purchasing Card Coordinator will change the predictable order of the audits assigned to Procurement Division Buyers. An existing database will allow the Purchasing Card Coordinator to track audits and will ensure all cardholders and supervisors are audited. The process will eventually be adjusted to a random process, but will still include targeted audits.

An internal policy is being written to provide a deadline to Procurement Division Buyers to perform audits by the 15<sup>th</sup> of the following month the audit was assigned. This will allow Buyers to reschedule audits when cancelled by unforeseen circumstances, and will ensure that audits are completed timely.

**Status 3**

***Partially Addressed.*** Revised Pro-Card policies issued in August 2010 require annual confirmation of all cardholder credit limits with respective department directors. Cardholder credit limits were last confirmed in September 2009.

***Management Response (3)***

Concur. In January of each calendar year, the Purchasing Card Coordinator will send a report to each department director which provides the average monthly spend, the credit limit and other security information for each cardholder. This information will allow department directors to make informed decisions on credit limits and security levels. Procurement will also make recommendations to department directors if concerns are identified prior to sending the report.

**Status 4**

***Implemented.*** Pro-Card policies and forms posted on the City's intranet site and included in Pro-Card training materials are current.



***Management Response (4)***

Concur. This recommendation has been implemented.

**Status 5**

***Partially Implemented.*** Efforts to enforce mandatory Pro-Card usage are limited. The Procurement Division reviews purchase orders less than \$2,500 and forwards names of non-participating vendors to the Pro-Card bank for use in recruiting the vendors for Pro-Card program participation. However, departments with large volumes of purchase orders less than the mandatory usage threshold are not contacted to resolve issues preventing Pro-Card usage. Additionally, data for the Purchasing program measure “percentage of eligible purchasing card purchases made with the purchasing card” is not gathered and used to assess performance in this area.

***Management Response (5)***

Concur. An internal policy will be written and training will be provided to ensure Buyers are requiring departments to obtain Purchasing Agent approval each fiscal year for purchase orders less than \$2,500 where utilizing the purchasing card is an option. The Procurement Division will continue providing to the bank the names of vendors who do not accept the purchasing card. The measure for “percentage of eligible purchasing card purchases made with the purchasing card” will be implemented in July 2012. A consistent method of reporting the data has been identified and the query from the PeopleSoft financial system is currently being written to provide the data for this measure.