

AUDIT TEAM
Matt Weller, CPA, City Auditor
Lori Rice, MBA, CIA, Assistant City Auditor

PURCHASING CARD PROGRAM

SEPTEMBER 24, 2024

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 Peck</i>	<i>Audit Committee, Ward 3</i>
<i>Todd Stone</i>	<i>Audit Committee, Ward 4</i>
<i>Matt Hinkle</i>	<i>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>



September 24, 2024

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 6 months ended May 25, 2023. Our audit also included follow-up on the status of recommendations included in our previous Purchasing Card Program audit report and Lake Hefner Golf Course Restaurant Investigation Report, both dated May 3, 2022. Based on the results of our audit, we believe that:

- Established controls over purchasing card purchases by selected cardholders during the 6 months ended May 25, 2023, are adequate and operating effectively.
- Most recommendations included in our previous purchasing card program audit report had been addressed as of May 25, 2023, while a few require some additional work.
- Recommendations for improving controls over deleted or voided sales and open customer tabs at the Lake Hefner Golf Course Restaurant had not been addressed as of October 17, 2023. See Status 2 and 4, and Status 3, respectively, on page 5.

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.

Matt Weller
Matt Weller
City Auditor

Lori Rice
Lori Rice
Assistant City Auditor

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 six months ended May 25, 2023.
- Evaluate the status, as of May 25, 2023, of recommendations and related management responses included in our previous purchasing card program audit report dated May 3, 2022.
- Evaluate the status, as of October 17, 2023, of recommendations and related management responses included in our previous Lake Hefner Golf Course Restaurant Investigation report dated May 3, 2022.

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 \$26.2 million for fiscal year 2023. The Finance Department's Procurement Division manages the purchasing card program.

During the previous purchasing card program audit, fraudulent purchasing card purchases by the Lake Hefner Golf Course Restaurant Manager were identified prompting an assessment of other job-related opportunities the Restaurant Manager might have had to commit fraudulent acts. Significant weaknesses in restaurant cash register operations and controls ensuring the completeness and accuracy of restaurant cash receipts were found, and five recommendations were made to improve controls.

Procedures performed during our audit included examination of documentation supporting purchases and physical inspection of selected items purchased by selected cardholders; staff interviews; and review of purchasing card program policies and reports and Lake Hefner Golf Course Restaurant policies and cash register system 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 a *management 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.

City purchasing cards were used by 143 cardholders for 15,512 purchases totaling approximately \$14 million during the six months ended May 25, 2023. We reviewed 412 purchases by 42 cardholders in 16 departments and/or trusts totaling approximately \$1.3 million. No material noncompliance with program policies or purchases without a valid business purpose were identified during our audit.

Comment 1

Department director approvals are not consistently required for temporary increases to monthly cardholder credit limits when those credit limits already exceed \$50,000. Seven of eight tested temporary increases to monthly credit limits already exceeding \$50,000 were approved by supervisors but were not approved by department directors. City purchasing policies allow for supervisory approval of temporary monthly cardholder credit limits of less than \$50,000 but require department director approval for increases to \$50,000 or more to account for increased risks associated with higher levels of delegated purchasing authority¹.

The Finance Department does not believe additional department director approval is necessary for temporary monthly cardholder credit limit incremental increases after monthly cardholder credit limits of \$50,000 or more are approved. Delegated purchasing authority could exceed reasonably acceptable risk limits without established and applied criteria for determining when department directors should approve temporary monthly credit limit increases. Additionally, inconsistency between written policies and actual approvals required creates confusion.

Recommendation 1

The Finance Department should establish and apply a dollar threshold for requiring department director approvals of temporary monthly credit limit incremental increases after cardholder monthly credit limits of \$50,000 or more are approved and revise related purchasing policies accordingly.

¹ City purchasing policy sections 14.2 and 14.3 both specifically require department director approval of temporary increases to monthly credit limits to \$50,000 or more, while section 14.2 specifically provides for Assistant City Manager approval in the absence of the department director rather than a designee of the department director.

Finance Department Response 1

Agree. By January 1, 2025, the Procurement Services Division will revise purchasing card policies and procedures to establish clearer instructions when requiring director approvals of temporary monthly credit limit incremental increases after cardholder monthly limit of \$50,000.

STATUS OF RECOMMENDATIONS FROM PREVIOUS PURCHASING CARD AUDIT REPORTS

Recommendations included in our previous purchasing card audit reports have been addressed, except recommendations for:

- **Risk Management to ensure proof of receipt is obtained and retained for all items and services purchased for other departments, and**
- **Procurement to ensure all purchasing card transaction approvers have received required training.**

Status 1

Implemented. Documentation supporting each cardholder purchase is retained and reviewed by the Lake Hefner Golf Course Director.

Parks & Recreation Department Response – Status 1

Agree. This process has been implemented.

Status 2

Implemented. City purchasing policies were revised to:

- Require cash rewards earned when completing City purchases using membership cards (i.e., Sam’s Club) be used only for City purchases,
- Prohibit cardholder personal use of City-purchased, tax-exempt Sam’s Club memberships,
- Limit City-purchased memberships to basic Sam’s Club memberships, unless otherwise approved in writing by a department director, and
- Require that membership accounts be accessible to management and subject to review.

Finance Department Response - Status 2

Agree with this Status.

Status 3

Partially Implemented. Evidence that purchased goods were received or purchased services were completed at other City locations (e.g., emails, signed invoices, etc.) was not available for

2 of 7 such Risk Management purchasing card transactions tested during our audit. Payments could be made for goods not received or services not completed if proof of receipt or service completion is not confirmed.

The Risk Management Division should obtain and retain the proof of receipt or completion for all purchasing card transactions.

Finance Department Response - Status 3

Agree. Effective immediately, the Risk Management Division will ensure proof of all purchases delivered to other City locations are properly documented by the Division's cardholder and reconciled with the monthly purchasing card documentation.

Status 4

Implemented. Procurement Division cardholder audit procedures now require confirmation that purchasing card transaction approvers are reviewing documentation supporting all purchases prior to electronically approving transactions.

Finance Department Response - Status 4

Agree with this Status.

Status 5

Partially Addressed. The Procurement Division revised their training records to allow for easier identification of purchasing card transaction approvers not having completed approver training. However, those records were found to be incomplete and efforts to ensure all approvers have completed the training were not initiated until after our follow-up date. Approver training and accurate, complete records of that training are necessary to ensure purchasing card transaction approvers are aware of their responsibility to review documentation supporting transactions to reduce the risk of fraudulent purchases.

The Finance Department should confirm the completeness of purchasing card approver training records and ensure all included approvers have completed purchasing card approver training.

Finance Department Response – Status 5

Agree. The Purchasing Card Administrator will review completeness of all required purchasing card approver training, and Authorized Signature lists prior to granting access to apply approvals in the financial system. The Purchasing Card Administrator has reviewed and verified that all approvers are current on training, and has developed a better tracking mechanism to review going forward.

Status 6

Substantially Addressed. The Park's Trust Specialist performs quarterly reviews of purchasing card transactions for selected golf course cardholders but does not document the results of those reviews. The results of these reviews should be documented so that corrective actions recommended, if any, are supported.

Parks & Recreation Department Response - Status 6

Agree. The Trust Specialist performs quarterly spot check reviews of purchasing card transactions and will begin documenting these reviews so that corrective actions can take place if needed.

STATUS OF RECOMMENDATIONS FROM LAKE HEFNER GOLF COURSE INVESTIGATION REPORT

Recommendations included in our previous investigation report have been addressed, except for recommendations to ensure:

- **The reasons for all deleted and voided sales are adequately documented and approved, and**
- **All open customer tabs are collected and closed each day, or procedures are developed and implemented to ensure those tabs are billed and collected.**

Status 1

Addressed. Lake Hefner Restaurant point-of-sale cash register system (POS system) users sign on to the POS system using an individually assigned personal identification number (PIN), identifying them as the creator of their respective transactions.

Parks & Recreation Department Response – Status 1

Agree. This has been addressed and implemented.

Status 2 and 4

Partially Implemented. Though the Golf Director receives daily POS system reports of deleted and voided sales, entry of a manager PIN in the POS system to delete or void sales does not appear to occur consistently and void tickets explaining the reasons for deletions and voids are not consistently completed, approved, and submitted with daily cash drawer counts. Of 61 sales deleted or voided from May 1, 2023, through October 17, 2023, over half were created and deleted by the same person seemingly without entry of a manager PIN in the POS system. Additionally, void tickets were not completed for 3 of 13 deleted and voided sales tested.

Employee theft of cash from the cash register could go undetected if void tickets are not consistently completed and reviewed/approved for validity before entry in the POS system.

Void tickets should be completed for all deleted and voided sales, reviewed and approved for validity by a supervisor before entry in the POS system, and submitted with daily cash drawer counts.

Parks & Recreation Department Response – Status 2 and 4

Agree with recommendation. Restaurant Manager and Golf Director established a written policy to address voided ticket process. Effective immediately, tickets are not to be deleted, only voided with attached documentation. Each voided ticket must have an accompanying void slip with the required information. Void slips will be reconciled daily by Business Manager and Golf Director by comparing daily business with daily emailed reports from the POS.

Status 3

Not Implemented. Open customer tabs are not consistently assessed for legitimacy and either collected and closed or deleted in the POS system daily. From May 1, 2023, through October 17, 2023, 8 known legitimate tabs totaling approximately \$3,500 and 27 other tabs totaling approximately \$5,300 were deleted an average of 131 days after the transaction date.

Additionally, procedures have not been developed for billing and collecting open customer tabs not collected and closed in the POS system on the transaction date. Theft of payments received on open customer tabs could go undetected or open customer tabs may become uncollectable if not either collected on the transaction date or billed and collected soon thereafter.

Procedures should be developed to ensure that open customer tabs are assessed for legitimacy and either collected and closed or deleted in the POS system daily. If daily collection of open customer tabs is not practical, procedures for timely billing of open tabs, closing open tabs in the POS system upon collection of billed amounts, assessing open tabs for collectability, and deleting open tabs deemed uncollectable in the POS system should be developed.

Parks & Recreation Department Response – Status 3

Agree with recommendation. Restaurant Manager and Golf Director established a written policy to address sales tabs. Effective immediately, sales tabs are only to be used for golf tournaments and large catering events. The policy outlines who can open tabs, when they are to be used, and how they are closed. Sales tabs will be reconciled daily by Business Manager and Golf Director by comparing daily business with daily emailed reports from the POS.

Status 5

Addressed. Discontinuing the acceptance of cash was considered but not deemed feasible for the golf courses at this time.

Parks & Recreation Department Response – Status 5

Agree. It is not feasible for the Golf System to discontinue the acceptance of cash at this time.

ATTACHMENT A
MANAGEMENT RESPONSES




MEMORANDUM

The City of
OKLAHOMA CITY



TO: Matt Weller, City Auditor

THROUGH: Craig Freeman, City Manager

FROM: Brent Bryant, Chief Financial Officer  (on behalf of BB)

DATE: September 20, 2024

SUBJECT: AUDIT 23-06 Finance Department Purchasing Card Program

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

1. *"Agree. By January 1, 2025, the Procurement Services Division will revise purchasing card policies and procedures to establish clearer instructions when requiring director approvals of temporary monthly credit limit incremental increases after cardholder monthly limit of \$50,000"*
2. *"Agree with this Status".*
3. *"Agree. Effective immediately, the Risk Management Division will ensure proof of all purchases delivered to other City locations are properly documented by the Division's cardholder and reconciled with the monthly purchasing card documentation.*
4. *"Agree with this Status".*
5. *"Agree. The Purchasing Card Administrator will review completeness of all required purchasing card approver training, and Authorized signature lists prior to granting access to apply approvals in the financial system. The Purchasing Card Administrator has reviewed and verified that all approvers are current on training, and has developed a better tracking mechanism to review going forward.*



**LAKE HEFNER
GOLF CLUB**

**4491 S. Lake Hefner Dr.
Oklahoma City, OK 73116**



DATE: September 12, 2024
TO: Matt Weller, City Auditor
THROUGH: Craig Freeman, City Manager
Melinda McMillan-Miller, Director, Oklahoma City Parks and Rec
Sean Simpson, Trust Specialist, Oklahoma City Parks and Rec
FROM: Brad Sliauter
Director of Golf, Lake Hefner Golf Club
SUBJECT: Purchasing Card Program Audit – July 22, 2024

SS [handwritten initials] [handwritten initials]
BS [handwritten initials]

Status of Recommendations from Previous Purchasing Card Audit Reports

- 1) Status 1
Implemented. Documentation supporting each cardholder purchase is retained and reviewed by the Lake Hefner Golf Course Director.
REPLY: Agree. This process has been implemented.

- 2) Status 6
Substantially addressed. The Park's Trust Specialist performs quarterly reviews of purchasing card transactions for selected golf course cardholders but does not document the results of those reviews. The results of these reviews should be documented so that corrective actions recommended, if any, are supported.
REPLY: Agree. The Trust Specialist performs quarterly spot check reviews of purchasing card transactions and will begin documenting these reviews so that corrective actions can take place if needed.

Status of Recommendations from Lake Hefner Golf Course Investigation Report

- 3) Status 1
Addressed. Lake Hefner Restaurant point-of-sale cash register system (POS system) users sign on to the POS system using an individually assigned personal identification number (PIN), identifying them as the creator of their respective transactions.
REPLY: Agree. This has been addressed and implemented.

4) Status 2 and 4

Partially implemented. Though the Golf Director receives daily POS system reports of deleted and voided sales, entry of a manager PIN in the POS system to delete or void sales does not appear to occur consistently and void tickets explaining the reasons for deletions and voids are not consistently completed, approved, and submitted with daily cash drawer counts. Of 61 sales deleted or voided from May 1, 2023, through October 17, 2023, over half were created and deleted by the same person seemingly without entry of a manager PIN in the POS system. Additionally, void tickets were not completed for 3 of 13 deleted and voided sales tested. Employee theft of cash from the cash register could go undetected if void tickets are not consistently completed and reviewed/approved for validity before entry in the POS system. Void tickets should be completed for all deleted and voided sales, reviewed and approved for validity by a supervisor before entry in the POS system, and submitted with daily cash drawer counts.

REPLY: Agree with recommendation. Restaurant Manager and Golf Director established a written policy to address voided ticket process. Effective immediately, tickets are not to be deleted, only voided with attached documentation. Each voided ticket must have an accompanying void slip with required information. Void slips will be reconciled daily by Business Manager and Golf Director by comparing daily business with daily emailed reports from the POS.

5) Status 3

Not Implemented. Open customer tabs are not consistently assessed for legitimacy and either collected and closed or deleted in the POS system daily. From May 1, 2023, through October 17, 2023, 8 known legitimate tabs totaling approximately \$3,500 and 27 other tabs totaling approximately \$5,300 were deleted an average of 131 days after the transaction date. Additionally, procedures have not been developed for billing and collecting open customer tabs not collected and closed in the POS system on the transaction date. Theft of payments received on open customer tabs could go undetected or open customer tabs may become uncollectable if not either collected on the transaction date or billed and collected soon thereafter. Procedures should be developed to ensure that open customer tabs are assessed for legitimacy and either collected and closed or deleted in the POS system daily. If daily collection of open customer tabs is not practical, procedures for timely billing of open tabs, closing open tabs in the POS system upon collection of billed amounts, assessing open tabs for collectability, and deleting open tabs deemed uncollectable in the POS system should be developed.

REPLY: Agree with recommendation. Restaurant Manager and Golf Director established a written policy to address sales tabs. Effective immediately, sales tabs are only to be used for golf tournaments and large catering events. The policy outlines who can open tabs, when they are to be used, and how they are closed. Sales tabs will be reconciled daily by Business Manager and Golf Director by comparing daily business with daily emailed reports from the POS.

6) Status 5

Addressed. Discontinuing the acceptance of cash was considered but not deemed feasible for the golf courses at this time.

REPLY: Agree. It is not feasible for the Golf System to discontinue the acceptance of cash at this time.

If you have questions or need additional information, please do not hesitate to contact me on my cell at 706-372-7276.

cc: Aubrey McDermid, Assistant City Manager
Mick Cornett, Chairman, Oklahoma City Golf Commission