

Procurement Card Program: A Review of Internal Controls

November 2002



Office of the City Auditor
Portland, Oregon



CITY OF
PORTLAND, OREGON

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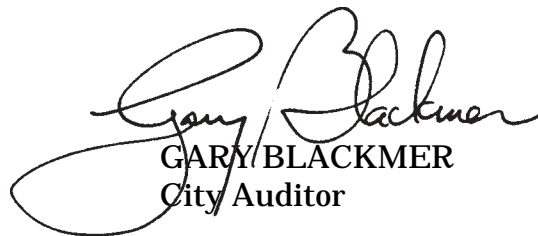
TO: Vera Katz, Mayor
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Dan Saltzman, Commissioner
Erik Sten, Commissioner
Tim Grewe, Chief Administrative Officer
Sue Klobertanz, Director, Bureau of Purchases

SUBJECT: Audit of the City of Portland Procurement Card Program,
Report #286

Attached is Report #286, an audit of the City of Portland Procurement Card Program. The study was included on our annual Audit Schedule published in July of 2002.

As a follow-up to our recommendations, we ask that the Chief Administrative Officer and the Director of Purchases provide a status report in six months, detailing steps taken to address the report's recommendations. This status report should be submitted to the Audit Services Division and coordinated through the Commissioner's Office.

We appreciate the cooperation and assistance we received from staff in the Office of Management and Finance, the Bureau of Purchases, and various bureaus throughout the City.


GARY BLACKMER
City Auditor

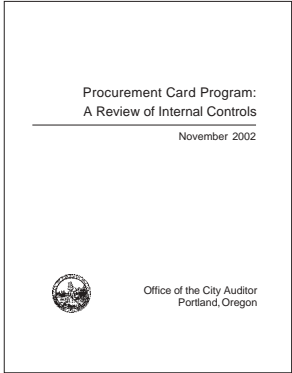
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A Report by the Audit Services Division
Report #286

Office of the City Auditor
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Production/Design

This report was produced in-house using desktop publishing software on Pentium III personal computers, and a Hewlett Packard Laserjet PCL/Postscript laser printer. It was printed at the Printing and Distribution Division of the City's Bureau of General Services. Adobe PageMaker 6.5 Plus was used to design and layout the finished product. Tables were created and drawn manually using PageMaker. Some text was initially written in Microsoft Word, then imported into PageMaker for formatting and layout.

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Audit Report**

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Sue Klobertanz, Director, Bureau of Purchases
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Chapter 1 Introduction

This report presents the results of our audit of the City of Portland's procurement card program. The audit was approved by the City Auditor and included in the Audit Services Division fiscal year 2002 audit schedule. We conducted the audit in accordance with generally accepted government auditing standards and limited our review to those areas specified in the Objectives, Scope and Methodology section of this report.

Background In 1996, Portland City Council authorized a 6-month pilot procurement card program to test the feasibility of using credit cards to pay for certain City goods and services. Cards were issued to employees in six City bureaus as part of the pilot program. At the conclusion of the pilot program in 1997, a consortium of 10 local governments in Oregon, with the City of Portland as lead agency, entered into an agreement with the Bank of America to provide procurement card services. As part of the agreement with the bank, an annual rebate is issued (to the members of the consortium) depending on the total amount purchased by the consortium using the procurement cards. Portland earned rebates of \$15,070 and \$15,881 in fiscal years 2000 and 2001 respectively, based on purchases of \$7.4 million and \$7.9 million.

Table 1 Number of procurement cards compared with number of authorized positions per bureau or office (on selected offices)

Bureau / Office	Cardholders	Positions
Bureau of Development Services	2	286
Bureau of Emergency Communications	1	133
Bureau of Environmental Services	128	456
Bureau of Housing & Community Develop.	6	22
Bureau of Licenses	3	38
Bureau of Parks & Recreation	202	365
Bureau of Police	133	1,284
Bureau of Water Works	46	511
City Attorney's Office	1	38
City Auditor's Office	3	65
Commissioner of Public Utilities	1	7
Office of Cable Comm. & Franchise Mgmt.	1	7
Office of Government Relations	2	5
Office of Neighborhood Involvement	8	46
Office of the Mayor	1	15
Office of Sustainable Development	4	23
OMF - Bureau of Financial Management	5	58
OMF - Bureau of General Services	60	187
OMF - Bureau of Human Resources	2	53
OMF - Bureau of Information Technology	5	129
OMF - Bureau of Purchases	13	27
OMF - Risk Management	4	18
Portland Office of Transportation	34	694
Portland Fire & Rescue	37	710
TOTAL	702	5,177

SOURCE: Bureau of Purchases, individual bureaus and the Audit Services Division

The objective of the procurement card system is to provide an efficient, cost-effective method of purchasing and paying for low-dollar, non-capital items by taking the place of limited purchase orders (LPO), payment authorizations and petty cash purchases. Historically, for each purchase made by LPO or payment authorization, the purchaser, purchaser's supervisor, bureau accounting, central accounting, the auditor's office and mail room were involved in the processing of the payment. However for procurement card purchases, regardless of the number of purchases made during the month or billing cycle, only one payment is made to the bank. The Bureau of Purchases estimates that procurement cards can save up to 40 percent of administrative costs.

As shown in Table 1, as of September 2002 the procurement card program has grown to 24 bureaus and offices, with 702 cardholders and annual purchases of approximately \$7.9 million, replacing some purchase order, payment authorization, LPO and petty cash purchases.

**Internal controls of
the procurement card
program**

The Bureau of Purchases, within the Office of Management and Finance, oversees the administration of the procurement card program. The Bureau has prepared a cardholder manual and also a supervisor's manual outlining the policies and procedures for issuing and using cards, including copies of the *Request for Procurement Card* form, *Card Limit* form, *Account Transfer* form and the *Procurement Card Agreement*. The manuals are on-line and easily accessible to all employees. In addition, three bureaus that have decentralized accounting systems have also prepared

separate manuals to guide employee use of procurement cards. In general, each of the manuals state that:

- requests for procurement cards and purchase limits must be approved by bureau supervisors
- supervisors are responsible for training employees in the appropriate use of the card, ensuring compliance with established policies and procedures, reviewing the cardholder's log, and approving payments.

The manuals also list the types or categories of items employees are prohibited from buying, and the single and monthly dollar limits allowed for purchases. Each card can be programmed to exclude certain prohibited vendor classifications. The transaction will be rejected by the merchant if the card is used to purchase an item within that classification.

According to the manuals, supervisors determine which employees are eligible to receive procurement cards and forward requests for cards to the Bureau of Purchases, or to bureau card coordinators. The bank provides the cards to bureaus within a couple of weeks, and the bureau's coordinator notifies the employee. Before accepting the procurement card, the employee is required to sign an agreement regarding responsibility for the card, and an understanding of the conditions, terms and usage of the card.

Bank of America issues the procurement card in the name of the employee; however, all purchases are billed to the City of Portland. Currently, the maximum limit for any single procurement card transaction by a City employee is

* some exceptions to this limit were permitted for purchases from annual supply contracts

\$5,000*, with monthly purchase limits at the supervisor's discretion. Bureaus may designate lower transaction and monthly limits based on individual needs when requesting a card or change the limits after a card has been issued.

In addition to the functions of the requesting bureau and the Bureau of Purchases, the Office of Management and Finance's Accounting Division is responsible for reviewing the allocation of charges to the City's budget and ensuring that payment of the total monthly charges are made to the bank in a timely manner. The appendix to this report contains a series of flowcharts of the procurement card process as outlined by the cardholders and supervisors manuals.

**Audit objectives,
scope and
methodology**

The objective of our audit was to determine whether (1) the internal controls of the City's procurement card system are reasonable and adequate to prevent misuse or abuse of the credit cards, and (2) procurement card transactions are in compliance with current applicable City policies and procedures.

To determine if controls are reasonable and adequate, we compared the City of Portland's procurement card policies to procurement card programs and operational manuals of several universities, hospitals, and governmental jurisdictions – including the federal government. We also compared policies and procedures for employee training, monitoring and review, receipt of goods and services, proper and timely accounting and fraudulent and/or improper transactions. We reviewed guidelines from the Bank of America and also read newspaper and magazine articles regarding procurement card misuse during the past few years.

To gain a better understanding of the City's process, we interviewed the Bureau of Purchases director, program manager, and assigned staff, as well as coordinators and cardholders in bureaus. We reviewed all available procurement card manuals for content, completeness, updates and/or revisions, including a cost/benefit analysis prepared by the Bureau of Purchases. We also reviewed the City's Rules for Travel, Miscellaneous Expenses and Receipt of Related Benefits (administrative rules). We developed a series of flowcharts of the procurement card process based on the cardholder and supervisor manuals and prepared a risk analysis of the current internal controls over procurement card usage.

To determine if procurement card purchases are in compliance with current City policies and procedures, we selected three centralized bureaus (Police, Fire and Parks) and three decentralized bureaus (Water, Environmental Services and Transportation), and reviewed all 4,356 procurement card transactions made by these bureaus during two billing periods in FY 2001-02. In addition to the sample, we downloaded and reviewed a database of 12 months of transactions for all City bureaus and offices during the same period to assess opportunities for more efficient spending patterns and to identify potential risks. For example, purchases of unauthorized goods or services, or splitting of purchases to stay within card limits.

Chapter 2 Audit Results

Our review of 4,356 procurement card transactions during two months in FY 2001-2002 showed that policies and procedures instituted by the Bureau of Purchases and other bureaus are generally working as intended but compliance with procedures is not always achieved. While most cardholders and supervisors follow established requirements, we found transactions that lacked adequate supporting documentation and supervisory approval. We also found transactions that appeared inappropriate or questionable under the City's administrative policies and procedures. While the procurement card manuals contained adequate control procedures, failure to follow established controls exposes the City to loss or misuse of City resources. We believe there are several ways the City can strengthen controls and improve compliance to reduce the risk of inappropriate or questionable use of the procurement cards.

Instances of noncompliance with established procedures

In the great majority of transactions tested, we found that cardholders prepared purchase logs and provided supporting receipts. Supervisors and card coordinators reviewed monthly purchases and approved purchase logs. In most cases, items purchased by the procurement cards appeared

reasonable and allowable. However, we found noncompliance with established controls in several areas that could lead to misuse of City resources if not corrected. The following sections discuss areas of noncompliance.

Inadequate receipts and supporting documentation

Although the manuals outline the requirements for documentation of each purchase or transaction, we found several instances of inadequate documentation.

Based on our testing we noted:

- Bank invoices for 17 cardholders were paid without purchase logs or receipts.
- 131 transactions lacked adequate documentation to support the purchases. For example, restaurant receipts did not identify the items purchased; photocopied receipts were provided rather than originals, and the purpose of the expense or purchase was not described.
- 15 signatures on credit card receipts differed from the names of the cardholders.
- In six instances cardholders did not sign purchase logs as required by procurement card manuals.
- In one instance, we noticed the supervisor signed off on the purchase log prior to the cardholder receiving the log for reconciliation to receipts.

As stated in the manuals, proper internal controls require that itemized receipts or invoices contain the name

and address of the vendor, date of purchase, description and price for each purchase. The credit card receipt should also be signed by the cardholder. If the purchase was made by telephone, proper internal controls require that the credit card receipt note the purchase was a “telephone order.” For on-line or faxed orders, a confirmation of order form or faxed order showing price along with packing slip should be obtained. Proper controls also require that payment be made against the matching of an original source document to avoid duplicate payment.

Lack of supervisory review and approval

The manuals, in addition to other requirements, state that the supervisor should take responsibility for ensuring that all purchases are appropriate by reviewing supporting documentation for purchases, ensuring compliance with City policies, and signing the purchase log to approve payment. However, we found supervisors’ review of purchases to be inconsistent. For example:

- 46 of the purchase logs we reviewed lacked the authorizing supervisor’s approval.
- Five cardholders acted as supervisors and approved their own purchases.
- In one bureau, one cardholder exceeded the monthly limit of \$50,000 on three occasions, without the additional procurement card purchases being rejected by the bank. During the audit we found that the bank had increased this cardholder’s monthly limit to \$125,000 without a request or notification from the cardholder’s bureau or the Bureau of Purchases.

- At another bureau we were told that any supervisor is permitted to approve any cardholder's purchase log.
- On 8 occasions a signature stamp was used to sign the purchase log rather than the actual supervisor's signature, making it not possible to verify actual supervisory review and approval.

The manuals do not explicitly require review or signature approval of the individual receipts; therefore, we were unable to determine if supervisors compared the backup receipts to the log for agreement, in order to identify if (1) cardholders exceeded their limits, (2) purchases were split or (3) purchases were made by persons other than the cardholders.

Inappropriate and/or questionable purchases

Most of the purchases we reviewed appeared to be for valid and appropriate items that appeared to have a clear business purpose. However, while purchases were in accordance with the procurement card program policies, some items appeared to violate other City administrative policies. For example:

- On one occasion a procurement card was used to pay for vehicle repairs at a private garage. Upon further review it was determined that the bureau had title to the vehicle, but the vehicle had not been purchased by the central Vehicle Services Division and was not listed in the City inventory. While use of procurement cards for purchase of vehicle repairs from private companies is generally permitted, City policies require all vehicles and equipment to be owned and maintained by Vehicle Services Division.

- Although City policy allows the purchase of light, nonalcoholic refreshments at employee recognition receptions for retiring employees, or at official Citywide functions, we found that on 54 occasions refreshments were purchased by bureaus for staff meetings and parties that did not appear to qualify.
- We also found miscellaneous purchases that do not appear appropriate in accordance with existing City policies, such as office drinking water and plant maintenance.
- For the 12-month period we reviewed, City bureaus and office staff spent approximately \$127,500 for food/refreshments in Portland. Some of the purchases were paid by trust accounts maintained by the Parks Bureau, while other purchases were identified as retirement/recognition/other staff meetings and were paid out of bureau budgets. Some of these purchases may or may not be in compliance with the City's administrative rules.

Untimely submittal of monthly statements

We found that the City pays for procurement card purchases for which no purchase logs, receipts, invoices or packing slips have been submitted. When we asked about these instances, we were told that consistent with our contract with the bank, the City pays no "finance charge" on the balance of the account if the full balance is paid by the time specified on the bank statement. Therefore, in order to avoid finance charges and late fees, such payments to the bank

Parks Bureau Trust Accounts are used to record revenues and expenses dedicated to specific sites or programs. They are funded from donations, concession and vending machine revenues, and fund raisers.

were made without the required documents. The necessary documentation for such payments may be obtained at a later date. Bureaus told us that late reports occurred because cardholders were on vacation or were ill. We found, however, that 11 late reports from our September 2001 sample had not been received by central accounting by June 2002. Central accounting maintains several months of paid procurement card files in a temporary situation because of incomplete data.

Procurement card manuals prepared by the Bureau of Purchases do not specifically require that *Account Review and Reconciliation* be performed within a specific deadline; therefore, the timeliness of individual cardholder submission of reports is dependent on the bureau coordinators or individual bureau policies. Although most of the bureau cardholders submit timely reports, we found that some bureaus regularly submit late reports. During our audit, we were not able to determine how thoroughly documentation of "late report" purchases is reviewed by supervisors.

Opportunities to strengthen procurement card internal controls

The Bureau of Purchases and other bureaus have established internal control procedures that largely mirror controls employed by other governments and businesses. As shown in Table 2, the City's procedures regarding receipts, supervisory approval, procurement card agreements, card limits, and other controls are very similar to practices of other organizations.

Table 2 Best practice controls versus City of Portland controls

Best Practice	City of Portland
<ul style="list-style-type: none"> ■ Establish criteria for who is eligible to obtain a procurement card 	<ul style="list-style-type: none"> ■ Broad eligibility criteria
<ul style="list-style-type: none"> ■ Cardholder required to sign P-Card agreement 	<ul style="list-style-type: none"> ■ Same as best practice
<ul style="list-style-type: none"> ■ Cardholder required to log a description of all items purchased 	<ul style="list-style-type: none"> ■ Same as best practice
<ul style="list-style-type: none"> ■ Cardholder should not allow cards to be used by any other person 	<ul style="list-style-type: none"> ■ Same as best practice
<ul style="list-style-type: none"> ■ Single/monthly transaction limit 	<ul style="list-style-type: none"> ■ Same as best practice
<ul style="list-style-type: none"> ■ Purchase logs should be approved by supervisors 	<ul style="list-style-type: none"> ■ Same as best practice
<ul style="list-style-type: none"> ■ Cardholder not allowed to use P-Card to obtain cash advances or cash refunds 	<ul style="list-style-type: none"> ■ Same as best practice
<ul style="list-style-type: none"> ■ Cardholder not allowed to purchase unauthorized items 	<ul style="list-style-type: none"> ■ Same as best practice
<ul style="list-style-type: none"> ■ Cardholders not allowed to “split” purchases to circumvent purchase limits 	<ul style="list-style-type: none"> ■ Same as best practice
<ul style="list-style-type: none"> ■ Maximum liability limit for charges on lost/stolen cards 	<ul style="list-style-type: none"> ■ No limit until reported
<ul style="list-style-type: none"> ■ P-Cards deactivated in a timely manner 	<ul style="list-style-type: none"> ■ Same as best practice
<ul style="list-style-type: none"> ■ Periodic monitoring of purchases from bank reports 	<ul style="list-style-type: none"> ■ Quarterly review done
<ul style="list-style-type: none"> ■ Purchases should be substantiated by original receipts or an approved memo, if original receipt is lost or unavailable 	<ul style="list-style-type: none"> ■ Same as best practice
<ul style="list-style-type: none"> ■ When not in use, procurement cards should be kept in a secure location 	<ul style="list-style-type: none"> ■ Same as best practice
<ul style="list-style-type: none"> ■ Bank invoices paid in a timely manner 	<ul style="list-style-type: none"> ■ Same as best practice
<ul style="list-style-type: none"> ■ All card users and supervisors receive training before the card is received/used 	<ul style="list-style-type: none"> ■ Differs among bureaus
<ul style="list-style-type: none"> ■ Allotted time for monthly reconciliation 	<ul style="list-style-type: none"> ■ Differs among bureaus

SOURCE: Industry research materials and City of Portland manuals.

Consistent with these established procedures, bureaus are encouraged to use procurement cards for all allowable, non-capital items. Procurement card purchases benefit merchants because they receive prompt payment, and this process also benefits the City through reduced administrative costs and rebates from the bank. We believe there are additional opportunities to strengthen controls in three areas that could reduce the City's exposure to the risks of inappropriate purchases and/or card misuse:

- Stronger eligibility criteria for obtaining a procurement card.
- Lower single and monthly transaction limits for cards with small purchase amounts or infrequent usage.
- Stronger control, oversight and monitoring over the use of procurement cards.

Eligibility criteria

To be eligible to receive a City procurement card, an individual must be employed by the City and receive supervisor approval. Managers and supervisors assign cards based on purchasing patterns – for example, storekeepers and staff who frequently use LPOs and petty cash, and employees needing procurement cards for travel purposes. Because written eligibility criteria are broad, some bureaus are more liberal than others in issuing procurement cards to employees. One bureau allowed a temporary employee to have a card, and other bureaus issue cards to employees who make purchases only a few times a year and for small dollar

amounts. While we recognize that some bureaus need cards for infrequent seasonal purchases and occasional travel, cards used infrequently for small amounts increase risks of loss to the City if misplaced, stolen, or used inappropriately.

We also found that most of the bureaus we reviewed did not issue procurement cards to their bureau card coordinators in order to maintain a separation of duties of card issuance, approval, and receipt. Proper internal controls require separation of duties between the cardholder and the bureau coordinator, or that an additional layer of review for such a cardholder's purchases be established. However, we found that in two bureaus coordinators have been issued personal procurement cards. Without surveying all bureaus and offices, we are unable to tell if these are isolated situations.

We reviewed the methodologies used by other cities, companies and the federal government in determining who should be using a procurement card. We found that industry criteria are more restrictive than the City, including: 1) frequency of anticipated use, 2) number of existing cards within the department or section, 3) budget status and constraints, and 4) demonstrated purchasing duties and responsibility.

Lower transaction limits

Over 50 percent of City procurement cards have single transaction limits of \$5,000, while 31 percent have monthly limits of \$50,000 or more. To determine whether these high card limits were necessary, we looked at single purchases, total monthly purchases and the maximum percent of monthly purchase limits spent by cardholders.

As shown in Table 3, 94 percent of all single purchases were \$1,000 or less, while Table 4 shows that 70 percent of total monthly purchases were \$1,000 or less.

Table 3 Single procurement card purchases

Purchase Amount	# of Transactions	Percent
\$1 - \$500	28,915	88%
\$500 - \$1,000	2,064	6%
\$1,001 - \$2,500	1,332	4%
\$2,501 - \$5,000	547	2%
Total	32,858	100%

SOURCE: Bureau of Purchases

Table 4 Total monthly procurement card purchases

Purchase Amount	# of monthly totals	Percent
Less than \$1,000	2,653	70%
\$1,001 - \$5,000	870	23%
\$5,001 - \$10,000	174	5%
\$10,001 - \$50,000	98	2%
More than \$50,000	3	0.1%
Total	3,798	100%

SOURCE: Bureau of Purchases and decentralized bureaus

In addition, Table 5 shows that:

- 26 percent of the time, cardholders with a monthly purchase limit of \$5,000 or less never used more than 10 percent of their monthly limit; while

- 75 percent of the time, cardholders with monthly purchase limits of \$50,000 or more never spent more than 10% of their limit.

Our analysis also shows that during the period tested, only 2 percent of the time did cardholders approach their limit of \$50,000.

Table 5 Maximum percent of monthly limit spent

Maximum percent of monthly limit	Monthly limits			Total
	\$5,000 or less	\$5,000 to \$49,999	\$50,000 or more	
10% or less	40	59	123	222
	26%	43%	75%	49%
11% - 25%	37	31	25	93
	24%	23%	15%	21%
26% - 50%	40	26	6	72
	26%	19%	4%	16%
51% - 75%	18	8	4	30
	12%	6%	2%	7%
76% - 100%	16	12	3	31
	10%	9%	2%	7%
over 100%	3		2	5
	2%		1%	1%
TOTALS	154	136	163	453
	100%	100%	100%	100%

SOURCE: Bureau of Purchases and decentralized bureaus

While purchasing policy requires use of a purchase order for items over \$5,000, we found that four employees have single transaction limits above \$5,000. One employee has a single transaction limit of \$10,000, but used the card only twice in FY 2001-02 for less than \$2,000 in total purchases. These limits were permitted by the Bureau of Purchases.

Reducing single and monthly transaction limits to match actual purchasing experience and need will reduce City exposure to loss in the event of stolen or lost cards, or potential misuse by City employees.

Oversight and monitoring

The Bureau of Purchases has primary authority for administering the City Procurement Card program. The Procurement Card manual designates the Bureau of Purchases as the central point for requesting, approving and issuing cards. In practice, however, several bureaus request, approve and deactivate procurement cards directly with the bank, as well as process monthly payments through their accounting divisions without involvement of the Bureau of Purchases. This occurs because these bureaus have decentralized accounting and payable processes, and have prepared their own procurement card manuals and procedures that mirror the Bureau of Purchases' manuals. Purchases has also allowed other bureaus to contact the bank directly to obtain cards for employees because the bank suggested this would be easier to administer. As a result, the program lacks centralized management and monitoring.

The Bureau of Purchases told us that they review transaction on a quarterly basis to determine if cardholders are making “split purchases” or exceeding their purchase limits. However, we believe that improved monitoring of the program is possible without need for additional staff. Monitoring should also include tests for identification of unallowed items and inaccurate per purchase and monthly limits.

In addition, we believe that the level of review and monitoring of procurement card purchases by bureau card coordinators and supervisors needs improvement. Our discussions with coordinators in six bureaus indicate that some have authority to review monthly procurement logs and to ensure payment documents are complete and in compliance, while others only process paperwork and are not asked to ensure control procedures are followed. As shown earlier, some supervisors do not fulfill their control function to ensure employees use cards appropriately and provide supporting documentation for purchases.

We also believe that supervisors and card coordinators provide the most essential internal control over the use of procurement cards. Their roles and responsibilities should be strengthened and more clearly defined in the Bureau of Purchases’ and other bureau manuals. The Bureau of Purchases could further strengthen supervisory review by providing more frequent training than currently provided.

Chapter 3 Recommendations

In order to improve procurement card internal controls and reduce the City's exposure to risks associated with the use or misuse of procurement cards, we recommend that the Bureau of Purchases, in cooperation with other City bureaus, take the following actions:

1. ***Evaluate the number of procurement cards assigned to City employees and revise the transaction limits on existing cards.***

The Bureau of Purchases, in consultation with other bureaus, should:

- identify the number of cardholders that infrequently use cards to determine if there is sufficient continuing need for retaining the cards.
- reclaim cards where use is low and need is not clearly demonstrated.
- develop new criteria for the Procurement Card Manual that provides guidance for determining when procurement cards should be issued to employees. Criteria should consider employee duties and responsibilities that require frequent

purchases and demonstrated need for procurement card use.

- bureaus should monitor purchasing patterns of cardholders and, if appropriate, revise the transaction limits.

2. *Strengthen procurement card oversight by the Bureau of Purchases.*

The Bureau of Purchases should initiate more frequent and rigorous review of the procurement card program to ensure that:

- controls are working as intended,
- bureaus are using cards for allowable purposes, and
- written policies and procedures covering the responsibilities of the individual bureaus and the Bureau of Purchases are in agreement and up to date.

3. *Improve bureau supervisory reviews.*

Supervisors in each bureau should ensure that they thoroughly review and approve all purchase documentation submitted by cardholders that report to them. Lack of compliance with established rules should result in additional training of supervisors and cardholders. In addition, bureau card coordinators should be given a stronger role in the overall review of bureau purchases to ensure that supervisors and cardholders are complying with both the City's

administrative rules and the policies and procedures of the procurement card program.

4. *The procurement card manual prepared by the Bureau of Purchases should be updated to incorporate several controls currently missing. For example:*

- criteria for issuing cards
- procedure for documenting phone / fax / internet purchasing
- a more comprehensive list of prohibited items
- timelines for submission of purchase source documents by cardholders to supervisors, card coordinators and accounting so that payments to the bank are supported by approved documentation
- authority for coordinators to review supporting documentation and question purchases

5. *Revise and publish City policies for miscellaneous expenditures.*

The Office of Management and Finance should review the current administrative policies and provide clearer direction to employees in the allowability of miscellaneous items, including the purchase of food/ refreshments for staff/bureau meetings, bottled drinking water, commuter parking, plant maintenance, and other expenses that are not travel related.

These policies are currently intertwined in the City's travel rules but they do not address many of the miscellaneous expenditure issues we discovered in our audit. Updating these policies and providing them in a separate document should provide clearer direction on what is allowed and not allowed for employee purchase.

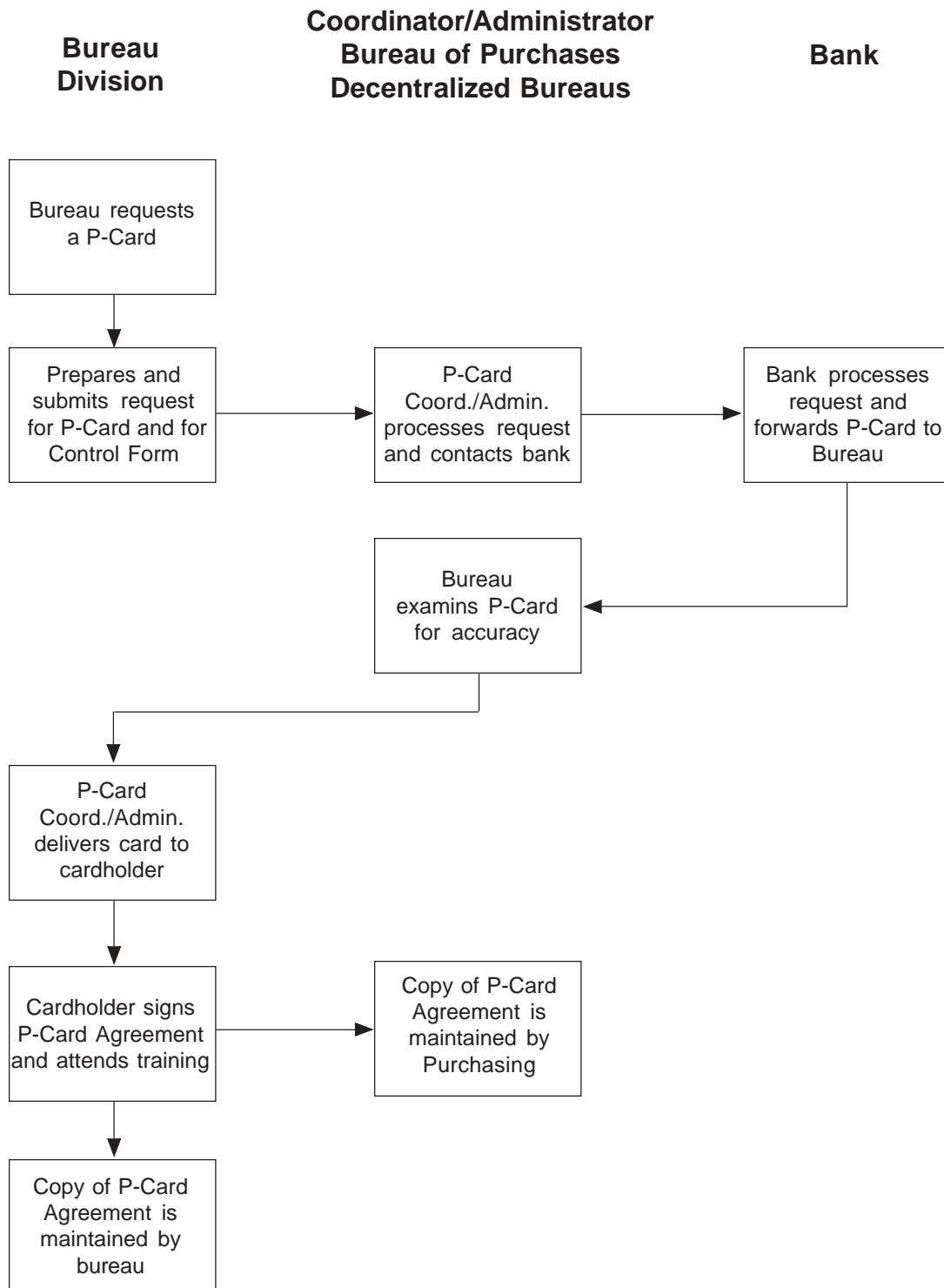
We also recommend that this separate policy document for miscellaneous expenditures be referenced in the procurement card manuals so employees and managers at all levels are aware of these policies.

6. *Require periodic training on procurement card use.*

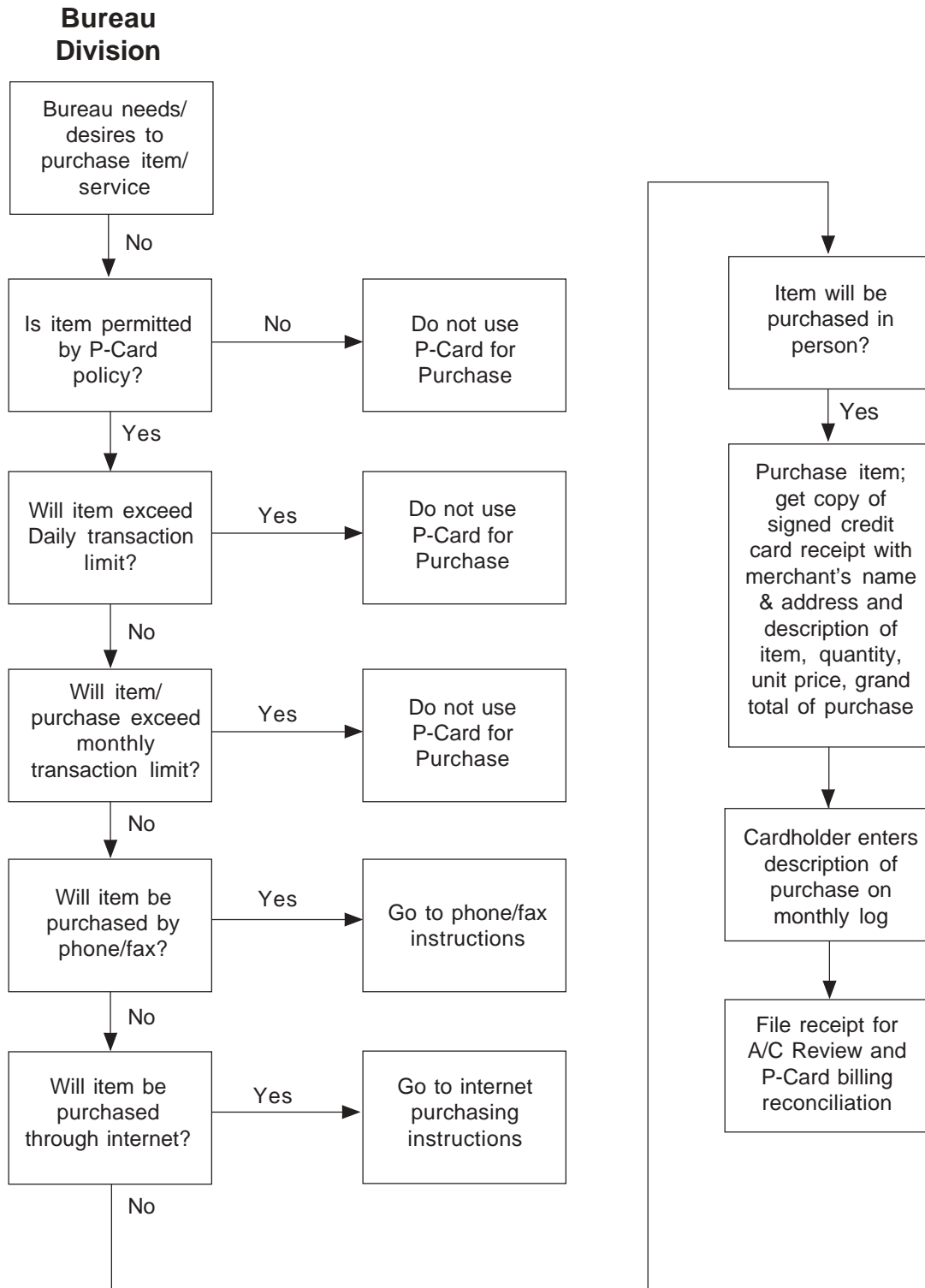
In addition to the Procurement Card Manual prepared by the Bureau of Purchases, we recommend that Purchases develop and conduct more frequent training for all new supervisors, cardholders, and bureau card coordinators. This training should also be available on the Bureau of Purchases' web site. We also recommend that Purchases post changes to procedures on-line and provide a self-test feature so that current cardholders can take a refresher course.

Appendix

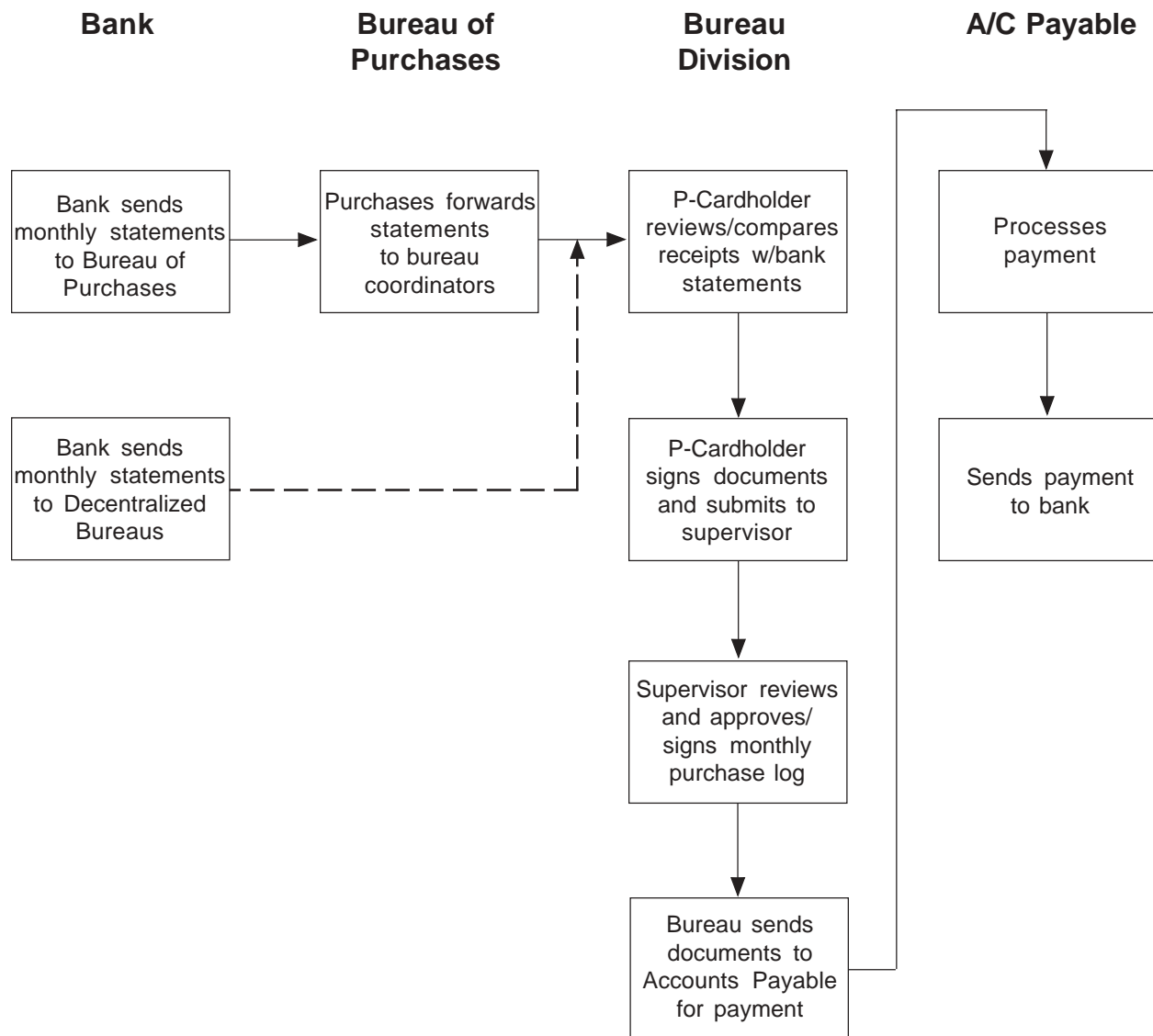
Procurement Card Activation & Issuing Process



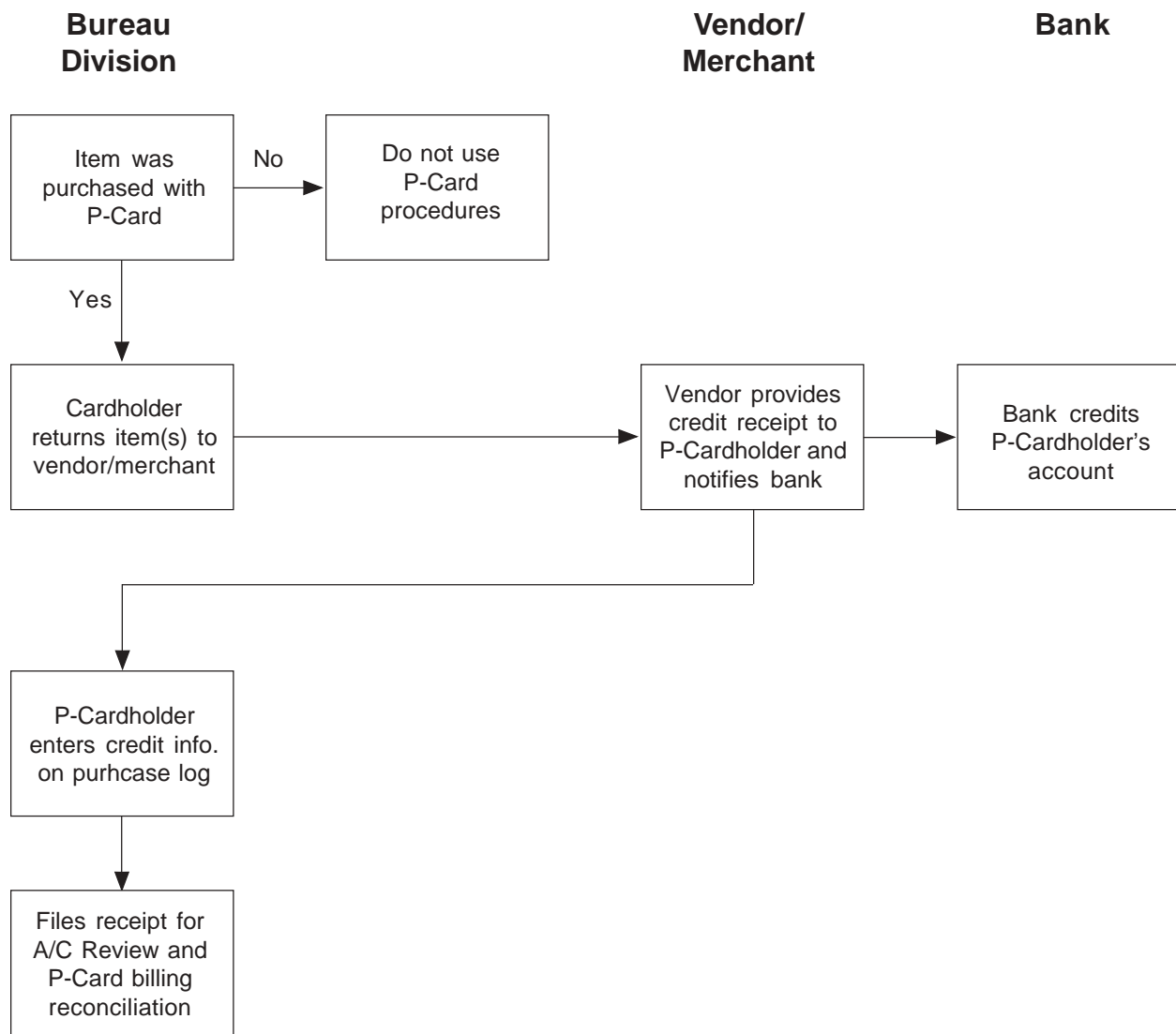
Purchasing Items with the Procurement Card



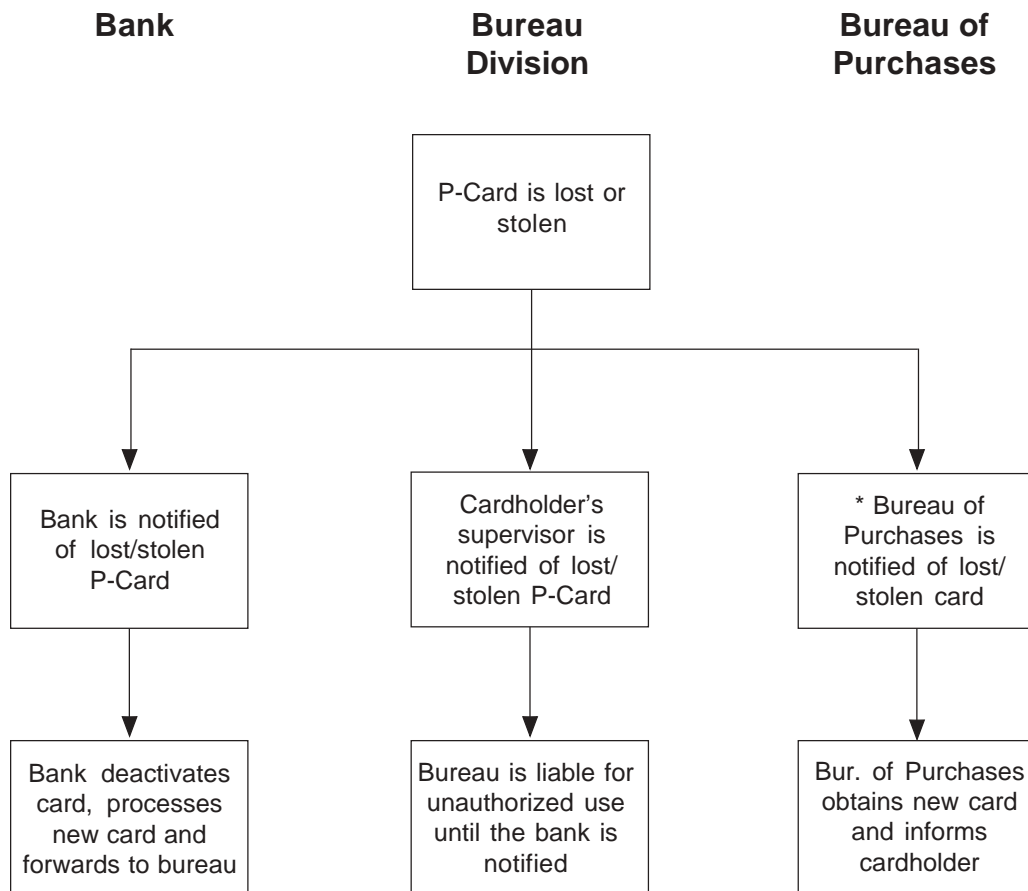
Procurement Card Account Review and Reconciliation



Procurement Card Purchase "Returned"



Lost/Stolen Procurement Card Cancelling Process



* Note: Decentralized bureaus do not notify Bureau of Purchases of lost/stolen cards

Responses to the Audit



CITY OF PORTLAND

OFFICE OF MANAGEMENT AND FINANCE

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Timothy Grewe, Chief Administrative
Officer
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FAX (503) 823-5877

MEMORANDUM

TO: Gary Blackmer, City Auditor

FROM: Tim Grewe, Chief Administrative Officer
Sue Klobertanz, Director, Bureau of Purchases

SUBJECT: Response to Procurement Card Program Audit

DATE: November 15, 2002

The Office of Management and Finance and the Bureau of Purchases are pleased to respond to the audit performed by your office on the topic of procurement card (p-card) internal controls. In general, we agree with all of the stated recommendations and believe them to be in the City's best interest.

While we agree with the findings, the Bureau of Purchases current staffing level does not permit us to respond as quickly or as thoroughly as your report suggests. In the background section, the report notes that the p-card pilot program was approved in 1996 and 1997. The report does not acknowledge that no new staffing resources were added to Purchasing's budget to manage the p-card program.

As the program grew, Council authorized one staff person to support the program in FY 00-01. However, in the following years, Purchasing staff has been reduced by two staff people. In an attempt to continue all core programs at the existing level, we have been forced to give the primary p-card staff person additional duties. This means that annual p-card purchases of over \$8 million dollars is now being staffed by less than one full-time person. It is our professional judgement that an additional FTE will be required to fully implement the audit findings.

The report notes that the City p-card program generally follows standard best practices. The report goes on to note certain improvements in on-going monitoring, oversight and training. Staff agrees with these recommendations.

We look forward to your continued support and assistance as we move forward with this effort during the coming months.



CITY OF PORTLAND
ENVIRONMENTAL SERVICES



1120 SW Fifth Avenue., Room 1000, Portland, Oregon 97204-1912 Dean Marriott, Director Dan Saltzman, Commissioner

November 20, 2002

Mr. Gary Blackmer, City Auditor
City Hall, Room 310
1220 SW Fifth Avenue
Portland, Oregon 97204

Re: City's Procurement Card Program Audit Report, November 2002

Dear Gary:

Thank you for the opportunity to respond to the final draft of the City of Portland Procurement Card Program Audit. As you have indicated in your report, the main objective of this program is to provide for an efficient, cost-effective method of purchasing and paying for low-dollar, non-capital items otherwise purchased by Limited Purchase Orders, payment authorizations and petty cash. We believe that the Bureau of Environmental Services (BES) has met this objective and the use of procurement cards has resulted in major cost saving in purchasing and payment processing. In addition, we believe that this method has provided for faster process in acquiring items and services needed for getting the City's work done. While we are pleased with the efficiencies of this program, we continue to look for opportunities to improve our business practices and internal controls and to meet best practices contained in City of Portland guidelines, policies and procedures.

Your report contains valuable information that we intend to draw upon and incorporate in updating our existing procurement card program policy and procedures. In addition, we believe that the audit can provide helpful knowledge of processes throughout the City and provide opportunities for all City bureaus to share their strengths and learn of weaknesses. Centralized guidelines are helpful in clarifying common issues throughout the City. Centralized managing and monitoring of this program, however, can be costly to implement and ultimately reduce efficiencies. Guidelines should also consider flexibility to serve for exceptional situations. Here is our detail response to your recommendations:

- 1. Evaluate the number of procurement cards assigned to City employees and revise the transaction limits on existing cards.*

We are in the process of implementing this recommendation. Since the City of Portland does not issue travel advances, the procurement cards are used to replace this need.

BES retains the cards from staff that only use the cards for the purpose of traveling, and after completion of their trip, we keep the cards in a safe for future use.

2. *Strengthen procurement card oversight by the Bureau of Purchases.*

While we appreciate the need and benefit of centralized system guidelines, we don't believe the role of oversight by the bureau of Purchases will result in improvements. It may cause more costly and inefficient practices. Bureaus should be held responsible for their accounting practices and this includes management of procurement cards.

3. *Improve bureau supervisory reviews.*

Bureau of Environmental Services is in compliance with this recommendation. Our supervisors review and approve all purchases. The Bureau's Accounting Services Manager also reviews all receipts and required purchases prior to processing payments. We will continue reminding our supervisors of their roles and responsibilities in this matter.

4. *The procurement card manual prepared by the Bureau of Purchases should be updated to incorporate several controls currently missing.*

BES provides its cardholders with a copy of the BES procurement card policy and procedure and encourages the use of the booklet. We are in process of updating and revising our policies to incorporate items recommended in this audit.

5. *Revise and publish City policies for miscellaneous expenditures.*

BES has an internal policy that requires Director's approval for purchases of refreshment for all occasions.

6. *Require periodic training on procurement card use.*

We believe this is a very good idea. Currently we train each cardholder prior to receiving his/her new procurement card. We also encourage our cardholders to use BES procurement card policy and procedures and ask questions if they are not clear about their purchases.

Thank you again for the chance to comment on the audit.

Sincerely,

A handwritten signature in black ink that reads "Dean Marriott". The signature is written in a cursive style with a large, looping initial "D" and a long, sweeping tail.

Dean C. Marriott

cc Sediegh Khodaverdi, BES



PORTLAND PARKS & RECREATION

Date: November 20, 2002
To: Gary Blackmer, City Auditor
From: Charles Jordan, Director of Parks & Recreation
Subject: Audit of City's Procurement Card Program

Thank you for the chance to review the draft audit of the City's procurement card program, and thank you also for the cooperative approach your staff took in researching this subject. I do have a few comments that reflect our experience in Parks & Recreation with p-cards.

- ◆ It is crucial that as a City, we become more efficient in the processing of financial transactions. Because it is so cost-effective, the p-card should be the preferred spending method for all small, non-contractual purchases, and it should be the City's goal to encourage its use. Local purchase orders (LPOs) or petty cash should only be used where businesses do not accept p-cards or where IRS 1099 reporting requirements would preclude the use of p-cards.

It would have been interesting if the audit had included data on the relative number and cost of transactions using p-cards, LPOs, and petty cash, describing in quantitative terms the efficiencies made possible by the procurement card program. I know that in Parks & Recreation, this past July we reduced our downtown accounting staff by one full-time position (out of about seven full-time equivalents). The reason that our remaining staff has been able to continue getting the bills paid is entirely attributable to our aggressive bureau-wide implementation of the p-card program. This example is only one bureau's experience, but it does represent a personnel savings of 15%. It would be interesting to see a citywide view of the savings (and potential savings) from this particular purchasing tool.

- ◆ Internal controls in general should focus on training, back-end review, and an emphasis on personal accountability, not rely on front-end approvals. For p-cards in particular, the major source of protection against fraud or misuse is the principle of personal accountability. The primary risk is not from a large number of cardholders or "just in case" dollar limits, but from the shared use of one card by multiple employees—which can lead to a situation where the named cardholder may not know the business purpose of some of the transactions made with that card. In order to have personal accountability, every employee with a card should know specifically the purpose of each transaction made with that card.

The language in recommendation #1 of the audit suggests that only frequent users should have cards. We believe that *potential* need to make purchases, rather than frequent need to make purchases, should be the standard for whether someone should have a card. Restricting cards to a few high-volume users will inevitably lead to either: (1) many employees continuing to do business in the old, inefficient ways, through LPOs or petty cash, or (2) the use of "group cards" or the borrowing of cards. That weakens security rather than enhancing it. The best way to avoid the shared use of p-cards but still encourage employees to rely on this tool is to encourage each employee who might need to make purchases—even occasionally—to go through the training and get his or her own card.

In general, recommendation #1 places too much emphasis on the potential liability from giving employees a p-card. Well, we incur liability when we give our park maintenance employees keys to our buildings, too, but because it's part of their job, we do it anyway, and then we have to be clear about our expectations about how and when to use those keys. Our approach to p-cards should be similar to our approach to building keys—a real emphasis on personal accountability, a discouragement of group access to one key (or card), and training about how and when to properly use them.

- ◆ The language on pages 15-17 implies that high transaction limits are a problem. However, the data in Tables 3-5 show clearly that if people don't need to spend money, they are not spending money, regardless of whether their card limits are high or low. That's good, not bad. I don't doubt that many p-card holders could get along just fine with lower limits, but the limits don't seem to be a significant variable when it comes to the security of the p-card program. With the proper training and personal accountability for purchases, card usage can be effectively managed, and high "just in case" card limits won't have much of any effect one way or another.
- ◆ We agree with recommendations #2-4, dealing with supervisory review and the coordinating/training role of the Bureau of Purchasing. While there is not a "p-card crisis" underway, the p-card is still a tool under development, and there is value in learning what we can from our experience so far. One of those lessons is that supervisory attention is important in order to ensure that documentation is complete and expenditure requirements are followed. Another is that the Bureau of Purchasing can carry out a useful role in articulating minimum standards and recommended "best practices" to bureaus, particularly through an improved p-card manual. Recommendation #6, about periodic training for p-card holders, is also a sound recommendation, although the required periodic training ideally would be an overview of all the various tools for making expenditures properly, not just p-cards. We also agree with your observation on page 19 that bureau card coordinators need to actually review the monthly procurement logs for compliance and proper spending, not just process the paperwork.
- ◆ We especially agree with recommendation #5. The miscellaneous expenditures policy should have more visibility by being attached to the p-card manual. The policy should also be revised to give more concrete examples—right now, it has several gray areas in its definitions that make it hard to give clear guidance to our program managers.
- ◆ Regarding the comment on page 15 about the separation of duties between cardholders and the Bureau P-Card Coordinator: good point. We'll have our Bureau P-Card Coordinator turn in her card.

Again, thanks for your staff's cooperative approach to this audit. While we feel that our efforts as a bureau so far have been in the right direction—in fact, we have been one of the leaders in the systematic implementation of p-cards—we also can make further progress in our training and supervisory review. As a City, it is helpful to shine the spotlight occasionally on our accounting procedures and motivate us all to pay more attention to both the integrity and the efficiency of our spending practices.



CITY OF
PORTLAND, OREGON
BUREAU OF POLICE

VERA KATZ, MAYOR
Mark A. Kroeker, Chief of Police
1111 S.W. 2nd Avenue
Portland, Oregon 97204

Service Compassion Integrity Excellence Respect

MEMORANDUM

November 20, 2002

To: Gary Blackmer
 City Auditor

Subject: Response to Audit on Procurement Card Program

We appreciate your efforts in conducting the citywide audit and support the majority of your recommendations. We agree that the Bureau of Purchases should have the responsibility to oversee and monitor the City's Procurement Card Program by providing more comprehensive sets of policies and procedures, periodic training, and expansion of the timelines for submission of Procurement Card source documents.

The Police Bureau agrees with the report, suggesting improvement of the citywide bureau reviews in control and oversight. The Police Bureau's Procurement Card coordinator along with supervisory review will continue to ensure policies and procedures are in compliance, reviewing internal processes, educating cardholders including periodic reminders.

Another recommendation states that there are opportunities to strengthen procurement card controls in the area of coordination with City Bureaus on submission of purchase source documentation and payment processing. The Bureau recognizes the importance of meeting deadlines, however reasonable timelines for the coordination process between cardholder, supervisors, card coordinators, Bureau of Purchases and accounting must be discussed and negotiated.

Thank you for allowing us to comment on your Final Draft Audit Report of the City of Portland's procurement card program. We look forward to working with the Bureau of Purchases and other City Bureaus in support of the recommendations that we believe will strengthen and clarify the Procurement Card Program.


Chief Mark Kroeker
Chief of Police

C: Nancy McPherson, Dir. of Svc.
 AC Greg Clark
 AC Derrick Foxworth
 AC Andrew Kirkland


Rita Drake, Fiscal Services
Elise Marshall, Mayor's Office
Celia Heron, OMF
Attachment(s)



CITY OF
PORTLAND, OREGON
BUREAU OF WATER WORKS

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November 18, 2002

TO: Gary Blackmer, City Auditor
FROM: Mort Anoushiravani, Bureau Administrator 
SUBJECT: Response to Final Draft of the City's Procurement Card Program

Thank you for the opportunity to comment on the recommendations from the audit of the City's procurement card program.

As one of the participating bureaus in the pilot project with Wells Fargo, we have really appreciated this additional method of procurement and payment process and were pleased when the pilot turned into a full program with Bank of America.

The program design has allowed us to manage our credit cards by merchant category code, which has enabled us to follow City purchasing and interagency policies. The advantages and cost savings we have seen in using procurement cards has been in labor costs for our field staff being able to pick up small parts near job sites, instead of coming back into the main offices. We have also found that this is a good method of purchasing from the annual supply contract vendors.

Specific Comments by Recommendation are as follows:

1. Evaluate the number of procurement cards assigned to City employees and revise the transaction limits on existing cards.

We concur with this recommendation. However, we would like to suggest that limits of \$5,000.00 per transaction may be too small for ordering from annual supply contract vendors, which have gone through Bureau of Purchases processes. We would also like to suggest that consideration of eligibility also include geographical location of the employee. The procurement card may be more efficient and cost effective for field staff than traditional methods of procurement in the City.

2. Strengthen procurement card oversight by the Bureau of Purchases.

We concur and would add that Bureau of Purchases should ensure that Bank of America meets its contractual obligations regarding its software, reporting and cardholder limits.

3. Improve bureau supervisory reviews.

We concur.

4. The procurement card manual prepared by the Bureau of Purchases should be updated to incorporate several controls currently missing. For example:....

The fourth bullet – "timelines for submission of purchase source documents by cardholders to supervisors, card coordinators and accounting so that payments to the bank are supported by approved documentation", may not be useful, the dates change based on the statement due date from Bank of America. As an example, in our Bureau, the Procurement Card Administrator notifies cardholders of the due date of their approved purchasing

logs when the Bank of America purchasing report is sent to them. This is timed to meet the deadline of 5 business days before due date, to deposit payment into the Bank of America account.

As an additional bullet, the Bureau of Purchases may want to include in the manual a section on merchant category codes. Using the codes to establish different schedules based on cardholder purchase types assists in managing cardholder purchases. This has worked well in the Water Bureau.

5. Revise and publish City policies for miscellaneous expenditures.

No comment.

6. Require periodic training on procurement card use.

We concur that this would be helpful for general training about the use of procurement cards, but it should be recognized that decentralized bureaus have specific processes that need to be taken into consideration.



CITY OF

PORTLAND, OREGON

BUREAU OF FIRE, RESCUE & EMERGENCY SERVICES

Erik Sten, Commissioner of Public Works

Edward A. Wilson, Chief

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FAX (503) 823-3710

November 21, 2002

TO: Gary Blackmer, City Auditor

FROM: Ed Wilson, Chief *EAW*

Subject: Response to the Procurement Card Program Audit

To facilitate the review, the Portland Fire & Rescue's audit resolution is presented in two parts: a response to the auditor's general concerns, and the measures taken as corrective and preventive action to strengthen our internal control.

Response to the Auditor's General Concerns:

Despite no other cited violations, we found the auditor's recommendations to be very important in the safeguard of the system as well as in the improvement of our procurement card operation. To simplify the work, we are only addressing the points we can use to improve our system, in the sequence they appear in the auditor's report.

1-Inadequate Receipts and Supporting Documentation:

In the bulleted item number 4, while our logs are traceable electronically to the cardholder who originated them, beginning with the next statement, we will require their signatures on the hard copy just for auditing purpose.

2-Lack of Supervisory Review and Approval:

The only one cardholder who did not have his supervisor's signature is the Chief of the Bureau. As per the auditor's recommendations, we have obtained Commissioner Sten's delegation for the Fire Chief to act as his own supervisor in approving the procurement card purchases. This document has been already conveyed to your office.

3-Inappropriate and/or Questionable Purchases:

The purchase of refreshment and food items was not fully addressed in the Travel and Miscellaneous Expenses guidelines. Due to the nature of our work, we often encounter situations where food items have become a necessity in carrying out our mission. Until the City's rules regarding the purchase of food items are revised, we will require the Bureau head and the Commissioner's approval on all food items not addressed in the current rules.

In order to respond to the frequently asked questions, we are also developing an internal policy specifically on the purchase of foods and refreshment.

4-Untimely Submittal of Monthly Statements:

To date we have no overdue statement, but this problem is yet to be addressed. Being a centralized Bureau we normally lose one or two days between the time the report becomes available and the time we receive the statement from Purchasing. Compounded with this delay, Central Accounts Payable has cut down the time to submit the statement by an average of one week. This has caused many Bureaus to fall behind on their statement. However delay on our part is predictable; it usually happens around the holidays or when a cardholder is out of town.

C-Measures Taken or Being Considered to Strengthen our Internal Control:

As we explained during the exit conference, we have taken the following measures:

1-New cardholders already have lower limits to reflect their realistic needs. We are also in the process of revising the limits on existing cards, using the same concept.

2-Cards with slow activity and "dormant" cards will be reviewed to determine whether they can be deactivated or retained, after all consideration given to their possible use for travel purpose.

3-We believe the Bureau of Purchasing is exercising its oversight function. At least on one occasion we were reminded of an appearance of improper purchase.

4-We have requested that Purchasing continue to process new card requests if they have not been authorized by the PF&R Card Administrator. This process is working well. To implement this policy, our application contains a box for the PF & R card Administrator's approval.

5-Along with our new internal fund control process, all purchases including the procurement card, will require supervisor's approval prior to placing the order. This procedure in turn increase the supervisors and managers' awareness on all our purchases in general, including the card charged transactions.

6-We conduct bureau-wide financial training sessions annually, which includes the procurement purchase rules and regulations. Meanwhile, we are assessing the need for a special session for cardholders only.

We believe this audit to be a real challenge to our current procurement purchase procedure as well as a contribution to refine our future operation. Should you feel any areas are not addressed to your satisfaction, please do not hesitate to contact our coordinator.

CC: Tim Grewe, Director- Office of Management and Budget
Sue Klobertanz, Director-Bureau of Purchases
Anne Hawley-Bureau of Purchases
Jack Graham, Chief Bureau Admin Manager-Fire Bureau
Lee Chum-Fire Bureau



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Finance

Laurel Wentworth
Planning

Toby Widmer
System
Management

November 19, 2002

TO: Gary Blackmer
City Auditor

FROM: Brant Williams 
Director, Portland Office of Transportation

SUBJECT: Response to the City's Procurement Card Program Audit

Thank you for the opportunity to review the final draft of the Procurement Card Program Audit. Your recommendations to further evaluate and strengthen Citywide policies and procedures seem appropriate in light of the study findings. During the next year, we will work together with the Accounting Advisory Committee, the Bureau of Purchases and other City bureaus to deal with the issues and improve procedures, practices, and training guidelines.

As you know, the Accounting Advisory Committee was organized to assist with Citywide accounting procedures and internal controls. This forum, with its representation from the major bureaus of the City, will adequately represent the varied interests and needs. The Portland Office of Transportation will be pleased to participate in this process.

Again, thank you for the opportunity to review the draft and prepare a response.

CC: Tim Grewe, Director, Office of Management and Finance
Sue Klobertanz, Director, OMF – Bureau of Purchases
Richard Tracy, Director, Audit Services Division
Dick Steinbrugge, Finance Director, Portland Office of Transportation

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