

OFFICE OF THE CITY AUDITOR AND CLERK

INTERNAL AUDIT



PURCHASING CARD AUDIT

AUDIT #24-12

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A handwritten signature in blue ink, reading "Shayla Griggs".

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Executive Summary

Audit #24-12 Purchase Card

Audit Purpose, Scope and Time Period

Internal Audit performed an audit of the City of Sarasota's purchasing card transactions. This audit evaluated the adequacy of internal controls associated with purchasing cards. Audit procedures included interviews with Purchasing Department staff, review of policies, administrative regulations, statutes, and substantive testing.

The scope of this audit included a review of purchasing card transactions, related supporting documentation, and cardholder administration information and documents. The audit period included transactions made from March 1, 2023 to February 29, 2024.

Audit Objectives

1. Determine whether transactions made with purchasing cards are in compliance with applicable rules and regulations; and
2. Determine whether internal controls for the administration and monitoring of the Purchasing Card Program are reasonable, adequate, in place, and functioning as intended.

Summary Background

The purpose of the City of Sarasota's purchasing card program is to allow cardholders to purchase goods and services directly from vendors and bypass the normal purchasing process of obtaining a purchase order, which can be time-consuming. The purchasing card program is governed by Administrative Regulation No. 024.A015.0319, *Purchasing Card Policy and Procedures*, and is administered by the City of Sarasota Purchasing Department.

Summary of Conclusions

The City of Sarasota's purchasing card program is generally managed appropriately, and controls appear to be operating effectively for overall compliance with applicable policies and administrative regulations. Our audit did identify instances of cardholder noncompliance with policies and procedures and we believe there are opportunities to strengthen controls by providing regular cardholder training. Additionally, improving the timeliness of deactivating terminated employee purchasing cards is also recommended. The Purchasing Department will implement corrective action of all items identified in the audit by October 31, 2024.

We would like to take the opportunity to thank the department and individuals included in this audit for the courtesies extended to us and for their cooperation during the audit.

This Executive Summary is limited in detail. To obtain the full background on a particular item, please read the Detailed Audit Report or contact Internal Audit prior to drawing conclusions based upon the limited information contained in this summary.

Detailed Audit Report

Audit #24-12 Purchasing Cards

Background and Introduction

The City of Sarasota's purchasing card program was first introduced in 2006 as a pilot program and included a limited number of cardholders. By 2007, a policy governing the program was adopted and purchasing cards were rolled out to all departments. The purpose was to allow cardholders to purchase goods and services directly from vendors and bypass the normal purchasing process of obtaining a purchase order, which can be time-consuming. The purchasing card program was implemented to enhance the purchasing process through expedited procurement of goods and services, while still requiring cardholders to abide by Ordinance No. 12-5009, *City Procurement Code*, which includes rules such as thresholds for price quotations and competitive bids and prohibitions on certain types of purchases.

The purchasing card program is governed by Administrative Regulation No. 024.A015.0319, *Purchasing Card Policy and Procedures*, and is administered by the City of Sarasota Purchasing Department. The Administrative Regulation contains, but is not limited to, guidelines for employee roles and responsibilities, approval levels, transaction limits, prohibitions of card use, and consequences for card misuse. Administration of the purchasing card program is performed by the Purchasing Department for all cardholders, including the Charter Officials and the City Commissioners.

The City piggybacks off the State of Florida's purchasing card contract with Bank of America, that issues the purchasing cards. Bank of America has an automated system, WORKS, which reports all cardholder activity and allows users to access real-time purchasing data. In addition, Purchasing Department Administrators are able to request new purchasing cards, make changes to existing purchasing cards, and deactivate purchasing cards.

The Purchasing Department has implemented multiple controls throughout the purchasing card process designed to prevent misuse of the cards. Some of these controls include Department Director or designee review and approval, purchasing card administrator approval, merchant category code (MCC) restrictions for cash transactions, single transaction limit (optional) and card limits (determined by department director and re-authorized annually).

During the testing period there were 138 active cardholders and a total corporate account credit limit of \$2 million (the entire credit limit has not been allocated amongst cardholders).

For the 12-month audit period ending February 29, 2024, there were 8,149 purchase transactions, totaling \$3,962,793. Individual purchase transactions ranged from \$0.09 to \$46,406.24.

Audit Standards

The auditor conducted this audit in conformance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require 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 findings and conclusions based on the audit objectives.

Audit Purpose, Scope and Time Period

This audit was performed to assess the effectiveness and adequacy of internal controls associated with City purchasing cards. It was also performed to assess compliance with the City's procurement rules and regulations. This audit was included on the 2024 Audit Schedule.

The scope of this audit included a review of purchasing card transactions, related supporting documentation, and cardholder administration information and documents.

The audit period was March 1, 2023 through February 29, 2024. During this audit timeframe, the city utilized FMS accounting software through March 31, 2023 and began using Workday on April 1, 2023.

Audit Objectives

The audit focused on the following objectives:

- 1) Determine whether transactions made with City Purchasing Cards are in compliance with applicable City rules and regulations; and
- 2) Determine whether internal controls for the administration and monitoring of the Purchasing Card Program are reasonable, adequate, in place and functioning as intended.

Testing Methodology

In order to fulfill the audit objectives, Internal Audit:

- Interviewed appropriate personnel.
- Used various sampling techniques to review and test transactions with purchase dates between March 1, 2023 – February 29, 2024 against a variety of compliance attributes;

Reviewed:

- Training materials provided to new cardholders by the Purchasing Department;
- Supporting documentation for purchase transactions in the auditor's sample including receipts, price quotes for purchased items;
- Reviewed and evaluated Administrative Regulation No. 024.A015.0319, *Purchasing Card Policy and Procedures* and other related City Administrative Regulations;
- Compared employee termination dates with purchasing card deactivation dates; and
- Reviewed Purchasing Card Request Forms and Cardholder Understanding Agreements.

To achieve the audit objectives, sampling techniques were utilized to select transactions from a population of 8,149 purchasing card transactions with purchase dates in the audit period. Specifically, a sample of 671 transactions consisting of judgmentally selected and randomly selected transactions were utilized for the purposes of testing compliance with requirements noted in the Purchasing Card Policy and Procedures. The "Audit Conclusions" section of this report indicates whether results reflect all transactions or the sample population.

Audit Criteria

Conditions noted by Internal Audit during testing and fieldwork were compared to criteria noted in the following City rules and regulations. In determining the effectiveness of the administrative controls over

the purchasing card program, the auditor also referred to professional literature regarding best practices for purchasing programs.

The following sources were used as audit criteria:

City of Sarasota

- Administrative Regulation No. 024.A015.0319 - Purchasing Card Policy and Procedures
- Administrative Regulation No. 024.A008.0623 - Travel and Related Expenditures
- Administrative Regulation No. 024.A017.0418 - Policy for Food and Refreshments
- Ordinance No. 12-5009 - City Procurement Code
- Ordinance No. 19-5304 - City Procurement Code Amendment
- Cardholder Understanding Agreement and Request Form

Outside Sources

- United States General Accounting Office (GAO) Audit Guide – Auditing and Investigating the Internal Control of Government Purchase Card Programs, GAO-04-87G, November 2003.

Noteworthy Accomplishments

The Purchasing Card Policy and Procedures, which are enumerated in Administrative Regulation No. 024.A015.0319, while thorough and comprehensive, are in the process of being updated. Internal Audit noted that the overall policy governing the purchasing card program is adequate.

The Purchasing Card program also provides a rebate to the City based on the amount of purchases made during the year. The purchasing card program rebate was \$56,521 and \$56,445 for fiscal year 2023 and 2024 respectively. There may be an opportunity for the City to receive additional cash rebates by identifying other vendor payments, currently processed by check or ACH, which could be made using purchasing cards, thereby increasing the potential for additional cash rebates.

Audit Observations and Testing

Observations and recommendations in this report are offered as independent guidance to management for their consideration in strengthening controls. Internal controls over the administration and monitoring of the purchasing card program were also found to be adequate, with some opportunity for enhancement, specifically regarding timely cardholder approval of transactions and timely card deactivation.

Observations and Recommendations – Objective 1

Determine whether transactions made with purchasing cards are in compliance with applicable rules and regulations.

For a sample of 671 purchase card transactions, the auditor found that, generally, there was compliance with requirements noted in various city purchasing rules and regulations. The following exceptions to compliance were noted and management is encouraged to address those exceptions.

- **Food Purchases** – The purchase of food and refreshments for department staff meetings or other business meetings consisting of only city employees is prohibited. In the auditor’s testing sample,

prohibited food and beverages purchases were made three (3) times on one individual's purchasing card with an amount totaling \$303.91.

- **Card used by non-cardholder** - Purchasing cards should be utilized only by the cardholder to whom the card is assigned. Test results from the auditor's sample revealed that there was one instance in which a purchase, for City supplies, was made by someone other than the cardholder. Additional audit testing determined there were no more transactions made with this card.
- **Split purchase** – Splitting into multiple smaller purchases to meet the single transaction limit is prohibited. For the audit sample of 671 purchasing card transactions, one instance of a divided purchase was identified. The city's accounts payable team noted this prohibited purchase and notified the Purchasing Department. The General Manager of Purchasing responded to the accounts payable team that they would notify the cardholder that the proper procedure for a large purchase is to request a temporary increase in the cardholder limit, rather than dividing the purchase.
- **Lease payments** – Lease payments are prohibited purchases on a city purchasing card. Audit testing revealed that lease payments for a copier were made using a city purchasing card six (6) times during the testing period. The monthly charge for the lease was \$344.12 and was paid during the auditor's testing period six (6) times for a total of \$2,064.72.
- **Payment of tolls** – Payments for tolls are prohibited purchases on a city purchasing card, per Administrative Regulation No. 024.A008.0623. Audit testing revealed that payments for tolls were made using a city purchasing card by eight (8) cardholders during the testing period for a total amount of \$259.52.
- **Payment of traffic violations** - Payments for traffic violations are prohibited purchases on a city purchasing card, per Administrative Regulation No. 024.A008.0623. Audit testing revealed that payment for a red-light camera traffic violation was made using a city purchasing card once during the testing period in the amount of \$278.52.
- **Description and/or purpose for transaction sign off** - A description of the item purchased and/or the purpose of the purchase must be included in the sign off of the transaction, per Administrative Regulation No. 024.A015.0319. It was noted that in numerous instances inadequate descriptions and/or purposes were used in the memo field for a transaction. Examples of inadequate descriptions in the memo line were, "P Card reconciliations", "Amazon", "Supplies". None of these descriptions properly identify what items were purchased or the purpose of the purchase.
- **Transaction sign off in Workday** - Per Administrative Regulation No. 024.A015.0319, purchasing cardholder transactions must be signed off in the purchasing card issuer's software within five (5) business days. An audit sample of 100 transactions were selected for timely signoff testing noting 46 transactions exceeded the five days sign off requirement.
- **Refresher training** - Refresher training for purchasing cards is not occurring every two years as required by Administrative Regulation No. 024.A015.0319. Auditors tested ten (10) cardholders noting that seven (7) of the ten (10) had not completed refresher training. The last refresher training was offered in the first quarter of calendar year 2023.

Recommendation

To encourage proper spending habits and compliance with Administrative Regulation No. 024.A015.0319, refresher training should be occurring every other year. Specifically, training should emphasize:

- Purchases such as lease payments, tolls, traffic violations and food for staff meetings is prohibited;
- Splitting purchases into smaller transactions to circumvent the purchasing rules is prohibited;
- Description and/or purpose in the memo line should be a required field in Workday, to improve the likelihood of cardholders including adequate descriptions and/or purposes for a transaction; and
- Transactions should be signed off within five (5) days as specified by the policy.

Management Response

Management agrees with the recommendations, the Purchasing Department will be taking the following steps:

- Update all p-card training materials and videos, including all topics mentioned in the audit;
- Create a mandatory training requirement that will be tracked in Workday. P-cards will be deactivated for staff that do not complete the training by the required timeline; and
- Review and update any administrative regulations as needed.

All items will be completed no later than October 31, 2024.

Observations and Recommendations – Objective 2

Determine whether internal controls for the administration and monitoring of the Purchasing Card Program are reasonable, adequate, in place, and functioning as intended.

Administration and monitoring controls for the purchasing card program were generally adequate, in place and functioning as intended to ensure approval for obtaining a card, establishing appropriate credit limits and approving transactions. In addition to the **Transaction sign off in Workday** observation noted above, the audit also identified the following:

- **Timely deactivation of cards** – Deactivation of cards that are no longer in use should be completed immediately to reduce the risk of the card being used by the cardholder after termination or job change and to reduce the risk of the card being used by another staff member. Five (5) cards for cardholders that either termed or changed jobs within the city were not deactivated in a timely manner. The deactivation delay ranged from 3 days to 2 months after deactivation was deemed necessary. One of the cards not deactivated timely was used fourteen (14) days after the cardholder's retirement to make a purchase by a staff member not listed on the card, as noted in the **Card used by non-cardholder** observation above.

Recommendation – To eliminate the potential that a purchasing card could be used after a cardholder's employment termination date, the deactivation of a purchasing card should either occur prior to or coincide with the cardholder's termination date.

Management Response

Management agrees with the recommendations, the Purchasing Department will be taking the following steps:

- The Purchasing Department will work with HR to properly track staff who is leaving to ensure timely deactivation; and
- The Purchasing Department will work with Directors to review purchasing card holders and limits and adjust as necessary.

All items will be completed no later than October 31, 2024.

Audit Conclusions

The City has designed and implemented strong controls over the purchasing card program. However, items identified above have caused noncompliance with rules, regulations, and policies and procedures over purchasing cards. While none of the observations identified or indicated potentially fraudulent activity, it is important that the city takes steps to correct issues and ensure the purchasing card program is operating as intended.

The City's purchasing card program is a good way to be able to make small dollar purchases in an effective and efficient manner. It also helps to reduce the processing costs of checks that would otherwise be issued to pay for the purchases and at the same time provides an opportunity for the city to receive a cash rebate for purchases made during the year.

We would like to thank the Purchasing and Accounting Departments along with the various city departments that provided their time and assistance during the audit.