



# CITY AUDITOR REPORT

## Purchasing Card Usage and Controls

DECEMBER 17, 2019

### **BACKGROUND**

The Olathe City Council and City management team provided input on areas of focus for the City Auditor in 2019. Purchasing Card (“PCard”) usage and controls was an audit project identified by both groups.

### **PROJECT SCOPE AND OBJECTIVES**

This project focused on the following **scope areas** for the period of **January 1 – September 30, 2019**:

- PCard issuance and authorization controls and procedures
- Transaction and balance limit controls and procedures
- Prohibited transaction and prohibited merchant type controls
- PCard transaction receipt documentation, review, approval and recording controls
- PCard reconciliation and payment controls
- Overall PCard use patterns and potential loss/fraud exposure

This project provides assurance about the following **objectives** of PCard usage and related internal controls:

- PCards are issued and authorized using controlled processes consistent with management’s intent
- Transaction and balance limits are adhered to, and only waived as allowed per policy (only in specific situations with appropriate levels of management authorization and transaction review)
- Prohibited transactions and merchant types are declined consistent with management intent
- Purchases have detailed receipts documenting a business purpose, are approved by appropriate management, and recorded in the financial system accounts as intended
- PCard activity is consistently and timely reconciled by independent personnel; bank payments are made accurately and timely by personnel who are independent of PCard reconciliation
- PCard issuance, cancellation and usage practices limit risk of misuse/fraud and are consistent with management intent

**The above objectives were satisfactorily met, and no significant exceptions were noted.** Continued effective use of PCards depends on using established controls to ensure authorized, business-relevant, budgeted spending is occurring. For additional information, an overview of City PCard **purposes, spending and usage** is at page **2-3**. **Detail audit conclusions** are provided at pages **4-5**.

The Auditor appreciates the substantial support, assistance and time provided to this project by the Resource Management team. PCard Administrators in Information Technology, Parks, Police, Public Works and Resource Management departments also played valuable key roles in this work. If you have questions or would like any further information on this project, please contact City Auditor Mary Ann Vassar at (913) 971-8932 or [mavassar@olatheks.org](mailto:mavassar@olatheks.org).

**PCARD PURPOSE, SPENDING AND USAGE OVERVIEW**

**What is a PCard, and how does the City use it?**

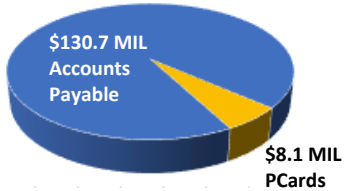
Purchasing cards (PCards) are a type of commercial credit card which allows organizations to use credit card systems to make electronic payments for a variety of goods and services. The City’s July 2016 *PCard Policies and Procedures Manual*, (“Manual”), states the program is “designed to improve efficiency in processing small dollar purchases’, by “allow(ing) the cardholder to purchase approved commodities and services directly from the vendor”. Other significant purposes stated in the Manual are:

- **Reduction of the cost** of high volume/low dollar transactions
- **Providing an efficient method** of purchasing and paying for commodities and services
- **Reducing field-crew travel time** for purchases
- **Increasing the number of vendors** accessible to the City of Olathe

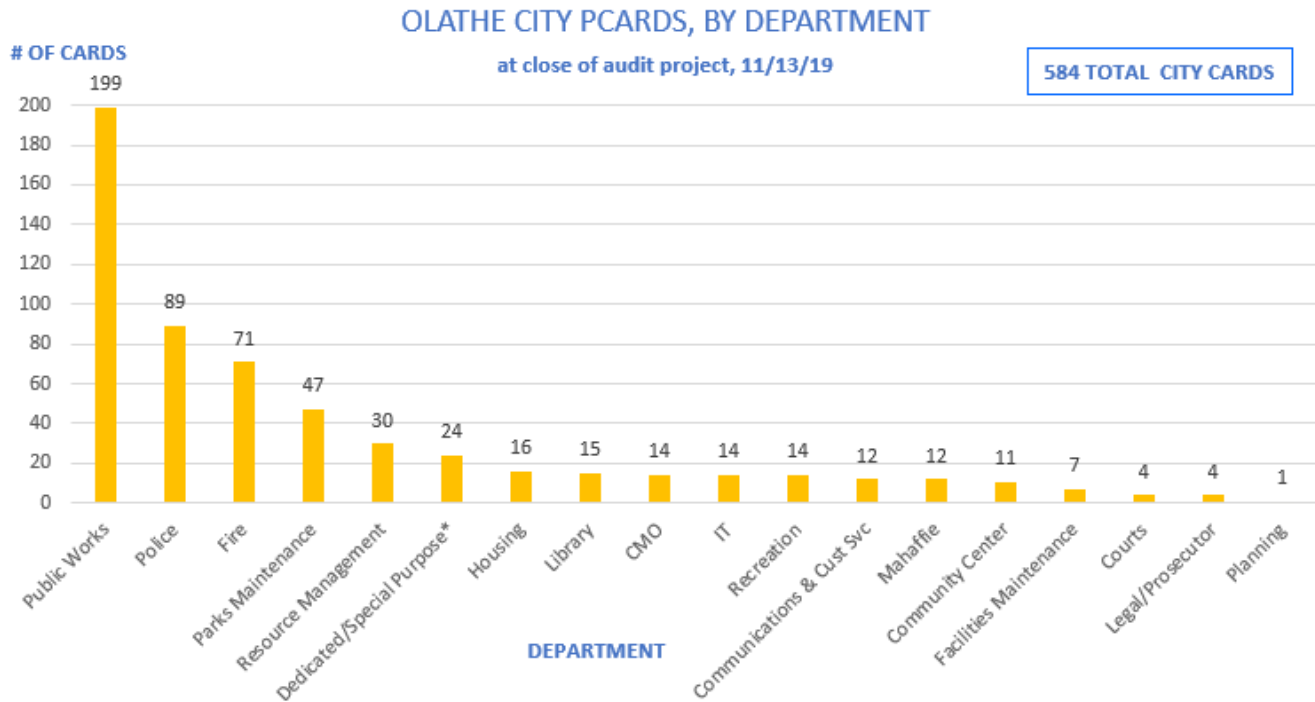
The Manual also states the PCard program is to have “reasonable and enforceable policies, procedures and controls which complement existing processes, **without** bypassing/avoiding existing purchasing payment controls.” **The City also obtains card rebates for certain purchases made using the PCard.**

Cards as a form of payment have become increasingly popular for business and consumer use. The most recent data from the U.S. Federal Reserve *2018 Annual Payments Study Supplement* determined U.S. card payments of all types grew 8.4% in 2017 and totaled \$6.48 trillion. The cards were used to make 123.5 billion payments.

**Some quick key facts about recent City PCard usage:**

IN 2018:	YTD 9/30/19:
 <p><b>6% OF ALL 2018 CITY PAYMENTS WERE MADE WITH PCARDS</b></p>	<p><b>584 PCARD ACCOUNTS HAVE BEEN USED FOR 16,109 PURCHASES WITH 4,113 MERCHANTS TOTALING APPROXIMATELY \$6.8 MILLION</b></p> <ul style="list-style-type: none"> <li>▪ The average purchase was \$351</li> <li>▪ The most common purchase amount was \$125</li> </ul> <p><b>INTENDED USE OF PCARDS FOR HIGH VOLUME, LOW DOLLAR TRANSACTIONS IS OCCURRING</b></p>
<p><b>YTD 9/30/19 REBATES OBTAINED BY USING PCARDS FOR CITY PURCHASES: \$112,000</b></p>	

## Which departments have PCards?



\*Designated/special purpose cards are either a) pre-established with higher limits as a method to pay Purchasing-approved recurring monthly expenses with designated merchants - such as phone system, video/cable services, computer and computer peripherals, etc. OR b) issued to departments (rather than individual cardholders), retained and secured with administrative personnel, and used for specific purchases on behalf of the entire department.

## What is the level of departments' PCard usage?

PCARD SPENDING BY DEPARTMENT YTD 9/30/19		
DEPARTMENT	Total	%
Public Works	\$ 2,628,209	38.8%
IT	\$ 1,009,710	14.9%
Facilities/Park Maintenance	\$ 893,773	13.2%
Police	\$ 534,046	7.9%
Fire	\$ 429,161	6.3%
Resource Management	\$ 415,081	6.1%
Recreation	\$ 191,398	2.8%
Library	\$ 184,088	2.7%
City Manager/Legal	\$ 171,407	2.5%
Community Center	\$ 115,903	1.7%
Mahaffie	\$ 103,600	1.5%
Customer Service & Communications	\$ 72,248	1.1%
Municipal Court	\$ 13,008	0.2%
Housing	\$ 4,551	0.1%
<b>TOTAL PCARD SPENDING</b>	<b>\$ 6,766,182</b>	<b>100.0%</b>

## **DETAIL AUDIT CONCLUSIONS**

**For the January 1 – September 30, 2019 period under audit review:**

**PCards were issued and authorized using controlled processes consistent with management’s intent.**

- Required employee training and management card approval required per the *Purchasing Card Policies and Procedures Manual* (“Manual”) was reviewed. Training and approval were completed before cards were issued.

**Transaction and balance limits were adhered to, and only waived for individual cases as allowed per policy (in specific/unique situations with appropriate management authorization and/or transaction review).**

- All PCard transactions were reviewed for exceptions to transaction limits. A small number of limit exceptions were approved with department management authorization *or* Resource Management transaction review.
- Some recurring expenses are paid to Purchasing-approved merchants via ‘special purpose’ cards with approved higher limits. All special purpose payments in the period were reviewed and complied with established limits and pre-approved merchants.
- All period transactions were analyzed for the Manual-prohibited practice of ‘splitting’ – which is dividing payment for a single purchase in order to bypass transaction limits. No evidence of this practice was detected.

**Prohibited transactions and merchant types were declined consistent with management intent.**

- Review of a sample of declined PCard transaction reports *and* a review of two months City-wide PCard activity detected no merchants, goods or services approved which appeared to be outside of management intent or reasonable business purposes.
  - Two isolated unique purchases were detected in this review; their business purpose and intended approval was verified with management by the Auditor. Both items were determined to have relevant business purposes.

**PCard transactions were documented with detailed receipts for a business purpose, approved by appropriate management, and recorded in the financial system accounts as intended.**

- Review of a random sample of receipts noted an isolated instance of one receipt without Manual-required purchase details; **overall** receipt documentation is substantially compliant with Manual requirements.
- Selected sample purchases tested were consistently approved in the US Bank system, and recorded in the accounts as approved by management.
- Interviews with five higher volume PCard departments (IT, Parks, Police, Public Works and Resource Management) determined that PCard administrators had knowledge of the documentation, approval, and recording requirements of the *PCard Administrator Manual*.

## **DETAIL AUDIT CONCLUSIONS, continued...**

**PCard activity was consistently reconciled by independent personnel; accurate and timely bank payments were made and approved by personnel independent of the reconciliation process.**

- A sample of three months' reconciliations of PCard activity to financial statement entries and corresponding bank PCard payments was reviewed. Reconciliations and payments performed by Resource Management were timely, accurate and performed by independent personnel. Independent approval of PCard general ledger entries and bank payment activity is occurring.

**PCard issuance, cancellation and usage practices were in place to reduce the risk of misuse/fraud and were consistent with management intent.**

- A review of all PCards closed in the audit period determined they were appropriately cancelled for employee terminations/transfers, lost cards and employee name changes.
- A review of a sample of newly issued Pcards noted Manual-required employee training was documented, which includes card security, card loss, and fraud dispute procedures.
- Transaction patterns which could indicate unauthorized activity were reviewed, and no unusual activity was detected.
  - All Saturday and Sunday transactions for the period were reviewed; these transactions were made by departments normally conducting weekend business (for example, Public Works, Parks and the Library) *or* were related to training, travel or event supplies
  - All instances of transaction or balance limit exceptions in the period were reviewed and noted to have appropriate approvals and reasonable business purposes
  - A review of merchants and transaction types for two months' City-wide activity (approximately 3,900 transactions) detected no unusual activity or transactions outside of management's intent
  - Review of a sample of declined transaction reports noted US Bank declined transactions as intended based on dollar limits or merchant types
- Card expiration dates were noted to be fixed. The longest future expiration date was 3.8 years, with the average card expiration roughly 2 years in the future. Limiting a card's active life in this manner helps reduce exposure to some types of fraud.
- Resource Management plans to complete its periodic review of inactive open cards in early 2020; this will help further limit PCard fraud loss exposure. **The Auditor will review the upcoming inactive card update when it is completed.**