



## Purchasing Card (P-Card) Audit- #732

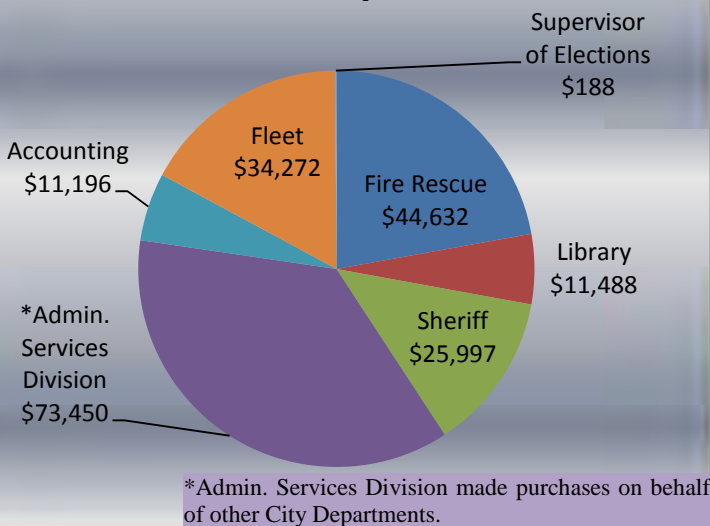
### Executive Summary

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we performed an audit of the Purchasing Card (P-Card) Program. The scope of our audit was calendar year 2011. Total transactions for the year were \$201,223.

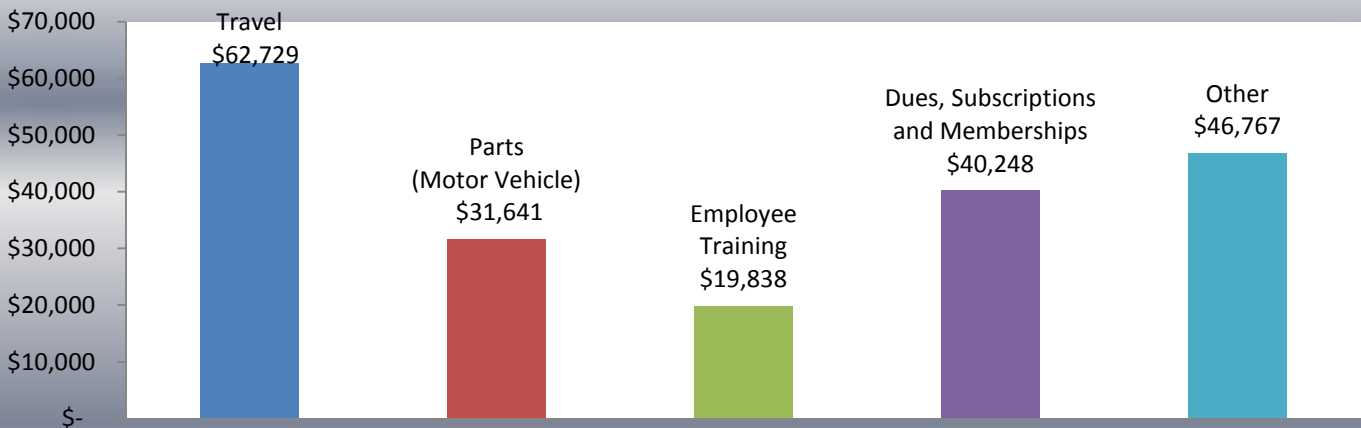
### *Significant Findings*

- P-Card Policies and Procedures (P&Ps) are insufficient to support the P-Card Program.
- There is no Program Auditor for the P-Card Program.
- P-Card holders and managers do not receive formal training for the proper use of P-cards.
- Many assigned cards had not been used frequently enough to support continued activation and several unissued cards were observed in the Treasury safe.
- Documentation for the Issuance of P-Cards was not sufficient for many issued cards.
- There are no assigned Division Coordinators as required by the P&Ps.
- Proper and timely approval did not take place for many transactions.
- Proper documentation was not on file for many transactions.
- Subordinate employees are approving transactions for their superiors.

### 2011 Transactions by Division/Department



### Transaction Types





**Purchasing Card (P-Card) Audit Report**

**September 30, 2012**

**Report #732**

**Released on: May 7, 2013**

**EXECUTIVE SUMMARY**

**AUDIT REPORT #732**

INTRODUCTION ..... - 1 -  
STATEMENT OF OBJECTIVES ..... - 2 -  
STATEMENT OF SCOPE AND METHODOLOGY ..... - 2 -  
REPORT FORMAT..... - 3 -  
SUPPLEMENTAL AUDIT WORK..... - 3 -  
STATEMENT OF AUDITING STANDARDS ..... - 3 -  
AUDITEE RESPONSES ..... - 4 -  
AUDIT CONCLUSIONS ..... - 4 -  
AUDIT OBJECTIVE #1..... - 4 -  
AUDIT OBJECTIVE #2..... - 16 -

**OFFICE OF THE COUNCIL AUDITOR**  
Suite 200, St. James Building



September 30, 2012

Report #732

Honorable Members of the City Council  
City of Jacksonville

**INTRODUCTION**

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we performed an audit of the Purchasing Card (P-Card) Program. The scope of our audit was calendar year 2011.

The P-Card Program began in June 2005 and is administered by the bank the City contracts with for all other banking services. There are no fees charged to the City for the Program. The P-Card Program is governed by policies and procedures created by the City. The City's Program Administrator is charged with creating the policies and procedures and monitoring the Program.

At the time of our audit, there were 64 P-Cards assigned to the Sheriff's Office, Fire Rescue, Fleet Management, the Library, the Administrative Services Division, the Accounting Division and the Supervisor of Elections. The P-Cards assigned to the Administrative Services Division are generally used for purchases on behalf of other City Divisions. P-Cards can be requested by managers through the Program Administrator in the Treasury Division. Each card has a \$10,000 monthly limit and a \$2,500 daily limit. These limits can be increased at the discretion of cardholders' managers and the Program Administrator. The City's annual maximum spending limit for the P-Card Program is \$2 million. There were 906 transactions totaling \$201,223 during the 2011 calendar year. Purchases are typically for travel, training, memberships, subscriptions and specialty items that are not on current purchase orders.

P-Card transactions are monitored via an online P-Card transaction tracking system which is owned and operated by the City's bank. When cardholders make purchases, the transactions post in the tracking system and the cardholders and assigned approvers are notified that the transactions need to be "released" or approved in the system. Releasing the transactions notifies the Accounting Division that it is acceptable to include the transactions in the monthly payment to the City's bank. The transactions are reviewed by both the cardholders and assigned approvers at that time. The City's bank is notified of any disputed transactions.

## **STATEMENT OF OBJECTIVES**

The objectives of the audit were as follows:

1. To determine whether sufficient internal controls are in place surrounding Purchasing Card transactions within the City.
2. To determine whether purchasing card transactions are appropriate, sufficiently documented and properly approved in accordance with applicable Municipal Code Sections and the City's Purchasing Card Policies and Procedures.

## **STATEMENT OF SCOPE AND METHODOLOGY BY OBJECTIVE**

### **Objective 1**

We reviewed the City's Purchasing Card (P-Card) Policies and Procedures (P&Ps) to determine whether they were sufficient as compared to current practice and the needs of the cardholding Divisions/Departments. More specifically we determined the following:

1. Whether appropriate guidelines were in place for card issuance/cancellation by the Program Administrator.
2. Whether the prohibited purchases list was sufficient.
3. Whether sufficient training was taking place for the use of P-Cards.
4. Whether audits were taking place for the P-Card Program.
5. Whether documentation requirements were sufficient.
6. Whether proper guidelines and appropriate segregation of duties were in place for transaction reviews by management and cardholders.

We reviewed documentation kept on file by the Program Administrator including cardholder listings, cardholder applications, and proof of card receipt in order to determine compliance with the P&Ps.

Using audit software, we compared all calendar year 2011 transactions in the P-Card transaction tracking system to FAMIS, the City's Accounting System, to ensure proper posting. We also compared the dates of posting to ensure timeliness.

### **Objective 2**

We selected statistical and judgmental samples of P-Card transactions that occurred during calendar year 2011. For each transaction selected, we determined the following:

1. Whether proper review of funds availability took place prior to purchases and whether charges were allocated to the proper accounts.
2. Whether transactions were allowable and properly documented in accordance with the P-Card P&Ps.
3. Whether timeframes for transaction reviews were met as required in the P-Card P&Ps.
4. Whether shipped goods were delivered to a City owned or leased building address.

5. Whether transactions were tax exempt if purchased within Florida.
6. Whether monthly and single transaction limits were exceeded.
7. Whether transaction approval by cardholders and managers was taking place by separate individuals (proper segregation of duties).

## **REPORT FORMAT**

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objectives. Internal control is a process implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the internal controls or is an area in which there are currently no internal controls in place to ensure that objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

## **SUPPLEMENTAL AUDIT WORK**

During our audit of the P-Card Program, we reviewed P-Card transactions for each of the card holding Divisions/Departments, including the Administrative Services Division (ASD). This Division handles P-Card transactions for the Mayor's Office and other Divisions/Departments. Several of the transactions within our ASD sample were purchases by the Mayor's Office for travel, such as airfare and hotel accommodations. Upon our initial review we found that the documentation on file was not sufficient for several of the travel transactions within our sample. Once we inquired about these transactions, we were provided completed forms and additional documentation by the Mayor's Office.

Based on the documentation that was initially on file for the Mayor's Office, a separate audit will be performed of the Mayor's travel transactions to ensure that the City's travel P&Ps, as well as the City's Municipal Code, are being followed.

## **STATEMENT OF AUDITING STANDARDS**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require 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.

## **AUDITEE RESPONSES**

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from the Treasury Division, via Patrick Greive (Treasurer), Ronald Belton (Chief Financial Officer), on behalf of the Accounting Division, and the Procurement Division, via Greg Pease (Chief of Procurement) in memorandums received April 19, 2013, April 16, 2013 and March 15, 2013, respectively.

## **AUDIT CONCLUSIONS**

Overall Conclusion:

We found that the Purchasing Card Policies and Procedures are not clearly defined and do not provide sufficient support to cardholding Divisions/Departments to ensure that the Program is administered properly. The Policies and Procedures are the underlying control for the Purchasing Card Program, but without the assignment of clearly defined roles, responsible parties do not have the guidance needed to properly handle transactions in all situations. See Internal Control Weakness 1-2 for specific issues noted.

Conclusions by Objective:

1. We found that due to insufficient Purchasing Card Policies and Procedures, it does not appear that sufficient controls are in place for the Purchasing Card Program.
2. We found that several transactions were not appropriate within the context of the Purchasing Card Policies and Procedures and that many transactions were not sufficiently documented and properly approved.

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## **AUDIT OBJECTIVE #1**

To determine whether sufficient internal controls are in place surrounding Purchasing Card transactions within the City.

### **INTERNAL CONTROL WEAKNESSES (ICW)**

#### **ICW 1 – 1 \*The Frequency of Card Usage is Not Reviewed and Cards are Potentially Issued to Personnel Without Their Knowledge\***

We found no evidence to indicate that the Purchasing Card (P-Card) Program Administrator within the Treasury Division performed a review of how often cards were being used so that unused cards could be cancelled and destroyed. We found that many issued cards had not been used within a year and we found several unissued P-Cards in the Treasury safe. We determined that the employees whose names were on the unissued cards may not have been aware of them

since there was no documented approval on file from these employees. Documented approval should include signatures of the requesting employees on the cardholder application. Currently there is only a signature line for the manager and Division Coordinator.

More specifically, we found that 31 of 64 cards or 48.4% had not been used within one year of February 17, 2012, the day that this test was performed. Of the 31 unused cards, we found that 23 had never been activated. Seventeen of the 23 cards that were never activated were in the Treasury safe, three cards were allegedly being kept in a desk drawer within the Department, two were subsequently cancelled, and one was issued to a Supervisor.

### **Recommendation to ICW 1 – 1**

We recommend that the Program Administrator sufficiently document the periodic reviews of issued cards and purchases to determine if the cards are truly necessary for the normal course of business. All unused cards should be cancelled to minimize the risk associated with having outstanding credit lines issued to personnel. There should also be a Program Auditor assigned as required by the P-Card Policies and Procedures (P&Ps), to perform periodic reviews of issued cards and usage in order to determine the necessity of the cards. (See Finding 1-1).

Additionally, the current Cardholder Application in the P-Card P&Ps should be revised to include a signature line for personnel requesting cards. P-Cards should not be requested by managers for personnel without the knowledge of the personnel. The P-Card P&Ps should state that cardholder, manager and Division Coordinator signatures are required on the Cardholder Application for the issuance of P-Cards.

### **Treasury Division Response to ICW 1 – 1**

Agree                       Disagree                       Partially Agree

*Email confirmations were historically sent annually, before the audit was performed, to ensure listed cardholders were still active employees. Per the recommendation, we will include verbiage stating cards should be used at least once bi-annually to prevent card deactivation due to lack of usage. A summary spreadsheet will be maintained on the Treasury common drive to record the current card holders and the e-mailed managers' response for each fiscal year. Any cards that are not confirmed and/or remain un-used will be cancelled.*

*A Program Auditor was assigned to perform periodic reviews of issued cards and usage in order to determine the validity and conformance to purchasing policy of P-Card transactions. The Cardholder Application has been revised to include a signature line for personnel requesting cards. The P-Card P&Ps have been updated to state that cardholder and manager signatures are required on the Cardholder Application for the issuance of P-Cards.*



**ICW 1 – 2 \*Revision of Insufficient P-Card P&Ps by the Program Administrator\***

The current P-Card P&Ps are insufficient in many areas and need to be improved as follows in order to meet the needs of all personnel involved with the P-Card Program.

#	Recommended Revision	Potential Risk Associated with Lack of Revision	Purpose of Recommended Revision
1	Add Specific requirements for the reconciliation process such as, steps needed and documentation to be maintained for the cardholder and manager.	Divisions/Departments do not properly and consistently perform and maintain documentation for receipt reconciliation and the monthly statement reconciliation process to the P-Card transaction tracking system, which could ultimately result in improper or inaccurate P-Card transactions being paid by the City.	This would provide specific requirements as to the documentation necessary for the reconciliation of receipts to the P-Card transaction tracking system for all of the cardholding Divisions/Departments and would also provide standard documentation for audits performed by the Program Auditor in the future. The revision should include the steps that should be taken for the monthly statement reconciliation to the P-Card transaction tracking system. This ensures accuracy of the statement, which results in the proper payment to the P-Card Vendor.
2	Delete P-Card requirements that are no longer required by the Internal Revenue Service (IRS).	Currently there is an outdated requirement in the P-Card P&Ps for all vendors receiving payment through a P-Card to have a W-9 on file with the City. This is no longer an IRS requirement. The risk of having the outdated requirement is minimal but the P-Card P&Ps should be updated to reflect current practice.	The P-Card P&Ps should reflect current practice.

#	Recommended Revision	Potential Risk Associated with Lack of Revision	Purpose of Recommended Revision
3	<p>Add process requirements for requesting increased spending limits, including the documentation required and how to obtain appropriate approval. Increased spending limits are amounts over the standard single transaction limit of \$2,500 and monthly transaction limit of \$10,000.</p>	<p>Increased spending limits should be authorized by the approving manager within the cardholding Division. Since there is no current P&amp;P addressing this, the appropriate approval process and documentation may not occur.</p>	<p>Increasing spending limits should be addressed in the P-Card P&amp;Ps to provide guidance to cardholding Divisions/Departments. Process and documentation requirements will allow the Program Auditor to include increased spending limits as part of the P-Card Program audits.</p>
4	<p>The P&amp;Ps reference a Merchant Commercial Code (MCC) prohibited list but there is no such list on file with the Program Administrator or with the Bank. Instead, the Bank has an approved MCC listing which shows allowed purchases, but these were not on file with the Program Administrator. MCC Codes are used by the banking industry to categorize merchant goods (i.e. 5111 Office Supplies, 7299 Dog Grooming Services). Either the MCC prohibited listing should be created and added to the P&amp;Ps or the P&amp;Ps should be revised to include the approved MCC listing in order to provide guidance for cardholder purchases. We further recommend that transactions with merchants not using MCC codes be blocked at the point-of-sale. A Program Auditor should periodically review the MCC codes associated with transactions to ensure that only allowed purchases are being made.</p>	<p>Without an MCC listing for either prohibited purchases or allowable purchases, cardholders could potentially purchase prohibited items.</p>	<p>The MCC listing of prohibited items or the listing of allowable items should be included in the P&amp;Ps so that all cardholders are aware of what is not allowed to be purchased.</p>

#	Recommended Revision	Potential Risk Associated with Lack of Revision	Purpose of Recommended Revision
5	Detailed information should be included in the P&Ps regarding how billing disputes and fraudulent charges should be handled. The revisions should include who should be notified (Bank, Program Administrator, manager, cardholder) what documentation should be kept on file and who should sign off on the transaction in the system (cardholder, manager, Program Administrator).	The parties involved with a transaction that is fraudulent or is disputed may not follow the necessary steps to properly notify the appropriate parties, document the situation and sign off on the transaction in the P-Card transaction tracking system.	To provide specific guidance as to how disputed and fraudulent transactions should be handled and the documentation that should be maintained.
6	Specific guidelines should be included for backup procedures when personnel tasked with approving transactions in the P-Card transaction tracking system are not available to perform assigned tasks.	Currently cardholders electronically approve their P-Card transactions and then the assigned manager electronically approves the transactions. If either of these parties are on vacation or out sick once the transaction posts, either no further action is taken until the parties return or the manager may sign off as proxy for the cardholder. This puts the manager in the role of cardholder and approver.	To ensure timeliness of transaction processing in the P-Card transaction tracking system and to ensure that transactions are properly reviewed by cardholders and approvers.
7	Revise the documentation retention requirement which is currently inconsistent in the policy. The P-Card P&Ps reference both five and four years as the appropriate document retention time. The State requirement as stated in the General Records Schedule GS1-SL for State and Local Government Agencies dated November 1, 2006 is five years.	Divisions/Departments may not maintain P-Card transaction documentation for the length of time required by State law.	To have consistent P-Card P&Ps and provide appropriate and accurate guidance to P-Card holding Divisions/Departments.

#	Recommended Revision	Potential Risk Associated with Lack of Revision	Purpose of Recommended Revision
8	Revise the required timeframe for cardholder approval. The current P&Ps are conflicting regarding the timeframe required. The P&Ps state that the cardholder is required to approve transactions within three working days after posting in the P-Card transaction tracking system and the P&Ps state that cardholders should approve transactions within three days of email notification.	Cardholders are unsure of the timeframe required to approve transactions.	To provide consistent P-Card P&Ps and provide appropriate and accurate guidance to P-Card holding Divisions/Departments.
9	Steps need to be included for ensuring that funds are available before the P-card transaction is initiated. This should be a documented process to ensure over spending does not occur.	Potential overspending by Divisions/Departments.	To ensure that overspending related to P-Card purchases does not occur. By documenting this process the Program Auditor will be able to determine if Divisions/Departments are meeting the requirement.

The recommended revisions listed above are not all inclusive. Additional revisions may be necessary upon consideration from the Program Administrator and the cardholding Divisions/Departments. These are just some of the areas that we noted during our audit.

**Treasury Division Response to ICW 1 – 2**

Agree           Disagree           Partially Agree

*#1 A step-by-step procedure will be distributed during the one-on-one training to new and existing cardholders, managers and approvers to address the required documentation to be maintained by the cardholder and manager.*

*#2 We have made the suggested deletions regarding IRS regulation changes for Vendor 1099 reporting. The changes are effective immediately.*

*#3 We have added additional criteria outlining the process for credit and single transaction limit increase requests over the current \$2,500 per transaction and total \$10,000 monthly charge limit. They are now on the application form, effective immediately.*

*#4 We have now added the prohibited MCC vendor code list to the Policies and Procedures to provide guidance on prohibited transactions. We will work with our card provider to explore enhanced point-of-sale blocking methods to deny prohibited transactions.*

*#5 Additional information will be added to the P&P to provide additional, detailed instructions and guidance for reporting disputed items such as who to contact, the required documentation to be kept on file and the appropriate approval signatures for the required documentation.*

*#6 Instructions will be provided to allow for proxy reconciliation and approval as recommended.*

*#7 We have made the recommended change to the P&Ps for record retention to be kept for five years.*

*#8 The number of days for cardholder transaction approval have been changed to five days from e-mail notification. If traveling, the five days start upon the traveler's return. The email notification and tracking system dates are now the same. Both changes are effective immediately.*

*#9 A form will now be included for Spend requests to be sent from cardholders to Approvers with the purpose of confirming a range of funds allowed for spending, including an expiration date for the authorization to spend for non-routine/non-travel purchases.*

**ICW 1 – 3 \*No Training for P-Card Holders\***

P-Card holders and managers do not receive formal and documented training regarding proper use of P-Cards. Although the P&Ps are not specific as to the type of training, the P&Ps do state that “Mandatory training must be completed by Cardholder and Division Coordinator” in order to receive a P-Card. Furthermore, the P-Card P&Ps state that the Division Coordinator will “provide training material to Managers and Cardholders before releasing the Purchasing Card.” Currently training materials are not provided to cardholders and managers.

**Recommendation to ICW 1 – 3**

Thorough and documented training should be provided to cardholders and managers prior to releasing P-Cards. We recommend that the Program Administrator and the P-Card holding Divisions/Departments evaluate the current processes in place and determine the training needed. Based on the needs of the P-Card holding Divisions/Departments, training requirements should be included in the P-Card P&Ps.

**Treasury Division Response to ICW 1 – 3**

Agree                       Disagree                       Partially Agree

*The P-Card Program administrator will meet with each current card holder and manager to review the changes to the P-Card Policies and reinforce current updated procedures and processes.*

## **FINDINGS**

### **Finding 1 – 1 \*No Assigned P-Card Program Auditor\***

A Program Auditor is not assigned to the P-Card Program as required by the P-Card P&Ps. A Program Auditor should be performing ongoing reviews of P-Card transactions to ensure that purchases are made in accordance with P-Card P&Ps and the City’s Procurement Administrative Code. The P-Card P&Ps state that “This position will be in the Procurement Department and will monitor overall performance of the program and verifies there are no unauthorized or improper purchases.”

### **Recommendation to Finding 1 – 1**

We recommend that the Program Administrator and the Chief of Procurement immediately assign this role so that an ongoing review and proper monitoring will be performed for the P-Card Program as required in the P&Ps.

### **Treasury Division Response to Finding 1 – 1**

Agree                       Disagree                       Partially Agree

*The Program Auditor has been assigned and is the Manager of Procurement who reports to the Chief of Procurement. Beginning January 2013 the P-Card transactions are reviewed on a monthly basis for any non-compliant procurement transactions which will be investigated. Any improper transactions will be reported to the Chief of Procurement and the Chief Financial Officer for resolution.*

### **Finding 1 – 2 \*No Assigned Division Coordinator\***

A Division Coordinator has not been assigned to each P-Card holding Division/Department as required by the P-Card P&Ps. Division Coordinators are supposed to act as backups for cardholders when cardholders are not available to sign off on transactions. Division Coordinators are also required to maintain all P-Card related documentation.

The P-Card P&Ps state that the “Division Coordinator must maintain all itemized receipts of purchases made and serve as a liaison to the auditor or administrator of the program. The Coordinator must monitor all disputed purchases, credits, and billing errors and will have proxy access to the cardholders in that division's accounts. The Coordinator must ensure appropriate subobjects correspond with the purchases. In addition, the Coordinator must collect cards from employees when such cards become expired or if the employee is leaving the Coordinator’s Division or City.”

There are no Division Coordinators, so managers or other assigned personnel have to act as proxy for cardholders if they are not able to approve their own transactions. For most Divisions/Departments, this puts managers/approvers acting as the cardholder as well as the

approver of the transactions resulting in the appearance that the cardholder had not properly reviewed his or her transactions.

**Recommendation to Finding 1 – 2**

We recommend that the Program Administrator immediately assign these roles so that the Division Coordinators are acting as proxy in the event of the cardholder’s absence. This separation of duties is necessary to ensure that the same person is not approving and reviewing transactions.

**Treasury Division Response to Finding 1 – 2**

Agree                       Disagree                       Partially Agree

*Although the Division Coordinator position is defined separately in the P&Ps, the same employee may be assigned to perform both the Division Coordinator and Manager roles for efficiency. The P&Ps will be updated to more clearly reflect this. The P&Ps allow for the assignment of a “division coordinator” if staffing levels allow for this function. When the division/department staffing is such that an approver must sign as proxy for a cardholder, the mitigating control will be that the receipt/supporting documentation for the purchase will be signed by the cardholder validating the transaction. The documentation will be kept on file by the manager/division coordinator to indicate the cardholder’s approval of the transaction. The P&P will be updated to more clearly define the roles and required documentation of an approving manager, division coordinator and cardholder.*

**Finding 1 – 3 \*Insufficient Cardholder Information on File with the Program Administrator\***

The Program Administrator did not provide complete and accurate documentation relating to cardholders. We obtained a listing of cardholders from the P-Card transaction tracking system and compared it to the listing provided by the Program Administrator. The P-Card transaction system list showed 64 cardholders and the Treasury list showed 46 cardholders. This is a discrepancy of 18 cardholders. We found that the reason for the discrepancy was due to 17 of the 18 cards having never been issued and being kept in the Treasury safe. One of the 18 was issued to an employee who was no longer employed by the City and the card was in the process of being cancelled. After removing the 18 unissued cards, total active cardholders were 46. We reviewed additional documentation on file for these 46 cardholders and found the following:

1. P-Card Agreements were not on file for two of 46 (4.4%) active cardholders. By signing this document, the cardholder acknowledges receipt of the P-Card P&Ps and agrees with the terms of the P-Card Program.
2. Cardholder Applications were not on file for seven of 46 (15.2%) active cardholders. Although this is not a requirement of the P-Card P&Ps, this document is included in the P-Card P&Ps and shows information such as cardholder name, email, phone number, address, accounts that P-Card purchases should be charged to (index code and subobject), approval information (Division Coordinator name, approving Manager name) and

authorized spending limits available to the cardholder. Standard spending limits are \$2,500 per transaction and \$10,000 per month.

3. There was no proof of receipt of a P-Card by two of the 46 (4.4%) active cardholders. This is also not a requirement within the P-Card P&Ps, but shows proof that the card was received by the requesting cardholder and is a good control.
4. The incorrect Division was listed for one cardholder.

### **Recommendation to Finding 1 – 3**

We recommend that the Program Administrator follow the current P&Ps and maintain signed P-Card Agreements on file and update cardholder Division assignments as changes occur. Also, the current P-Card P&Ps should be revised to more specifically state what documentation should be kept on file by the Program Administrator. This should include a requirement to maintain signed Cardholder Applications and proof of P-Card receipt by cardholders. In addition, we recommend that cards not picked up by personnel within a specified time frame be cancelled and destroyed.

### **Treasury Division Response to Finding 1 – 3**

Agree                   Disagree                   Partially Agree

*The initial cards distributed during the Pilot program will be updated with current signed Agreements to be kept on file. The current P-Card receipt process requires a signed acknowledgement of receipt upon pick-up. The P&Ps will be revised to include the following documents to be kept on file by the Program Administrator; signed card application with approval, signed agreement and signed receipt for card. Issued cards not picked up within 15 working days will be cancelled and destroyed.*

### **Finding 1-4 \*P-Card Payment Monthly Reconciliation by the Accounting Division\***

Reconciliations between FAMIS, the City’s General Ledger, and the monthly P-Card billing statement are prepared by the City’s Accounting Division to verify the accuracy of the monthly statements remitted by the P-Card vendor. The monthly payment is based on this statement. We reviewed three reconciliations and found that all but one reconciliation, dated December 27, 2011, included documentation for all numbers. Without backup for all of the numbers on the reconciliation we were unable to verify the accuracy of the numbers. Historical information is not available for these numbers. Additionally, the Accounting Division’s internal policies titled P-Card Payment Desk Guide require that all of the documentation used for the reconciliation process be printed.

### **Recommendation to Finding 1-4**

We recommend that the Accounting Division follow current practice and print out and retain all backup information for all numbers shown on the monthly reconciliations.



**Accounting Division Response to Finding 1 – 4**

Agree                       Disagree                       Partially Agree

*We agree that Accounting should follow the current practice and, print out and retain all backup information for all numbers shown on the monthly reconciliation. For the payment in question, however, Accounting was not printing the summary of the “Sweep Box” and “Close Box” during that time period. We were using the reconciliation page as our backup. It was only after that time period accounting hired an employee primarily dedicated to P-Card processing that we started printing out these summary pages as backup. As of today this same process is still being followed. We print a summary page as supporting documentation for the numbers shown on the reconciliation for all transactions except for the transactions that are in the “Transactions Ready to Batch” (aks: Transactions Ready for Macro)*

*A print out of the transactions in the Transactions Ready to Batch or Ready for Macro would not be very efficient since there can be 100 or more of these items listed at any given time and currently there is no summary page for these transactions. I have reached out to the administrator of the Works System, the system where p-card transactions takes place. We will work to get a summarization for the Transactions Ready to Batch and we will include this summarization as part of our monthly reconciliation.*

**OPPORTUNITIES FOR IMPROVEMENT (OFI)**

**OFI 1 – 1 \*High Limit Credit Cards Outside of P-Card Program\***

During our audit, we found that there were two high limit (\$30,000 each with no additional approval from a manager) credit cards issued to two employees within the Motor Vehicle Inspection Division which are not included in the P-Card program. This same issue was noted in the Inspector General’s 2008 P-Card Audit Report #08-07. These credit cards are used for procuring background checks for citizens who apply for vehicle for hire licenses. The citizens pay for the background checks and in turn the credit card is used to pay for the cost incurred for the background check. The two credit card holders also have P-Cards issued in their names but these cards have not been activated. These two P-Cards were observed in the Treasury safe (See ICW 1-1).

**Recommendation to OFI 1 – 1**

We recommend that the high limit credit card account be closed and that the P-Cards assigned to the employees within the Motor Vehicle Inspection Division be activated. This will allow better monitoring by the P-Card Program Administrator of the transactions incurred by the Motor Vehicle Inspection Division and also limit the City’s exposure on the dollar value of potential purchases.

**Treasury Division Response to OFI 1 –1**

Agree                       Disagree                       Partially Agree

*The high limit credit card account has been closed for Motor Vehicle Inspection Division and new P-Cards assigned to the employees under the City’s current P-Card program.*

**OFI 1 – 2 \*Revise Procurement Administrative Code to Include P-Card Purchases\***

The Procurement Administrative Code should be revised to address P-Card purchases. P-Card transactions fall within the thresholds of informal purchases as defined within Section IV.A. of the City’s Procurement Administrative Code. Informal purchase thresholds are purchases ranging from \$0 to \$50,000. P-Card purchases are typically \$2,500 or less. Since the Procurement Administrative Code provides guidance for all City purchases, it should also address purchases made using a P-Card. This would provide guidance to P-Card users as to what, if any, approval is necessary for P-Card purchases.

**Recommendation to OFI 1 – 2**

We recommend that the Procurement Division revise the Procurement Administrative Code to include guidance relating to P-Card purchases.

**Procurement Division Response to OFI 1 –2**

Agree                       Disagree                       Partially Agree

*We concur that the current Administrative Code does not address the P-Card program and although it is administered by the Treasury Division, it is a procurement tool and our policies and procedures manual should give guidance on its usage. The Administrative Code has not been updated since 2007. As such, a thorough review has been completed to make much needed updates to this manual which include addressing the P-Card program. The manual is in final review and will be ready for publication by the end of March. An excerpt from the newly revised Administrative Code addressing the P-Card Program is included below:*

*"IV Informal Purchases  
G. Purchasing Card (P-Card) Usage*

*The Treasury Division of the City of Jacksonville is currently the Program Administrator for the P-Card Program. Policies and procedures related to the issuance, usage and responsibility of the P-Card can be found on the Employee Portal under the Treasury Division site.*

*In general, The Purchasing Card is to be used only for the purchase of goods, travel related expenses, or check requests. City of Jacksonville’s standard spending parameters for a Purchasing Card are set up to \$2,500 per transaction with a maximum of \$10,000 per month per card. A single purchase must not be used to split into two or more transactions in order to stay within the per transaction limit or limit of the cardholder’s card.*

*Procurement's responsibilities for the P-Card Program are as follows:*

- 1. Review all charges for appropriateness and ensure all purchases were necessary for official use.*
- 2. Report any improper use to Manager of card holder.*

*Misuse of P-Card*

*Improper use of the card will result in a City of Jacksonville security investigation which may lead to disciplinary action, up to and including termination of employment, criminal prosecution and civil litigation should the Cardholder fail to use the card properly and charges are unaccounted for, the Cardholder has authorized the City of Jacksonville to deduct such amount from the Cardholder's salary equal to the total amount of unaccountable expenditures. The Cardholder also agrees to allow the City of Jacksonville to collect any amounts owed by the Cardholder even if no longer employed by the City of Jacksonville."*

**AUDIT OBJECTIVE #2**

To determine whether Purchasing Card transactions are appropriate, sufficiently documented and properly approved in accordance with applicable Municipal Code Sections and the City's Purchasing Card Policies and Procedures.

**INTERNAL CONTROL WEAKNESSES (ICW)**

**ICW 2 – 1 \*P-Card Transactions Approved by Subordinate Personnel\***

There are some personnel who are assigned to approve P-Card transactions for their superiors. There is an increased possibility that subordinate approvers will not question insufficient documentation or inappropriate purchases made by their superiors.

**Recommendation to ICW 2 – 1**

We recommend that a Program Auditor perform an ongoing review of P-Card transactions to ensure that approvals by subordinate personnel appear appropriate and transactions are incurred for the normal course of business. This review should be documented. The recommendation to assign the Program Auditor position as required by the P-Card P&Ps was made in Finding 1-1.

**Treasury Division Response to ICW 2 – 1**

Agree                       Disagree                       Partially Agree

*In 2012, the Manager of Procurement was identified as the Program Auditor and the Procurement Monthly Audit SOP was established. Beginning January 2013 the P-Card transactions are reviewed on a monthly basis for any non-compliant procurement transactions which will be investigated. Any improper transactions will be reported to the Chief of Procurement and the Chief Financial Officer for resolution.*

## **FINDING**

### **Finding 2 – 1 \*P-Card Transaction Testing Exceptions Summary\***

We tested 279 out of 906 (30.8%) total transactions for calendar year 2011 and found exceptions with 172 or 61.6%. Overall, we found the following types of exceptions:

1. The three day approval/sign off time requirement within the P-Card P&Ps for managers/approvers and cardholders to approve transactions was not met (119 exceptions). Due to the high number of exceptions, the three-day requirement may be unrealistic.
2. Transactions were not signed off appropriately by personnel in the P-Card transaction tracking system as required in the P-Card P&Ps (79 exceptions). See below for details:
  - a. Managers/approvers signed off as the cardholder and the approver for many of the transactions, creating improper segregation of duties.
  - b. Many transactions were approved/signed off by employees who were not listed as approvers on the Program Administrator's records.
  - c. Several transactions were approved/signed off by another cardholder who was not listed as an approver.
  - d. The Program Administrator signed off as the approver for a couple of transactions.
3. Documentation was insufficient for transactions (48 exceptions). Insufficient documentation included:
  - a. No original receipts.
  - b. No supporting documentation for several transactions.
  - c. Insufficient information on documentation to determine appropriateness of transaction (no description on the receipt).
  - d. Lack of justification for gift card purchases.
  - e. No documentation explaining public purpose for travel.
  - f. No monthly P-Card statements on file.
4. Purchases were made for prohibited or inappropriate items (22 exceptions). The majority of these transactions (16) were for recurring monthly charges for cable television. Four of the transactions were payments made through Pay Pal, one was for the purchase of a meal ticket and one was a payment for a toll booth violation. Although the toll booth violation is not explicitly prohibited, the City should not pay for a citation incurred by an employee.

## **Recommendation to Finding 2 – 1**

For the exceptions noted above we recommend:

1. That the Program Administrator review the three-day turnaround for review and approval of P-card transactions for reasonableness since it is not being met for such a high number of transactions.
2. The Program Administrator is responsible for assigning transaction approval/sign off authority to personnel. When performing this assignment, the Program Administrator should consider proper segregation of duties. An approver should not have the authority to sign off as a cardholder in the P-Card transaction tracking system and cardholders should not be permitted to sign off in the system for other cardholders. Also, the Program Administrator who has oversight of the entire P-Card Program should not sign off as an approver. Additionally, documentation maintained by the Program Administrator that lists cardholders and their assigned approvers should be reviewed periodically and updated regularly to reflect current cardholders and their respective approvers.
3. We recommend that documentation requirements within the P-Card P&Ps be better defined and enforced. Appropriate documentation such as original receipts, Library gift card purchase justification, travel justification and signed travel forms should be kept on file by all cardholding Divisions/Departments for P-Card transactions.
4. We recommend that the P-Card be used for the normal course of business and that cardholders adhere to the P&Ps regarding prohibited purchases.

## **Treasury Division Response to Finding 2 – 1**

Agree           Disagree           Partially Agree

*#1 We have reviewed the three day turn around for reasonableness and have increased this to five days for cardholders and seven days for managers. This will allow for an appropriate review period.*

*#2. The Program Administrator is responsible for assigning transaction approval/sign off authority to personnel. The Program Administrator has oversight of the entire P-Card Program and will not sign off as an approver. Any purchases that roll into the Parent Group box, due to posting errors will be approved by the Accounting Division. The documentation maintained by the Program Administrator that lists cardholders and their assigned approvers will be reviewed periodically and updated regularly to reflect current cardholders and their respective approvers.*

*#3. The documentation requirements within the P-Card P&Ps will be updated to define the types of documentation required, such as original receipts, gift card purchase justification, travel justification and signed travel forms.*

*#4 Through enhanced definition of prohibited purchases in the P&Ps and more thorough training, we will increase cardholder understanding of, and compliance in, this area.*

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We appreciate the assistance and cooperation we received from the Program Administrators and all of the P-Card holding Divisions/Departments through the course of this audit.

Respectfully submitted,

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Council Auditor

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