

MUNICIPAL AUDITING REPORT CITY OF ROANOKE



Purchasing Cards **June 6, 2018**

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Municipal Auditing Department
Chartered 1974

www.roanokeva.gov/auditing

Phone 540.853.5235

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BACKGROUND

The City's Purchasing Card (Pcard) Program was established in 2003 to enable efficient purchasing of small value goods and services. Credit cards provide employees a means to purchase goods as needed, reducing the need for inventories and related costs. It speeds up the purchasing process since a requisition, purchase order, and check are not required for individual transactions.

Purchasing cards are issued in employees' names through Fifth Third Bank under the MasterCard brand. In October 2015, card limits were raised to \$5,000 per day; however, the monthly limit of \$15,000 remained the same. Higher limits can be temporarily granted upon approval by the Purchasing Division.

The Purchasing Division manages the Pcard contract and serves as system administrators for the two (2) cloud-based systems involved in the program:

1. Fifth-Third Direct – Used to open and close accounts, adjust credit limits, and manage other program parameters.
2. SmartData [Fifth-Third Bank] – Used to code purchases to expenditure accounts, to review and approve purchases, and to analyze spending. The system also provides an interface to enable the posting of expenditure data into the City's financial system. Three years of data is retained.

The SmartData system captures a variety of other information related to each transaction that can be viewed online, such as vendor location, time of purchase, type and number of gallons of fuel purchased, sales tax paid, freight paid, and item descriptions. The system also captures Merchant Category Code (MCC) data, which classifies the merchant based on the general type of goods or services it provides. The City is able to limit the acceptance of its credit cards to merchants in approved categories providing greater control over where Pcards can be used.

The Department of Finance manages the monthly interface of credit card activity into the City's financial system and serves as the central repository for all cardholder's monthly credit card statements and original receipts. Department managers must sign each monthly statement for their area and file them with Finance before the 15th of the following month.

In 2014, the City began using virtual Pcards to pay vendors through the Advantage Financial System. This allows for prompt vendor payments, while providing the City the opportunity to retain the associated cash until receipt of the monthly credit card statement. Additionally, these purchase count towards the annual rebate calculation.

<End of Background>

OBJECTIVE 1: PURCHASING CARD STATISTICS

Audit Objective:

Develop high level statistics and trends related to Pcard activity

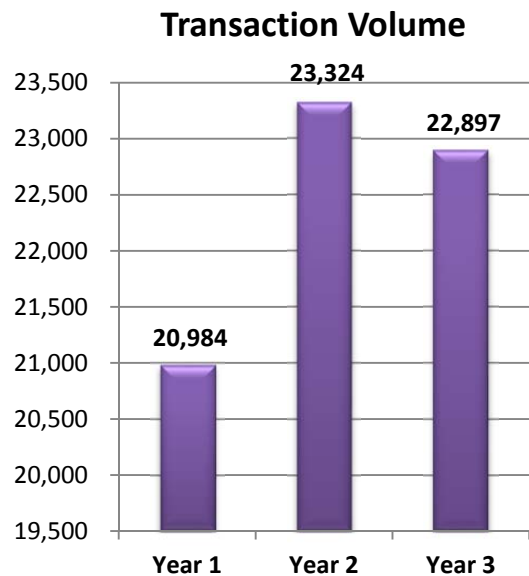
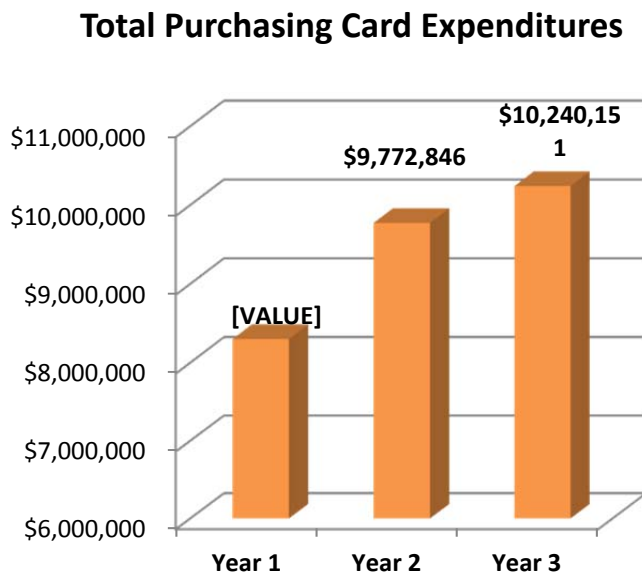
Scope:

Purchasing card transactions, as stored by Fifth Third Bank, for the three-year period of March 10, 2014 through March 9, 2017.

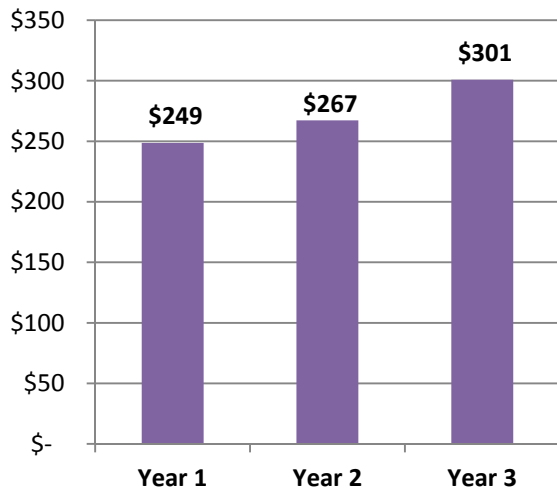
Overview:

The number of city credit cards issued has varied since the program's inception in 2001. At the time of our audit field work, there were 632 active purchasing cards.

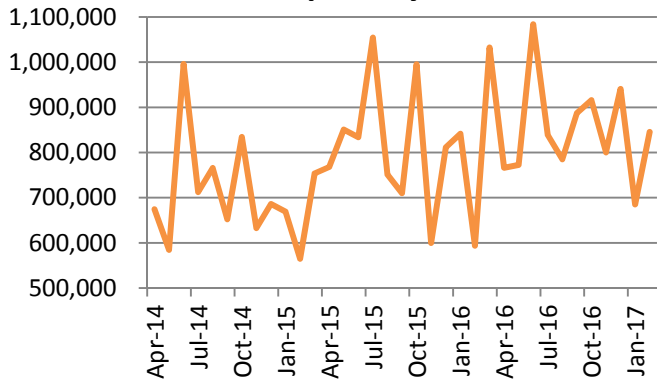
Using our data extraction software (ACL), we analyzed the City's transaction history, as follows:



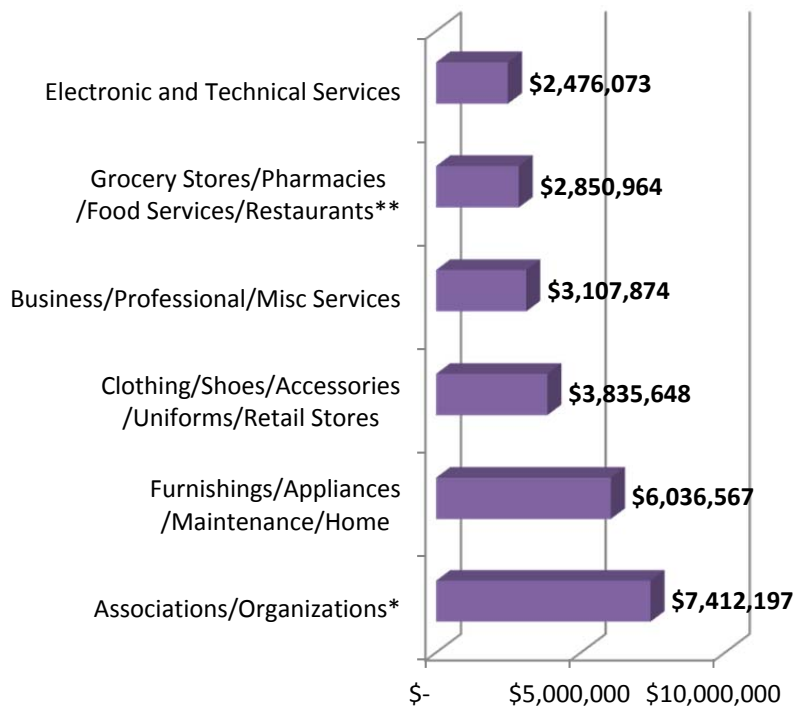
Average Transaction Amount



Total Spent by Month



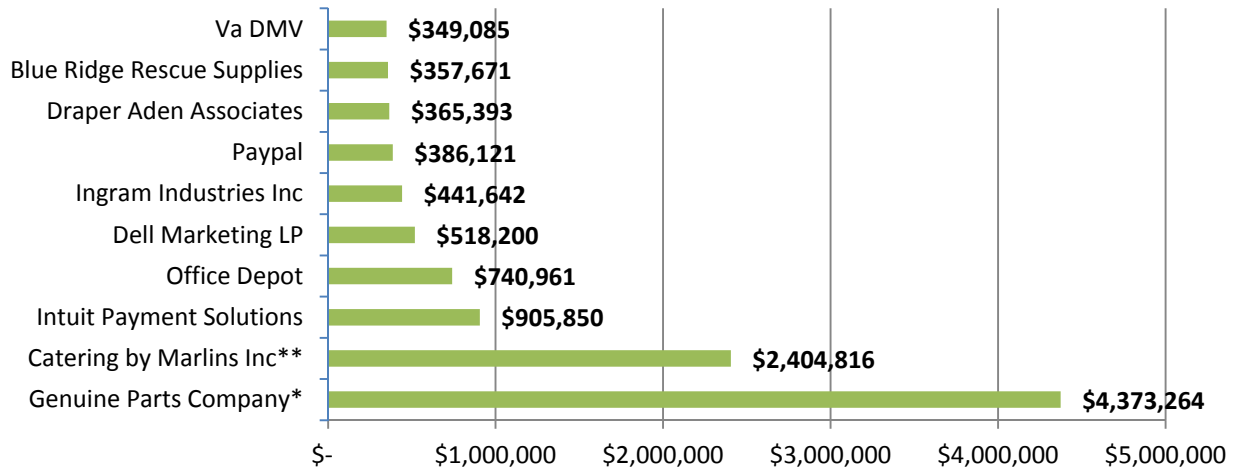
Top 6 Merchant Code Categories 3/10/14 through 3/9/17



*Primarily consists of the City's purchases of automotive parts, repairs and services

**Primarily consists of the food services for jail inmates

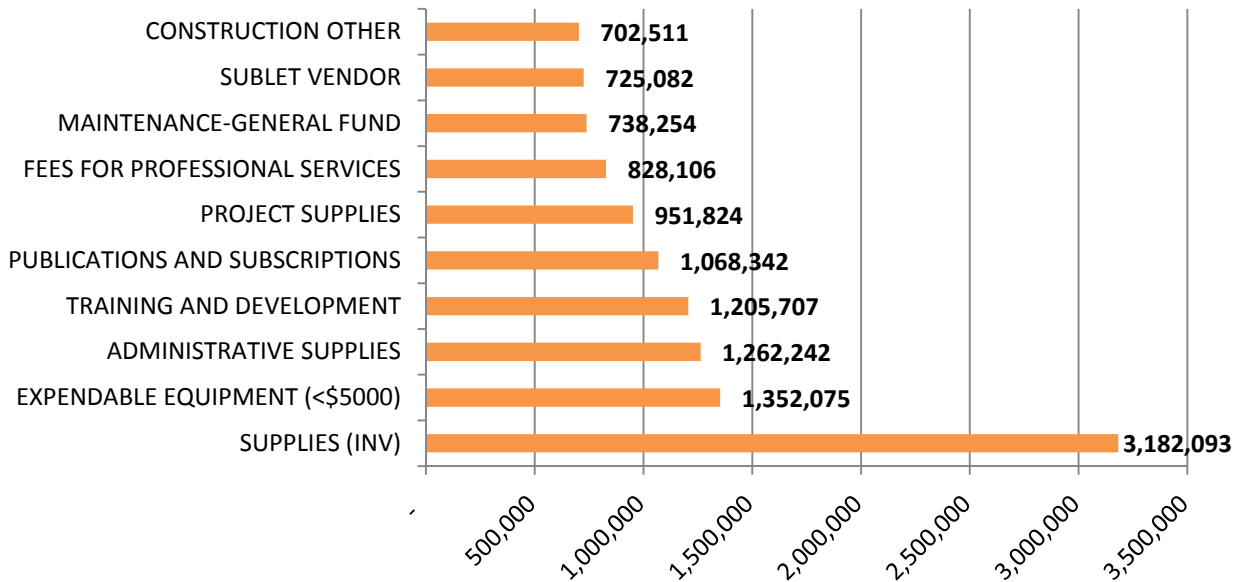
Top 10 Vendors 3/10/14 through 3/9/17

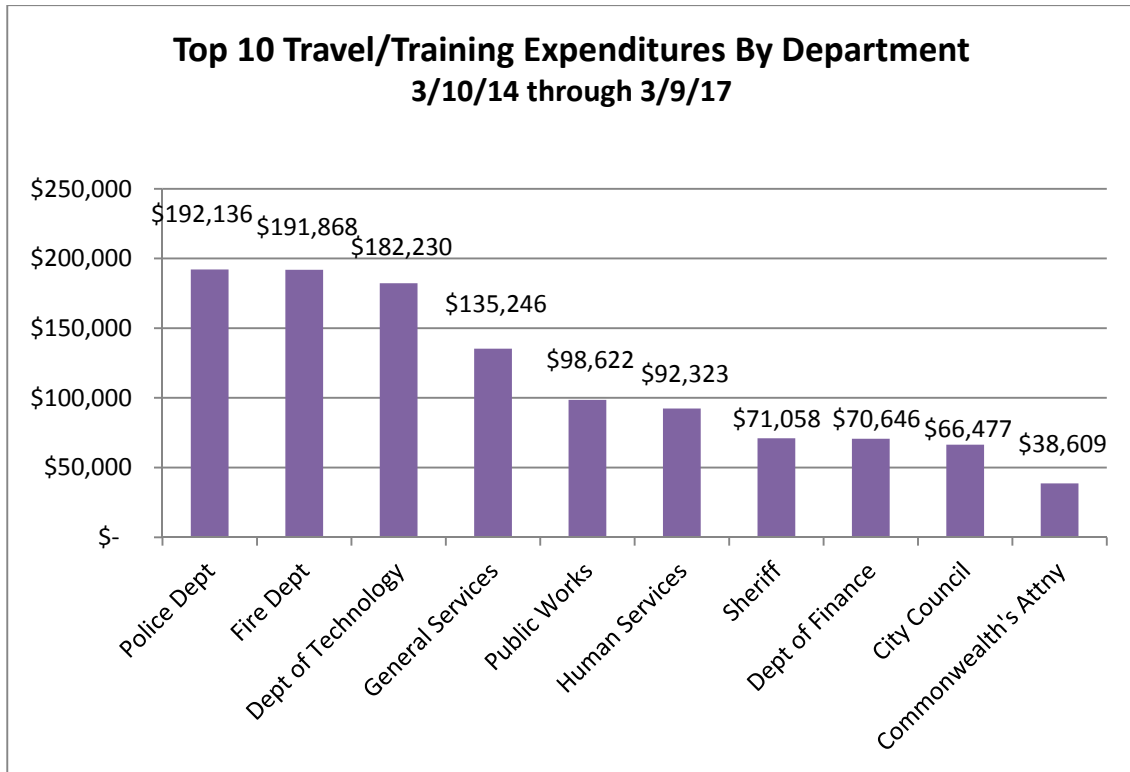


*Parts supplier for the Fleet Division

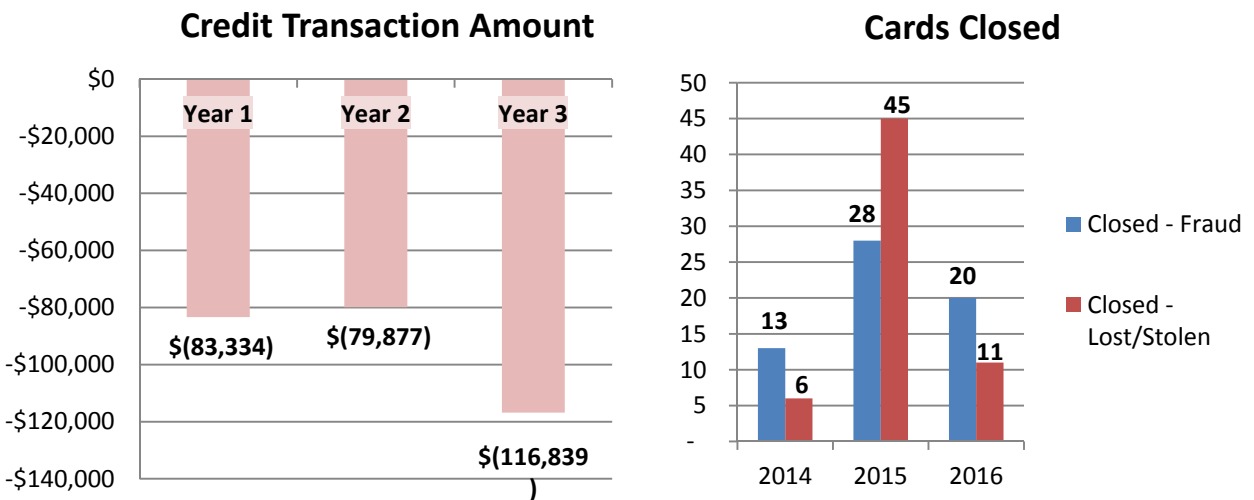
**Also known as CBM Managed Services; Jail food services

Top 10 Line Items 3/10/14 through 3/9/17





Credits to the City's purchasing card accounts arise when items are returned or when fraudulent charges are made with a City card at no fault of the cardholder or the City. Credits were a little more than 1% of overall purchases and appeared to be reasonable. A total of 123 cards were closed as a result of fraud or having been lost or stolen.



<End of Objective 1>

OBJECTIVE 2: TRANSACTION TESTING

Audit Objectives:

Were purchases made within the parameters established by the Purchasing Card Program?

Yes

Scope:

Purchasing card transactions from January 1, 2016 through December 31, 2016.

Overview:

Using transactions downloaded from Fifth Third Bank, we filtered out all purchases under \$25, as well as purchases classified as business meals, local mileage, and training and development expenditures. We also excluded expenditures charged to the City Council unit due to 100% of those transactions being tested in the annual City Council expenditures audit.

We selected a statistically random sample of 95 transactions and tested for compliance with various program requirements. Results were as follows:

Attribute Tested	# Tested	\$ Tested	# Exceptions	\$ Exceptions
Itemized receipt on file	95	\$ 46,674	0	\$ 0
Purchase was approved	95	\$ 46,674	0	\$ 0
Legitimate business purpose	95	\$ 46,674	2	\$ 283
Complied with Technology Policy	95	\$ 46,674	0	\$ 0
No sales tax paid	95	\$ 46,674	3	\$ 308
Posted to correct object code	95	\$ 46,674	5	\$ 374

Two purchases lacked adequate supporting documentation to determine whether or not they were for legitimate business purposes. Extrapolating our sample results to the 14,428 purchases included in our universe, we would expect:

- A detailed receipt was obtained and filed for substantially all purchases
- Purchases were properly approved
- Purchases were for legitimate business purposes
- Technology purchases were routed through the Department of Technology as required by policy
- The amount of sales tax erroneously paid on purchases was immaterial
- A significant number of purchases were posted to incorrect object codes, potentially affecting managements' understanding of how department funds were utilized

Split transactions occur when a cardholder purposefully separates a payment into two or more transactions to circumvent purchasing limits. We reviewed 64 transactions made to the same vendor, on the same day, resulting in a total transaction amount greater than \$5,000 limit. We identified two (2) split-transaction purchases. In both of these situations, it was not the intent of the department to circumvent pre-defined purchasing limits. Each was the result of a workflow issue in the contracting process, creating the need to make multiple vendor payments within a shortened timeframe.

We identified 23 purchases which exceeded the authorized \$5,000 single transaction limit. In all cases, cardholders had obtained temporary spending limit increases equal to or greater than purchase prices.

We identified 62 employees who did not have a single transaction limit set up on Fifth Third Direct. It appears that when the transaction limit was raised from \$2,500 to \$5,000, that there may have been a bank error during the process of updating accounts. Management corrected the credit limits and we did not identify any instances where cardholders were circumventing the procurement process.

Per city policy, purchasing cards may not be used for alcoholic beverages, personal expenses, self-entertainment activities, dry cleaning, movies, fitness clubs, and other types of discretionary or personal expenditures. We downloaded transactional activity from the Fifth Third Bank and searched for a listing of keywords in the description field that would likely indicate unauthorized purchases. This resulted in additional, detailed review of 46 purchases, among which the most common keyword identified was "gift". The majority of items were bought by Social Services employees with case numbers included in the descriptions. None of the purchases appeared to be violations of Pcard policies.

Using the MCC code assigned to purchases from fuel dispensers, we identified 844 fuel purchases. We selected a sample of 30 transactions and, using the data in the Business & Travel Expense Workflow in Lotus Notes, we determined if the individual requested or received mileage reimbursement in addition to buying fuel their purchasing card. We did not identify any individuals who received mileage reimbursement and purchased fuel on the same trip.

<End of Objective 2>

OBJECTIVE 3: ASSET VERIFICATION

Audit Objective:

Are assets purchased with purchasing cards properly accounted for and safeguarded?

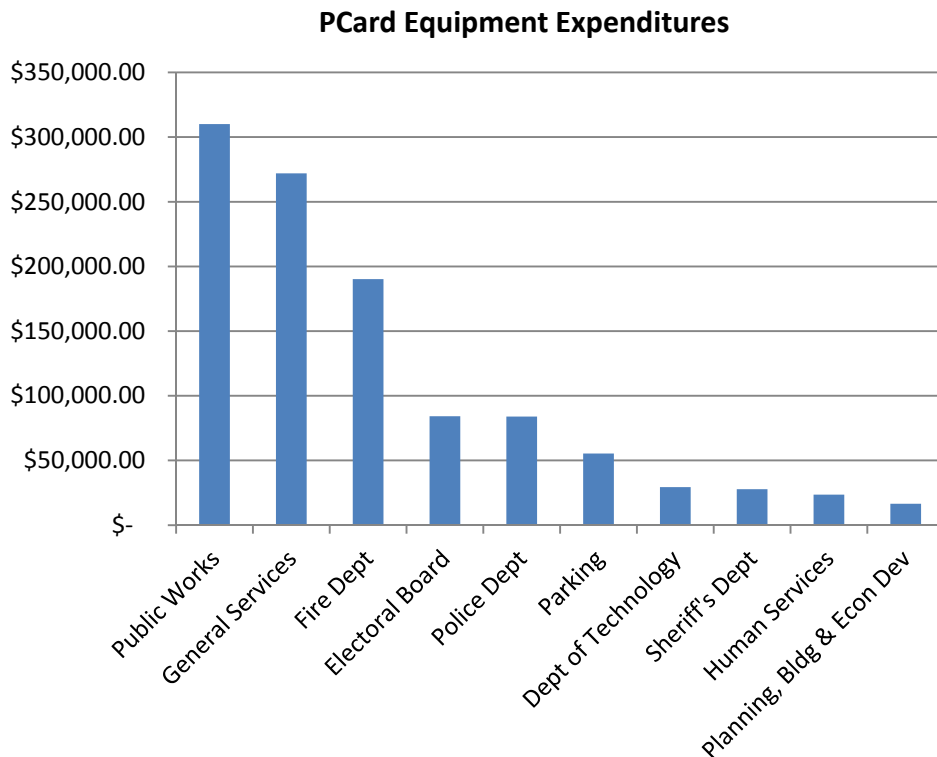
Yes

Scope:

Purchasing card transactions from January 1, 2016 through December 31, 2016.

Overview:

We identified 1,853 purchasing card transactions that were over \$50 and were posted to the general ledger as equipment purchases. These included maintenance, outdoor, vehicular, public safety, and other types of equipment. The following departments had the highest equipment expenditures:



We selected 25 transactions and verified assets were in the City's possession. Twenty-four (24) out of 25 assets tested were available, appropriately secured and appeared to be in good working order. One item had been returned to the vendor.

<End of Objective 3>

OBJECTIVE 4: PURCHASING CARD ACCOUNTS

Audit Objective:

Are purchasing card accounts closed timely when City of Roanoke employees or other authorized cardholders terminate employment?

Yes

Scope:

Purchasing card transactions from January 1, 2016 through December 31, 2016.

Overview:

Fifth Third Bank provided a listing of all purchasing card accounts that were active, opened, or closed during calendar year 2016. We compared this information to an employee listing per the Lawson Payroll and HR System (Lawson), and substantiated that purchasing cards were issued to City employees. In addition, cards were issued to Commonwealth of Virginia employees working in the City of Roanoke court system and Park Roanoke management. These cardholders signed the City's standard cardholder agreement and agreed to comply with the associated policies and procedures.

According to Purchasing Card Policies and Procedures, cardholders must return purchasing cards to departmental liaisons upon terminating employment with the City. We obtained a listing of all active cardholders as of April 2017 and compared it to a listing of all employees who were terminated during calendar year 2016. We identified one employee who left employment in March 2016, but still had an active credit card account. However, there were no purchases made using the account after the employee's termination date.

Using the listing of purchasing card accounts, Lawson, and transactions downloaded from Fifth Third Bank, we searched for potential purchases made by terminated employees after leaving. We concluded that purchasing cards were not used to make purchases after termination.

<End of Objective 4>

OBJECTIVE 5: SYSTEM ACCESS

Audit Objective:

Are Purchasing Card system access roles appropriately assigned to employees given their authority and responsibilities?

Yes – with exceptions

Scope:

Fifth Third Direct administrative roles for the City of Roanoke account as of February 15, 2017

Overview:

Note: For system security purposes, we have refrained from including specific information about administrative system access and associated user roles.

Fifth Third Bank provided a listing of the five (5) Fifth Third Direct administrative roles, as well as employees assigned to each role. We reviewed this information with management from both the Purchasing Division and Department of Finance to determine if assigned access was appropriate. The following exceptions were identified:


- One employee, who terminated employment in October 2015, still had administrative access to the system
- One employee, who had transferred out of the Department of Finance, still had administrative access to the system
- Several employees were identified by management as no longer needing certain assigned administrative roles due to changes in job responsibilities

Identified issues were corrected during the course of the audit. Additionally, Finance and Purchasing worked together to adjust system access to ensure proper segregation of duties.

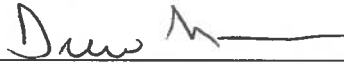
<End of Objective 5>

ACKNOWLEDGEMENTS

We want to thank the employees of the Purchasing Division, the Department of Finance and the various City departments with whom we worked for their cooperation and assistance during the audit.



Dawn Hope Mullins, CPA
Assistant Municipal Auditor



Drew Harmon, CPA, CIA
Municipal Auditor