
Performance Audit of the Procurement Card Program

ADMINISTRATION AND OVERSIGHT CAN BE STRENGTHENED

AUGUST 2012

Audit Report
Office of the City Auditor
City of San Diego



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THE CITY OF SAN DIEGO

August 8, 2012

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Transmitted herewith is an audit report on the Procurement Card Program. This report is in accordance with City Charter Section 39.2. The Results in Brief is presented on page 1. The Administration's response to our audit recommendations can be found after page 19 of the report.

If you need any further information please let me know. We would like to thank the Purchasing and Contracting staff, as well as representatives from other City departments for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information is greatly appreciated. The audit staff responsible for this audit report is Danielle Knighten, Sunny McLernon, Sara Glick, and Chris Constantin.

Respectfully submitted,

Eduardo Luna
City Auditor

cc: Jan Goldsmith, City Attorney
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Results in Brief

Opportunities to Strengthen Procurement Card Controls

We found that internal controls of the City's Procurement Card Program (program), which is administered by Purchasing & Contracting (P&C), can be strengthened. Strengthened internal controls will provide greater assurance that the City mitigates potential of misuse within the program. We focused our audit work on the internal controls of the program; however, in doing our fieldwork, we also identified non-internal control related issues.

We reviewed the transactions and program administration during the period of fiscal years 2010 and 2011. Specifically, we found that, although P&C does have internal controls for the program in place, there are opportunities for P&C to improve controls and reduce risks. For instance, although P&C has established single transaction limits for procurement cards (P-cards), it has not established any criteria for cardholders' monthly credit limits. We also found that cardholders' credit limits can be reduced to mitigate financial risk to the City without impacting the City's business operations.

Opportunities to Improve Operations Outside of the Procurement Card Program

In addition to the internal control findings and recommendations related to the P-card program, we also found the following non-internal control issues that need to be reviewed or addressed:

- the City could increase the rebates it receives for participating in the P-card program if it changed its current payment practices;
- P&C, along with City departments needs to adequately ensure City contracting requirements are met;
- and the inventory controls of one participating department reviewed should be strengthened.

We have made 11 recommendations to P&C, the Comptroller's Office, and General Services-Fleet Services. These recommendations are designed to strengthen controls to reduce risk and to address other potential problems that we identified during our audit. The auditees agree with 10 of these findings, and partially agree with one recommendation.

Background

The City of San Diego (City) allows authorized employees to purchase certain low-cost business items using a procurement credit card (P-card). P-cards provide an alternative to traditional procurement methods and offer a number of benefits, including:

- Reducing time and effort for requisitions,
- Greater flexibility in selecting vendors,
- Simplifying the procurement process, and
- Expediting receipt of purchases.

P-cards are meant to supplement—not replace or circumvent—established purchasing methods.

Program Administration and Responsibilities

The City participates in the State of California’s (State) Master Services Agreement with US Bank for P-card services. The City’s Purchasing & Contracting Department (P&C) is charged with overall administration of the P-card program; however, departments and cardholders are also accountable for ensuring effective program management.

The State, through an agreement with US Bank, provides guidance on the roles and responsibilities of employees and departments participating in the P-card program. The City assigns these roles and responsibilities and establishes policies on how they are carried out. The roles and responsibilities are identified in **Exhibit 1**.

Exhibit 1

Roles and Responsibilities of P-card Participants

Title	City Assignment	Key Responsibilities
Program Administrator	Purchasing & Contracting Department	<ul style="list-style-type: none"> • Oversees P-card program • Monitors Purchases • Provides training
Cardholder	Employee authorized to make P-card purchases	<ul style="list-style-type: none"> • Makes only authorized purchases • Reconciles statements
Approver	Department-designated employee with authority to approve purchases	<ul style="list-style-type: none"> • Reviews and approves cardholders' monthly invoices
Billing Official	Department-designated employee, typically the Invoice Administrator	<ul style="list-style-type: none"> • Issues request for payment • Maintains P-card related documents

While P-cards offer numerous benefits, they also carry inherent risks, including potential fraud and abuse, which can result in financial loss and negative publicity if not adequately controlled. Because of these risks, numerous guidelines and best practices have been published to help organizations manage an effective P-card program.¹ Common guiding principles for a strong internal control environment include:

- Establishing agency specific procedures;
- Mitigating financial exposure by requiring cardholders to have a justification and business need to participate in the program;
- Ensuring sufficient oversight by the Approver;
- Conducting frequent audits of P-card activity; and
- Providing ongoing training for participants.

The City has incorporated some of these key controls, such as requiring Approver reviews and providing training for cardholders in its P-card program, which are outlined in Administrative Regulation, and the Procurement Policies and Procedures Handbook.

¹ Two examples of key publications include the Governmental Accountability Office's *Auditing and Investigating the Internal Control of Governmental Purchase Card Programs* and the U.S. Department of Treasury's *Treasury Financial Manual*, Volume 1—Part 4—Chapter 4500, "Government Purchase Cards."

Audit Results

Finding 1: Administration of the P-card Program can be Strengthened to Mitigate Exposure to Financial Loss and Ensure Compliance with City Policies

We assessed overall administration of the P-card program, as well as specific purchases made by employees, and found that program management can be strengthened at all levels—from individual departments to the Purchasing & Contracting Department (P&C).

For example, we found that:

- P&C has established a single transaction limit of \$5,000 but has not established any specific criteria for determining cardholder monthly credit limits, and that many cardholders appear to have limits higher than operationally necessary.
- During the audit period, P&C did not use an adequate system to ensure P-card purchases comply with City contracting and purchasing requirements.
- Departments' Approvers may not dedicate adequate time to reviewing P-card transactions.

While our audit did not identify any indication of deliberate P-card misuse or widespread violations, we did note some purchases that did not comply with purchasing policies, including movie tickets for grant-funded events and gift cards for an employee awards program.

Strengthening program oversight in the areas we identified will ultimately provide greater assurance to the City that the P-card program adequately mitigates financial and operational risk in a cost-effective manner.

The City Could More Effectively Manage P-Card Credit Exposure

We found that the City issues more P-cards than are likely operationally necessary and does not appropriately align individual monthly credit limits with actual spending. For example, we found that 64 percent of all cardholders in fiscal year 2011 never exceeded 50 percent of their credit limit in any month, and 20 percent of cardholders used less than 10 percent of their limit. In addition, some cardholders never used their cards at all.

Key tenets of an effectively managed P-card program include issuing cards only to employees who have an operational need to make these purchases and aligning cardholder monthly credit limits with actual spending. Currently, P&C has no formal criteria or comprehensive Citywide policy for determining employees that should be issued a P-card or establishing credit limits. While P&C has set a maximum single transaction limit of \$5,000, maximum monthly limits are determined at the discretion of department directors. In addition, P&C does not conduct any analysis to compare cardholder limits with actual usage nor do they require departments to do so. However, P&C management told us that they are in the process of developing guidelines for use by participating City departments.

Without established processes to ensure that departments issue P-cards and set appropriate single and monthly credit limits according to their operational needs, the City faces a potential risk of financial loss. For example, consider an employee who carries a monthly credit limit of \$20,000, yet his or her actual spending only warrants a \$2,500 limit. That employee may go on a personal shopping spree—leaving the City potentially responsible to pay the \$20,000 bill.²

Based on our analysis, we determined that, by implementing a formal process for setting single and monthly credit limits based on expected operational need and periodically adjusting those limits based on actual usage, the City may be able to reduce its financial exposure by about \$5 million monthly or \$60 million annually. While risk is measured in terms of the total credit

² The agreement with US Bank states that in circumstances involving fraudulent or wrongful use of the P-card by an approved cardholder, the City would be liable for the charges, unless the City terminates the employee. After the employee is terminated, the City could apply for the Liability Waiver Program.

capacity of maxing out P-cards, the City maintains controls that should limit the risk. For instance, the City does have policies and regulations on allowable purchases of goods and services as well as travel, which should be enforced by Approver reviews.

Recommendation #1 The Purchasing & Contracting Department should establish guidance and criteria for departments to use in determining whether employees have a true operational need for a P-card.

Recommendation #2 The Purchasing & Contracting Department should periodically evaluate cardholders' actual spending and monthly credit limits. The Purchasing & Contracting Department should either adjust cardholder limits as appropriate or recommend that departments make the adjustment.

P&C Does Not have an Adequate System to Ensure Compliance with Contracting Requirements

During the audit period, the San Diego Municipal Code required the City to establish competitively bid contracts with vendors when annual purchases exceed \$50,000. We identified more than 40 vendors from which departments purchased \$50,000 or more in goods using P-cards in both fiscal years 2010 and 2011. However, we could not definitively determine whether the City has a contract with these vendors because P&C could readily provide that information to us. Nevertheless, we estimate that contracts did not exist for at least ten of these vendors through our own independent analysis of the information supplied by P&C.

Without an adequate process to identify when departments purchase more than \$50,000 from a non-contract vendor, P&C is hampered in its role to promote open competition and thereby help ensure the City receives the best value. P&C did not identify departments that circumvent City contracting policies—whether intentionally or unintentionally—by using P-cards. This inability to easily identify which vendors have current contracts with the City appears to have created other compliance challenges as well. For example, we found that departments do not consistently comply with the City requirement to use purchase orders—rather than P-cards—when procuring items from vendors that have purchasing contracts with the City. Our review identified two vendors in particular that departments

frequently buy items from using P-cards instead of purchase orders.³ However, without a system to track contracts, departments have no way of easily knowing whether a current contract exists.

P&C has indicated that it has developed a way to address these contract management process concerns. In response to our audit finding, P&C provided the following statement:

The San Diego Municipal Code requires the City to establish competitively bid contracts or purchase orders with vendors when certain dollar thresholds are exceeded. Contract and Purchase Order authorizations and associated expenditures are captured in SAP for reporting and analysis. Vendor specific P-card transactions are not entered into SAP but are provided separately by US Bank. The presence of separate systems complicates the analysis and management of cumulative spend with a vendor to ensure proper procurement practices are utilized.

In order to address this, the P-card Program has established the policy that P-Cards are not to be utilized when a contract or Purchase Order has been established with the vendor. To monitor this, the P-Card program provides monthly reports to buyers in Purchasing & Contracting. The reports provide summary \$ volume activity by vendor and department. Buyers are to identify if P-cards are being utilized to purchase goods or services at vendors for which a contract or Purchase Order is in place and to address such situations by contacting the involved staff.

Buyers are also to review the overall level of City procurements across departments via both P-Card and purchase order to determine if a different procurement approach is warranted to ensure the City is receiving best value.

Recommendation #3 **The Purchasing & Contracting Department should develop a system to track or monitor how much departments purchase from vendors that do not have contracts with the City.**

³ We found more than 450 transactions for these two vendors between July 2009 and June 2011.

Recommendation #4 Once established, the Purchasing & Contracting Department should utilize the information to ensure departments comply with City regulations and use the most appropriate method, i.e., P-cards versus purchase orders, to purchase items from vendors.

**P&C Can Strengthen
Core P-Card Program
Administration
Responsibilities**

We found that P&C can improve two of its fundamental oversight responsibilities within the P-card program: monitoring and training. First, we found that P&C's process for selecting departments to audit may result in certain departments never being audited. According to P&C, it selects divisions to audit based on total dollar value of P-card purchases and transaction volume. While these are logical factors to consider when identifying "higher-risk" departments, it means that transactions in "lower-risk" departments may never be audited.

P&C can improve the effectiveness of its monitoring by establishing a formal audit methodology and schedule that ensures all departments are audited at least once over an established audit cycle. As an example, if P&C established a five-year audit cycle, it may audit certain high-risk departments every year, others every two years and some only once during the five-year audit cycle.⁴ P&C has stated that it intends to annually audit all departments participating in the P-card program.

In addition, we found wide variances in the audit coverage P&C is able to provide each year. For example, P&C was only able to audit less than half of departmental divisions in fiscal year 2011 due to competing work priorities, yet management indicated that it audited closer to 70 percent in prior years. A formal audit methodology and cycle will help P&C manage its annual workload at a more consistent level. Specifically, it will mitigate workload uncertainty by identifying at the start of the fiscal year which departments and divisions will be audited.

We also found that P&C only provides training to program participants when they first join the program, contrary to the City requirement that participants receive both initial and

⁴ This scenario is merely an example of how an audit cycle might work and should in no way be considered a prescriptive recommendation for the exact audit cycle P&C should adopt.

annual training.⁵ According to P&C, it is currently working with the Human Resources Department regarding training options for the P-card program, and it expects to align the training requirements in the Administrative Regulation and the program policies in the near future.

Recommendation #5 The Purchasing & Contracting Department should develop a formal methodology for selecting departments to audit and an audit cycle to ensure all departments are audited at least once during the established timeframe.

Recommendation #6 The Purchasing & Contracting Department should:

- a) Develop a tracking system to ensure all participants complete annual training, as required.
- b) Ensure internal training policies and Administrative Regulation 95.55 reflect the same training requirements for the program.

Departments May Not Adequately Prioritize Approvers' Responsibilities

The results of our audit indicate that the workload and span of control of departments' Approvers may be too big to provide adequate oversight. For example, during the period of our audit, the Approver for General Services-Fleet Services (Fleet Services) estimates that, due to competing work priorities, only two hours a month can be dedicated to reviewing and approving the division's 1,800 monthly P-card transactions. This means that the Approver only spends an average of four seconds conducting a very cursory review of each transaction to identify obvious unusual purchases.

While Fleet Services has implemented additional oversight controls, including requiring supervisor approval prior to making purchases, other departments may solely rely on their Approver to ensure purchases are valid and appropriate. If an Approver cannot allocate sufficient time to reviewing P-card transactions, the department is at risk of unknowingly paying for fraudulent or inappropriate purchases.

The role of the Approver is central to an effectively managed P-card program and, per City requirements, the Approver must

⁵ Administrative Regulation 95.55 states that the Purchasing & Contracting Department shall ensure participants receive initial and annual training.

carefully review and approve *all* P-card purchases and transactions. By not ensuring that Approvers devote adequate time to overseeing the P-card program, the City essentially de-emphasizes the importance of this critical function. In doing so, it sends a message to departments and cardholders that oversight is lenient, putting the City at higher risk of cardholders misusing their cards.

Consequently, P&C should establish guidelines to identify the number of cardholders and transactional volume that can reasonably be reviewed by the Approver. This will help ensure Approvers' workloads are manageable and prioritized appropriately so that they can fulfill their P-card oversight responsibilities. For example, one approach may be to develop a policy limiting the number of cardholders each Approver oversees.

Recommendation #7 The Purchasing & Contracting Department should establish guidelines on the number of cardholders and transactional volume that can be reviewed by the Approver to ensure adequate time is devoted to reviewing cardholder transactions.

Finding 2: Opportunities Exist to Increase Cash Rebates

US Bank offers the City two incentive rebates for prompt bill payment and frequent P-card usage. In calendar year 2011, the City received approximately \$90,000 in P-card rebates.⁶ The City may be able to increase P-card cash rebates, which are deposited into the General Fund, by exploring other payment practices.

“Pay and Confirm” Can Maximize Prompt-Payment Rebates

The prompt-payment rebate is determined by how quickly the City pays the invoice from US Bank. In calendar year 2011, the City paid US Bank invoices an average of 45 days after the billing cycle closed. If the City had paid these invoices within 20 days, it could have increased its total rebate by about \$17,000. Further, if the City employed a “pay and confirm” policy—as opposed to its current “confirm and pay” method—and routinely paid the invoice a day after the billing cycle closed, it would have realized a cash rebate increase of \$48,000.

Currently, it is the City's practice to carefully review and approve all invoices and P-card transactions prior to remitting payment to US Bank. This “confirm and pay” method results in processing delays that limit the City's ability to maximize the prompt-payment cash rebate.

The City is allowed 60 days from the statement date to dispute fraudulent or questionable charges. If the City switched to a “pay and confirm” method, it could pay invoices immediately yet still have plenty of time to carefully review, approve and, if necessary, dispute P-card transactions.

Because the “pay and confirm” approach can be an effective and efficient option for managing payments while simultaneously maximizing the prompt-payment rebate, P&C should explore implementing this method in the City. However, for this approach to work properly, the recommendations made in this report to strengthen program administration and oversight must be implemented.

⁶ According to P&C, the fiscal year rebate for 2011 was \$79,000.

Recommendation #8 The Comptroller's Office along with Purchasing & Contracting should evaluate and consider changing the P-card payment process from a "confirm and pay" method to "pay and confirm" to maximize prompt-payment cash rebates.

Finding 3: Clarification is Needed Regarding Purchasing Requirements for Fleet Services Contracts

During the audit, we identified a contract between the General Services Department-Fleet Services (Fleet Services) and a tire vendor that was not properly executed.⁷ Specifically, we noted that the contract was not signed by the City Attorney, as required by the City Charter.⁸ In addition, because Fleet Services used P-cards to purchase more than \$1 million through this contract in both fiscal years 2010 and 2011, it appears that the contract should also have been approved by the City Council in accordance with the San Diego Municipal Code (SDMC).⁹ This contract has since ended; however, the vendor now provides supplies through a Cooperative Agreement, which also was not approved by the City Council.

It appears that neither Fleet Services, nor P&C sought City Council approval for two potential reasons. First, the contract value was only \$400,000 annually, which is below the threshold for Council approval. Second, we noted a discrepancy between the Administrative Regulation and the SDMC, which may have led to confusion over the requirement for City Council's approval of contracts. The SDMC that was in effect when the contract was executed stated that the Purchasing Agent shall obtain the City Council's approval, whereas the Administrative Regulation indicated that it would be the requesting Department's responsibility to seek Council approval. However, the SDMC that was in effect when this contract was executed has been repealed. Newly added SDMC still requires that the department which is contracting with the vendor (in this

⁷ This contract ended in April 2011, at which time the City began procuring goods from the same vendor under a cooperative agency agreement. Under San Diego Municipal Code (SDMC), the City may contract via a cooperative agreement as long as the agreement is in the City's best interest and the bidding process performed "substantially" complies with the City's bidding process.

⁸ Section 40 of the City Charter requires the City Attorney's endorsement of all contracts. In a memorandum dated December 18, 2009, the City Attorney's Office indicated that this meant the City Attorney's signature is necessary to form a valid contract.

⁹ During our audit period, SDMC section 22.3211 (d) stated when a contract provides for an expenditure greater than \$1 million, the Purchasing Agent, i.e., the Purchasing & Contracting Department, shall obtain City Council's approval to award the contract. As of April 2012, this section of SDMC was repealed. However, SDMC section 22.3206 was added and would still require the City Council's approval for contract expenditures greater than \$1 million.

example, Fleet Service) to seek City Council approval.

However, Fleet Services states that due to upcoming changes resulting from managed competition, their business operations related to P-card use will change significantly. Fleet Services expects to issue and award a Request for Proposal for a single parts provider. When this contract is awarded, Fleet Service will mainly purchase from the winning vendor using a purchase order, and thus significantly cut down on its P-card transactions by up to 75 percent. The department expects that this significant change from how it currently does business will reduce the number of competitively-awarded contracts it will require to do business.

As we reported in our February 2012 report, *Performance Audit of the Purchasing & Contracting Department: The City Needs to Clarify Purchasing Laws to Ensure City Council Oversight and Encourage Competition*, P&C is in a unique position to monitor purchases and department actions to ensure compliance with contracting policies. Consequently, P&C should ultimately be responsible for ensuring that departments obtain appropriate approvals in addition to verifying that contract values are realistic based on historic purchases.

Recommendation #9 **The Purchasing & Contracting Department should seek opinion determination from the City Attorney's Office on whether the current cooperative procurement agreement between the General Services Department-Fleet Services and the identified tire vendor is valid.**

Recommendation #10 **The Purchasing & Contracting Department should ensure that departments obtain appropriate approvals for contracts.**

Finding 4: Inventory Management System Weakness Should be Addressed

Fleet Services Does not Maintain Current Records of Purchases in its Inventory Management System

In evaluating General Services Department-Fleet Services' (Fleet Services) internal control processes over P-cards, we selected a limited number of purchases to trace from the initial approval stage to actual usage (or evidence of the item as inventoried stock). While all purchases were ultimately accounted for, we found that Fleet Service staff do not consistently maintain current records of purchased items in its fleet management information system, Fleet Focus. Consequently, Fleet Services had to review hard copy documents to track some of the purchases we selected.

By not maintaining current records in Fleet Focus, Fleet Services cannot easily account for its purchases, nor can it readily identify the availability of parts. This presents a significant risk for the City because of the large dollar value of purchases tracked in Fleet Focus. In fact, Fleet Services accounted for 46 percent (\$7.6 million) of the City's total P-card purchases in fiscal year 2011, and two employees alone accounted for about \$5 million of those purchases.

Not only does Fleet Services' inability to easily account for purchases increase the risk of misuse or misappropriation, it also diminishes the time-saving benefits of an automated inventory management system. However, Fleet Services has stated that it expects to add a bar code feature to its inventory tracking process. This feature is to interface with Fleet Focus to more efficiently issue and track parts inventory.

Recommendation #11 The General Services Department-Fleet Services should ensure employees regularly update Fleet Focus to ensure the status of purchases is current.

Recommendations

- Recommendation #1** The Purchasing & Contracting Department should establish guidance and criteria for departments to use in determining whether employees have a true operational need for a P-card.
- Recommendation #2** The Purchasing & Contracting Department should periodically evaluate cardholders' actual spending and monthly credit limits. The Purchasing & Contracting Department should either adjust cardholder limits as appropriate or recommend that departments make the adjustment.
- Recommendation #3** The Purchasing & Contracting Department should develop a system to track or monitor how much departments purchase from vendors that do not have contracts with the City.
- Recommendation #4** Once established, the Purchasing & Contracting Department should utilize the information to ensure departments comply with City regulations and use the most appropriate method, i.e., P-cards versus purchase orders, to purchase items from vendors.
- Recommendation #5** The Purchasing & Contracting Department should develop a formal methodology for selecting departments to audit, and an audit cycle to ensure all departments are audited at least once during the established timeframe.
- Recommendation #6** The Purchasing & Contracting Department should:
- a) Develop a tracking system to ensure all participants complete annual training, as required.
 - b) Ensure internal training policies and Administrative Regulation 95.55 reflect the same training requirements for the program
- Recommendation #7** The Purchasing & Contracting Department should establish guidelines on the number of cardholders and transactional volume that can be reviewed by the Approver to ensure adequate time is devoted to reviewing cardholder transactions.

- Recommendation #8** The Comptroller’s Office along with Purchasing & Contracting should evaluate and consider changing the P-card payment process from a “confirm and pay” method to “pay and confirm” to maximize prompt-payment cash rebates.
- Recommendation #9** The Purchasing & Contracting Department should seek opinion determination from the City Attorney's Office on whether the current cooperative procurement agreement between the General Services Department-Fleet Services and the identified tire vendor is valid.
- Recommendation #10** The Purchasing & Contracting Department should ensure that departments obtain appropriate approvals for contracts.
- Recommendation #11** The General Services Department—Fleet Services should ensure employees regularly update Fleet Focus to ensure the status of purchases is current.

Appendix A: Definition of Audit Recommendation Priorities

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class ¹⁰	Description ¹¹	Implementation Action ¹²
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.	Immediate
2	A potential for incurring significant or equivalent fiscal and/or non-fiscal losses exist.	Six months
3	Operation or administrative process will be improved.	Six months to one year

¹⁰ The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

¹¹ For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its residents.

¹² The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.

Appendix B: Audit Objectives, Scope, and Methodology

The City Auditor's fiscal year 2011 Audit Work Plan, approved by the Audit Committee, included a performance audit of the City's Procurement Card Program. The objectives of the audit were to evaluate the appropriateness of procurement card (P-card) purchases and the adequacy of program administration and oversight, including internal controls to safeguard the City from fraud, waste, and abuse. To accomplish our objectives, we performed the following audit procedures:

- Reviewed pertinent laws, policies and procedures, regulations, and agreements related specifically to the P-card program and, more broadly, to the City's contracting requirements;
- Interviewed relevant management and staff to obtain an understanding of P-card procedures and internal controls;
- Analyzed P-card data from fiscal years 2010 and 2011;¹³
- Examined cardholders' transaction logs, receipts, and credit card statements; and
- Reviewed additional documentation (i.e. inventory logs, department purchase requests forms, travel expense reports) as needed.

We also performed data reliability testing of the transactional data obtained from US Bank, which we relied on in this report. We evaluated the internal controls related to our audit objectives, including the adequacy program oversight.

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. Our conclusions on the effectiveness of these controls are detailed within the report.

¹³ Data was extracted directly from US Bank. Due to US Bank's online system's data retention timeframe, we could only obtain data from July 27, 2009 through June 30, 2010, almost a complete fiscal year of data. We could not obtain transaction data from July 1, 2009 through July 26, 2009.

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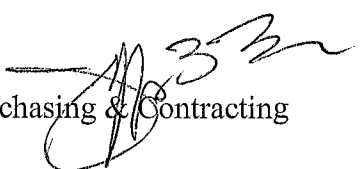


THE CITY OF SAN DIEGO

MEMORANDUM

DATE: August 6, 2012

TO: Eduardo Luna, City Auditor

FROM: Jeffrey Baer, Director of Purchasing & Contracting 

SUBJECT: Performance Audit of the Procurement Card Program July 2012

The Purchasing & Contracting Department has reviewed the City Auditor's recommendations in the audit report on the City's Procurement Card Program. In general we agree with the recommendations contained in the report and in fact have already implemented some of these since the timeframe covered by the audit (FY10 & FY11). The following is a response to each of the recommendations:

Finding 1:

Recommendation #1: The Purchasing & Contracting Department should establish guidance and criteria for departments to use in determining whether employees have a true operational need for a P-card.

Management Response: Agree. The guidance and criteria for departments to use in determining whether employees have a true operational need for a P-card will be included in the P-Card Manual and training program. We will have these changes included in the Procurement Card Policies & Procedures manual and published by the end of December 2012.

Recommendation #2: The Purchasing & Contracting Department should periodically evaluate cardholders' actual spending and monthly credit limits. The Purchasing & Contracting Department should either adjust cardholder limits as appropriate or recommend that departments make the adjustment.

Management Response: Agree. The Program Administrator will run monthly and quarterly spend reports to compare cardholder use against cardholder limits and interview cardholders and/or approvers if there has been little or no activity, or a level of activity well below the established monthly credit limit. However, there are circumstances that warrant having P-cards in place even though a cardholder may have little or no activity (e.g., emergency situations, unique circumstances, etc.) Canceling or decreasing individual transaction and monthly credit limits

will be determined based on the analysis performed. This initial analysis and review will be completed by the end of December 2012.

Recommendation #3: The Purchasing & Contracting Department should develop a system to track or monitor how much departments purchase from vendors that do not have contracts with the City.

Management Response: Agree. The Program Administrator has begun providing monthly spend reports to buyers who then use this information to review for existing contracts or decide if it warrants establishing a contract for better pricing by conducting a competitive solicitation process. The procedure that has already been established will be reviewed for effectiveness and any changes will be incorporated in the procedure by the end of December 2012.

Recommendation #4: Once established, the Purchasing & Contracting Department should utilize the information to ensure departments comply with City regulations and use the most appropriate method, i.e., P-cards versus purchase orders, to purchase items from vendors.

Management Response: Agree. See response to #3.

Recommendation #5: The Purchasing & Contracting Department should develop a formal methodology for selecting departments to audit, and an audit cycle to ensure all departments are audited at least once during the established timeframe.

Management Response: Agree. The Procurement Card Program has an audit schedule to review every participating department each fiscal year. The Program Administrator will review the existing audit schedule and develop a methodology for selecting departments to audit and include an audit cycle which ensures departments are audited at least once during that timeframe. The audit methodology and timeframe will be incorporated into the Procurement Card Policies & Procedures manual and published by the end of December 2012.

Recommendation #6: The Purchasing & Contracting Department should:

- a) Develop a tracking system to ensure all participants complete annual training, as required.
- b) Ensure internal training policies and Administrative Regulation 95.55 reflect the same training requirements for the program

Management Response: Agree. We have started reviewing Administrative Regulation 95.55 and the existing Procurement Card Policies & Procedures manual to incorporate best practices related to ongoing cardholder training. The review will specifically look at ensuring all participants complete the required training and ensure the AR reflects those training requirements. A complete review and recommended changes will be completed by the end of February 2013.

Recommendation #7: The Purchasing & Contracting Department should establish guidelines on the number of cardholders and transactional volume that can be reviewed by the Approver to ensure adequate time is devoted to reviewing cardholder transactions.

Management Response: Agree. Guidelines will be established and incorporated in the Procurement Card Manual that recommends the number of cardholders and/or transactional volume that can be reviewed by an Approver to ensure adequate time is devoted to reviewing the cardholder transactions. We will have these changes included in the Procurement Card Policies & Procedures manual and published by the end of December 2012.

Finding 2:

Recommendation #8: The Comptroller's Office along with Purchasing & Contracting should evaluate and consider changing the P-card payment process from a "confirm and pay" method to "pay and confirm" to maximize prompt-payment cash rebates.:

Management Response: Agree. The Comptroller's Office along with Purchasing & Contracting will evaluate the current "confirm and pay" method versus the "pay and confirm" method to understand if the additional risk associated with switching methods is worth the additional rebate rewards. We will complete that evaluation by the end of December 2012.

Recommendation #9: The Purchasing & Contracting Department should seek opinion determination from the City Attorney's Office on whether the current cooperative procurement agreement between the General Services Department-Fleet Services and the identified tire vendor is valid.

Management Response: Agree. We will request an opinion from the City Attorney's Office within the next 30 days regarding the validity of the current cooperative procurement agreement being used by Fleet Services to purchase tires is valid.

Recommendation #10: The Purchasing & Contracting Department should ensure that departments obtain appropriate approvals.

Management Response: Partially agree. Under the Municipal Code and Administrative Regulations, requesting departments are required to obtain appropriate approvals. Purchasing & Contracting will continue monitoring contract purchase activity and will advise departments when they may need Council approval, however Purchasing & Contracting cannot ensure departments follow through on their responsibilities.

Finding 4:

Recommendation #11: The General Services Department – Fleet Services should ensure employees regularly update Fleet Focus to ensure the status of purchases is current.

Management Response: Agree. As a result of Fleet Services successful outcome as the winner of the managed competition effort, Fleet Services will be issuing a Request for Proposal (RFP) for a single source vehicle parts provider for the City's vehicle fleet. Not only will this result in an approximate 75% reduction of P-card transactions, going to a single parts provider will allow City staff to do a better job of entering vehicle parts purchases into the Fleet Focus maintenance management system. This expected outcome will be monitored and documented in managed competition quality assurance reports submitted to the Business Office. The timeline for

complying with this recommendation is dependent on Fleet Services implementing the Employee Proposal Teams response to the Managed Competition.

We want to thank the City Auditor and his staff for providing this review of the City's Procurement Card Program. We understand the benefits and potential risk and we will continually look for ways to strengthen internal controls and appreciate the recommendations made in the course of this review.