AUDIT TEAM
Jim Williamson, CPA, CIA, City Auditor
Matt Weller, CPA, Assistant City Auditor
Pamela Martindale, MBA, Senior Auditor

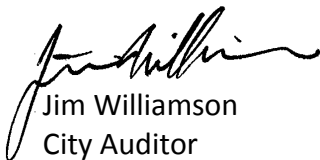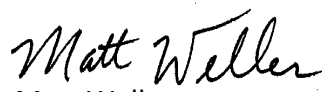# PURCHASING CARD PROGRAM AUDIT

AUGUST 30, 2016

August 30, 2016

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 5 months ended February 29, 2016. Based on the results of our audit, we believe that:

- Established controls over purchasing card purchases by selected cardholders were adequate and operating effectively.

- Recommendations included in our previous report dated September 10, 2013 had been substantially addressed as of February 29, 2016.

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

Pamela Martindale
Senior 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.

- Evaluate the status, as of February 29, 2016, of recommendations and related management responses include in our previous purchasing card program audit report dated September 10, 2013.

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. An increase to the threshold for purchasing card use, when possible, from $2,500 to $5,000 enacted on January 12, 2016 is expected to further reduce administrative costs. The 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 during the five months ended February 29, 2016; comparison of calendar year 2015 invoices paid with the purchasing card and by check for duplicate payments; reviewing electronic purchasing card purchase approvals in PeopleSoft for self-approved transactions for the 14 months ending February 29, 2016; 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.

The City purchasing card was used by 145 cardholders for 13,532 purchases totaling approximately $6.6 million during the five months ended February 29, 2016, of which we reviewed 3,370 purchases by 18 cardholders in 8 departments totaling approximately $1.4 million. No material noncompliance with program policies or purchases without valid business purposes were identified during our audit.

Comment (1)

City departments are responsible for identifying invoices submitted by vendors for a second payment after payments have been made using the purchasing card. Such invoices are to be returned to the vendor with documentation of the payment made using the purchasing card. However, purchasing card payment details are not periodically compared by the Procurement Division to Accounts Payable payment details to identify duplicate payments.

Invoices were submitted to Accounts Payable and also paid with checks for four purchasing card purchases totaling approximately $711 during calendar year 2015 without detection. The department making the purchasing card purchases differed from the department from which two of the four invoices were paid. Credit memos were subsequently received for the duplicate payments identified.

Without periodic comparisons of purchasing card payment details to Accounts Payable payment details, duplicate payments could occur without detection.

Recommendation (1)

The Procurement Division should periodically compare invoice numbers included in purchasing card payment details to invoice numbers included in Accounts Payable payment details from PeopleSoft. Credit memos should be requested from vendors if duplicate payments are identified.

Finance Response (1)

We concur with the recommendation to periodically compare invoice numbers included in Purchasing Card payment details to invoice numbers included in Accounts Payable payment details from PeopleSoft. An Access database has been created and will be used for this comparison two times each year. If duplicate payments are found, credit memos will be requested from vendors. The first comparison will be conducted prior to October 1, 2016. In future years, the January through June comparison will be completed by September 1st and the July through December comparison will be completed by March 1st.

Comment (2)

Three cardholders appeared to have electronically self-approved 21 purchasing card purchases totaling approximately $9,518 in PeopleSoft during the 14 months ending February 29, 2016. The identified purchases were subsequently reviewed and approved by other authorized department personnel.

Purchasing card policies require application of electronic PeopleSoft approvals by department personnel authorized to perform such duties. Fraudulent purchasing card purchases could occur without detection in the absence of electronic PeopleSoft approvals by authorized personnel.

Recommendation (2)

The Procurement Division should determine if a system control is available in PeopleSoft to prevent cardholders from applying electronic approvals to their own purchases. If such a system control is not available, all such purchases should be identified monthly and turned over to departments for appropriate review and approval by authorized personnel.

Finance Response (2)

We concur with the recommendation to determine if a system control is available in PeopleSoft to prevent cardholders from applying electronic approvals to their own purchases. The Purchasing Card Coordinator worked with the Information Technology (IT) Department to recreate the issue of a cardholder having the security to approve their own transactions and could not recreate the issue. IT believes the problem may have been fixed in March 2016 when patches were applied to the system. All transactions with this issue occurred prior to the patches being applied. We believe a system error made it appear cardholders approved their own transactions a few times during the audit period. To ensure there are no further issues, the Purchasing Card Coordinator will verify that all transactions were approved by an authorized approver at the end of each Purchasing Card cycle and save documentation for auditing purposes. This process was implemented in April 2016. Any transactions that do not have authorized approvals will be sent to the appropriate department for review and approval by authorized personnel. If transactions are found where employees are approving their own purchases, Procurement will open a new ticket with IT to help resolve the system issue.

Comment (3)

Supporting documentation was not reviewed for 259 purchases totaling $79,595 during the audit period by an Information Technology Department cardholder. Supporting documentation is maintained at a different location and is not readily accessible to the authorized approver.

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 review.

Recommendation (3)

Supporting documentation for all Information Technology Department purchasing card purchases should be reviewed monthly. Supporting documentation for purchasing card purchases by the cardholder since such reviews were terminated should be reviewed to confirm purchase validity and compliance with City Purchasing policies.

Information Technology Response (3)

Agree – IT has the following related project #71661 – Audit Report #1604 – Rec 3: Supporting documentation for all IT Department Pro-Card purchases should be reviewed monthly (Admin Program); this project is in "in-progress" status with an estimated completion date of October 1, 2016.

Comment (4)

Supporting documentation was not reviewed for all of the 307 purchasing card purchases totaling $41,289 during the audit period by three Trosper Park Golf Course cardholders. The Golf Pro only reviews supporting documentation when more information is desired for particular purchasing card purchases. Ten Trosper Pro-Card purchases during the audit period included uncredited sales tax totaling approximately $27.

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 complete supporting documentation review.

Recommendation (4)

Supporting documentation for all Trosper Park Golf Course purchasing card purchases should be reviewed monthly.

Trosper Park Golf Course Response (4)

Trosper Park Golf Course agrees with recommendation 4. Beginning August 1, 2016, supporting documentation for all Pro Card purchases are being reviewed monthly.

Before the audit recommendations were suggested, all purchases were being reviewed on a monthly summary. Trosper was confirming that all purchases were from registered vendors on

City contract. Trosper will continue to do a monthly reconciliation of each department head's Pro Card.

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

Comment (5)

Supporting documentation for 15 purchasing card purchases totaling $2,195 by one of five cardholders at Lincoln Park Golf Course was not reviewed during the audit period. The Golf Pro relies upon familiarity with the purchases when applying electronic approvals in PeopleSoft rather than review of documentation supporting the purchases.

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 review.

Recommendation (5)

Supporting documentation for all Lincoln Park Golf Course purchasing card purchases should be reviewed monthly.

Lincoln Park Golf Course Response (5)

Lincoln Park Golf Course agrees with the recommendation 5. Procedures are in place for the Golf Professional to review all documentation of Pro-Card purchases by Lincoln Park Golf Course staff.

STATUS OF RECOMMENDATIONS FROM PREVIOUS REPORT

***The recommendation included in our previous report has been substantially addressed.***

Status (1)

Substantially Addressed. Reviews of documentation supporting Parks Department purchasing card purchases are now conducted. However, the supporting documentation reviews could be further enhanced by:

- Requiring review of documentation supporting all purchasing card purchases. Documentation supporting purchasing card purchases by 3 of the 21 cardholders representing 11% of total Parks Department purchasing card purchases during the audit period had not been completely reviewed.

- Requiring review of documentation supporting purchasing card purchases before the purchases are electronically approved in PeopleSoft.

Parks Department Response (1)

Agree with recommendation. The department will require review of documentation supporting purchasing card transactions before the purchases are electronically approved in PeopleSoft. Specific positions will be identified in each division that will conduct a review of the physical documentation of cardholders. The reviewer will also be responsible for applying the approval of the transactions in PeopleSoft. Approval of transactions and review of documentation for cardholder Janna Beth Tipton, Management Specialist, will be applied by the department's Business Manager.
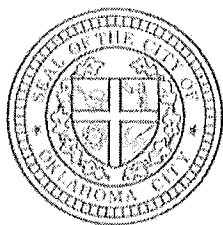
MEMORANDUM

The City of
OKLAHOMA CITY

TO: Jim Williamson, City Auditor

THROUGH: James D. Couch, City Manager

FROM: Craig Freeman, Finance Director

DATE: August 23, 2016

SUBJECT: Audit No. 16-04 – Finance Department – Purchasing Card Program

Recommendation (1)
The Procurement Services Division should periodically compare invoice numbers included in Purchasing Card payment details to invoice numbers included in Accounts Payable payment details from PeopleSoft. Credit memos should be requested from vendors if duplicate payments are identified.

Finance Department Response (1)
We concur with the recommendation to periodically compare invoice numbers included in Purchasing Card payment details to invoice numbers included in Accounts Payable payment details from PeopleSoft. An Access database has been created and will be used for this comparison two times each year. If duplicate payments are found, credit memos will be requested from vendors. The first comparison will be conducted prior to October 1, 2016. In future years, the January through June comparison will be completed by September 1st and the July through December comparison will be completed by March 1st.
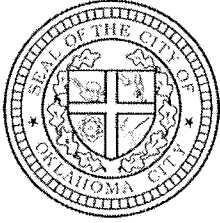
Recommendation (2)
The Procurement Services Division should determine if a system control is available in PeopleSoft to prevent cardholders from applying electronic approvals to their own purchases. If such a system control is not available, all such purchases should be identified monthly and turned over to departments for appropriate review and approval by authorized personnel.

Finance Department Response (2)
We concur with the recommendation to determine if a system control is available in PeopleSoft to prevent cardholders from applying electronic approvals to their own

purchases. The Purchasing Card Coordinator worked with the Information Technology (IT) Department to recreate the issue of a cardholder having the security to approve their own transactions and could not recreate the issue. IT believes the problem may have been fixed in March 2016 when patches were applied to the system. All transactions with this issue occurred prior to the patches being applied. We believe a system error made it appear cardholders approved their own transactions a few times during the audit period. To ensure there are no further issues, the Purchasing Card Coordinator will verify that all transactions were approved by an authorized approver at the end of each Purchasing Card cycle and save documentation for auditing purposes. This process was implemented in April 2016. Any transactions that do not have authorized approvals will be sent to the appropriate department for review and approval by authorized personnel. If transactions are found where employees are approving their own purchases, Procurement will open a new ticket with IT to help resolve the system issue.

MEMORANDUM

The City of
OKLAHOMA CITY

TO: Jim Williamson, City Auditor

THROUGH: James D. Couch, City Manager

FROM: Schad Meldrum, IT Director

DATE: July 28, 2016

SUBJECT: Response to Auditors Report #16-04 "Purchasing Card (Pro-card) Program"

IT's Response to Auditors Report #16-04 "Purchasing Card (Pro-card) Program".

Recommendation 3

Agree – I.T. has the following related project #71661 - *Audit Report #1604- Rec 3: Supporting documentation for all I.T. Department Pro-Card purchases should be reviewed monthly* (Admin Program); this project is in "in-progress" status with an estimated completion date of October 1, 2016.
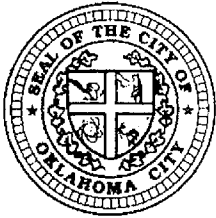
MEMORANDUM

The City of
OKLAHOMA CITY

TO: Jim Williamson, City Auditor

THROUGH: Jim Couch, City Manager

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

DATE: August 8, 2016

SUBJECT: Audit of Golf Course Purchasing Card (Pro Card) Program

Following are the golf course responses to the comment from the Purchasing Card (Pro-Card) Program review.

4.   Trosper Park Golf Course agrees with recommendation 4. Beginning August 1, 2016, supporting documentation for all Pro Card purchases are being reviewed monthly.

Before the audit recommendations were suggested, all purchases were being reviewed on a monthly summary. Trosper was confirming that all purchases were from registered vendors on City contract. Trosper will continue to do a monthly reconciliation of each department head's Pro Card.

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

5.   Lincoln Park Golf Course agrees with the recommendation 5. Procedures are in place for the Golf Professional to review all documentation of Pro-Card purchases by Lincoln Park Golf Course staff.

Thank you for your review of the Pro-Card Program.

MEMORANDUM

The City of
OKLAHOMA CITY

TO: Jim Williamson, City Auditor

THROUGH: Jim Couch, City Manager

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

DATE: August 9, 2016

SUBJECT: Audit Response, Purchasing Card Program, Parks and Recreation Department

Following are management's responses to recommendations outlined in the purchasing card audit report for Status (1).

Agree with recommendation. The department will require review of documentation supporting purchasing card transactions before the purchases are electronically approved in PeopleSoft. Specific positions will be identified in each division that will conduct a review of the physical documentation of cardholders. The reviewer will also be responsible for applying the approval of the transaction in PeopleSoft. Approval of transactions and review of documentation for cardholder Janna Beth Tipton, Management Specialist, will be applied by the department's Business Manager.