



INTERNAL AUDIT

Procurement Card Audit

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Authorization

The City Auditor has conducted a Procurement Card (P-card) audit. This audit was conducted under the authority of Resolution #2013-51 and in accordance with the Annual Audit Plan approved by the League City, City Council.

Objective

The objectives of this audit were as follows:

- 1) Determine if general controls for the P-card program are designed appropriately and operating effectively.
- 2) Through data analysis, determine if the P-card program has any lapses in internal control that may cause fraud, waste, abuse or non-compliance with State Law and local policies and procedures

Scope and Methodology

The City Auditor conducted this audit in accordance with Generally Accepted Government Auditing Standards except this audit function has not had an external peer review. Those standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The City Auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

To adequately address the audit objectives and to describe the scope of work on internal controls, the City Auditor has:

- Inquired with the P-card Administrator regarding general accountability over the P-card program
- Read State Law and the City's Purchasing Policies and Procedures and the P-card Policies and Procedures.
- Flowcharted the process starting with the P-card purchase and subsequent payment to J.P. Morgan Chase
- Analyzed a P-card database to determine compliance with laws and improper payments
- Reviewed supporting documentation for P-card purchases
- Observed the city's intranet for the P-card policies

The deficiencies in internal control that are significant within the context of the audit objective and based upon the audit work performed are stated in the Opportunities for Improvement section starting on page 6.

Background

In February of 2007, Council approved a Commercial Card Agreement with JP Morgan Chase (JPMC) for the Procurement Card Program through the State of Texas Cooperative Purchasing Program. The Procurement Card is a Master Card that is issued to various City employees. The purpose of this program is to provide an efficient, cost-effective method of purchasing low dollar items, one time purchases, maintenance, repair, operational and travel expenses. The program also enhances the capabilities of field personnel to perform operational tasks without administrative delay. With the reduction of paperwork and time associated with purchase requisitions, market surveys have indicated that the use of the Procurement Card yields savings of about \$70 per transaction. The agreement with JPMC through the State of Texas Cooperative Purchasing Program expired August 31, 2010.

Subsequently, the City entered into an inter-local agreement with the City of Fort Worth who also has a Commercial Card Agreement with JPMC. A group of local entities has been formed to take advantage of the City of Fort Worth's agreement. This group is called the Texas Payment Card Consortium and as a result, JPMC has garnered an additional rebate based on the consortiums combined charge volume and currently the city receives a 1.59% rebate.¹

The City started out with eight cards for 2007. As can be seen by the table below that number has steadily increased.

Year	2007	2008	2009	2010	2011	2012	2013
Cards	8	82	102	128	154	188	207

Transaction totals are increasing as can be evidenced by the following table.

Year	2008	2009	2010	2011	2012	2013
\$\$ Spent	\$640,824	\$1,448,339	\$1,882,574	\$3,227,704	\$5,336,444	\$5,571,510

Since the transaction dollar amounts have increased so have the rebates.

Year	2008	2009	2010	2011	2012	2013
\$\$ Rebates	\$5,466	\$6,872	\$22,598	\$39,773	\$81,291	\$88,882

The number of transactions for FY 11, 12 and 13 are as follows:

Year	2011	2012	2013
# of Transactions	11,368	12,968	14,642

¹ From Data Sheet dated 12/29/10, Agenda Item 12E

The above allows the calculation of average spend per transaction:

Year	2011	2012	2013
Average Spend	\$284	\$412	\$381

Above tables created from data provided by the P-card Administrator.

The P-card process is as follows:

- 1) The Department Head requests a P-card for one of their employees. The limits on the card will be stated on the request by e-mail. The Purchasing Dept. then orders the card.
 - 2) Once the card comes in, Purchasing will meet with the cardholder and explain the requirements of the program and have the cardholder sign an acknowledgement for understanding the policies. After the training is completed the card is given to the cardholder.
 - 3) Cardholder makes purchases using P-card.
 - 4) The Accounts Payable Supervisor, uploads charges from JPMC on a weekly basis. That information goes into the AS400 financial accounting system on a weekly basis.
 - 5) Department Representatives request receipts from all cardholders and approves the charges in the AS-400 system.
 - 6) On a weekly basis, accounts payable notifies Purchasing if any still need approval.
 - 7) The Purchasing Buyer reviews all transactions from the departments at the end of each billing cycle
 - 8) Before the Accounts Payable Supervisor pays the bill she ensures that the city's financial accounting system (AS400) agrees with the P-card statement from JPMC.
 - 9) If the cardholder resigns or is terminated, the cardholder turns in the P-card to Human Resources. The manager ensures this is done. Purchasing will then deactivate the card upon learning of the termination or resignation.
-

Key players for P-card Administration are as follows:

JP Morgan Chase – Continuous Monitoring

Department Reps – Monthly statement reviews

Managers/Directors – Monthly statement approval

Finance Department – Monthly payment reconciliation

Human Resources – Notification of terminated employees

Purchasing – P-card Training for individual employees upon issuance of card and monthly transaction reviews

Internal Audit – Periodic Audits

According to a 2009 P-card survey conducted by RPMG Research Corporation, the average administrative cost (including sources, purchasing, and payment activities) to process traditional paper-based transactions is about \$93. The report estimates that P-cards reduce the average cost to roughly \$22 per transaction and cut the procurement cycle time by approximately 12 days.

Using the \$71 difference between a paper-based transaction and P-card transaction the soft savings for transactions in FY 11, 12, and 13 are as follows:

Year	2011	2012	2013
\$ Soft Savings	\$807,128	\$920,728	\$1,039,582

According to the Government Finance Officers Association Best Practice Advisory on Purchasing Card Programs the major benefits of a purchasing card program are as follows:

Financial Impact

1. Lower overall transaction processing costs per purchase
2. Potential reduced administrative cost, paperwork and check issuance
3. Receipt of rebates from the bank based upon dollar volume of total purchases
4. Vendor discounts

Controls

1. Increased management information on purchasing histories and supplier negotiations
2. Improved, automated and standardized purchasing controls

3. The ability to set specific transaction dollar limits, merchant categories and vendors
4. Improved accountability for an individual employee's purchases

Efficiencies

1. Speed and convenience of purchasing without a purchase order
2. Simplified purchasing and payment process
3. Decentralized procurement function/centralized spend information

Disadvantages of purchasing cards may include

1. The potential for duplicate payments to vendors, unless payments are recorded by individual vendor within the accounting system
2. Possible negative perception about issuing "credit cards" to employees
3. The potential for abuse despite the controls available with purchasing cards
4. The potential complication of integrating purchasing card transaction data into the government's software system.

Overall Conclusion

The program is meeting its objectives by providing the city with an efficient, effective and economical way of purchasing. The Opportunities for Improvement provide recommendations to strengthen the P-card program.

Management was also provided additional Opportunities for Improvement to enhance internal controls. These were not considered significant to the objectives of the audit but warrant the attention of management. Consequently, they do not appear in this report.

Opportunities for Improvement

During our audit we identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

Management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches to the following recommendations:

Finding #1 – Monthly Reviews

Condition (The way it is)

The current reviewer in Purchasing is expected to review approximately 1,000 transactions per month. During the audit it was known that the reviewer is five months behind in the reviews.

Criteria (The way it should be)

Similar to bank reconciliations, P-card reviews must be performed as soon after the month end as possible.

Effect (So what?)

These reviews are essential since the P-card controls are on the back end rather than the front end such as purchase orders and check requests.

Cause (Difference between condition & criteria)

The volume is unreasonable for one individual

Recommendation

The City Auditor believes that to enhance the effectiveness and efficiency of the reviewer the scarce resources of this position need to be reallocated to higher risk areas and data analysis should become an integral part of the review. The top risk areas should be addressed such as noncompliance with State Law and improper payments.

Management Response

We agree

Action Plan

By lowering limits and redirecting large dollar purchases back through the purchasing system, we expect the volume of P-Card purchases to decline. Before we restructure the review to a sample basis, purchasing will conduct training for department heads and department P-Card coordinators to remind them of their responsibilities in the process. Purchasing will create a process which will allow the staff to review and audit transactions both in a spot/sample or individual user basis. With the anticipated reduction in P-Card review, staff will then establish data analytics utilizing the P-Card system to detect trends, issues/concerns or opportunities for changes/modifications.

Implementation Date

September 1, 2014

Finding #2 – Policies and Procedures/Merchant Cost Categories

Condition (The way it is)

The P-card policy was last updated on July 1, 2011.

Even though the P-card policy states that the P-card is governed by all City of League City policies, procedures and directives it is doubtful that employees will refer to the Purchasing Policy (e.g., Sole Source and Emergency Purchases)

The policy section on what can be purchased with a P-card does not state prohibited expenditures. Along with this the prohibited Merchant Cost Categories (MCCs) may need to be expanded as they were set up in 2007. Only six MCCs are listed as prohibited.

Criteria (The way it should be)

P-card policies and MCCs should be reviewed on an annual basis to fully evaluate what should be allowed and not allowed. This is one of the benefits of the P-card program: the ability to control the type of expenses allowed. Policies should be mirrored with other policies that may apply.

Effect (So what?)

The City may not accomplish the objectives of the P-card program when the appropriate policies and procedures are not in place and reviewed annually and dispersed in appropriate communication.

Cause (Difference between condition & criteria)

There was no evidence of annual reviews of the P-Card policy.

Recommendation

- 1) Review and update the P-card policy ensuring that important points from other Policies and Procedures are incorporated in the updated policy.
- 2) Perhaps Sole Source and Emergency Purchases should be eliminated from the P-card program due to the extra documentation needed.
- 3) Review and update MCCs for prohibited cost categories.

Management Response

We agree

Action Plan

Purchasing staff will review and update the P-Card Policy and Procedures manual to be more succinct and aligned with City adopted Purchasing policies.

Sole Source purchases will no longer be acceptable with P-Card transactions. Purchasing will seek "best practices" from similar municipalities and advisement from P-Card bank and city administration in regard to adjusting/updating MCC codes.

Implementation Date

September 1, 2014

Finding #3 - Training

Condition (The way it is)

Department reps are not trained on their departmental duties.

Criteria (The way it should be)

In order to know what is required of them initial training should be performed with refresher training done on an annual basis.

Effect (So what?)

Quality reviews by the department rep will not be as effective and updates that may be needed for the departmental review may not occur.

Cause (Difference between condition & criteria)

There was a 1st Annual Training Session held on May 2, 2012. Due to turnover of personnel this training did not continue.

Recommendation

Create a tradition of new department rep training and annual refresher training thereafter.

Management Response

We agree

Action Plan

Purchasing and Accounts Payable will develop a training program for department P-Card Coordinator (DPC)* and Department Head/Director that will include power-point presentation and a discussion of relevant issues, etc. Once complete, department representatives will sign an affidavit that they have attended this session. We anticipate the session to be very comprehensive and last between 2-4 hours and cover policies, reconciliation, data analysis, assistance, etc. The goal is to have a class for all current department representatives prior to the end of the current fiscal year, quarterly sessions for new representatives (as needed) and then an annual refresher class.

* The DPC will be the central documentation control point for each department. The DPC is responsible for the correct appropriation of the department's funds and the coordination of the Purchasing Card Program for the department

Implementation Date

September 8, 2014

Finding #4 – P-card Limits

Condition (The way it is)

The limits on the P-cards need to be reviewed. 10 of the cards have -0- for a single transaction limit which would then default to the monthly limit which would then put them within State law criteria.

Many of these cards have single transaction limits above the \$3,000 threshold requiring quotes and HUB requirements. A few of these single transaction limits are \$30,000 and above with monthly limits up to \$85,000. The limit should be based on need if over the \$1,000 standard single transaction limit. For example, one individual with a single transaction limit of \$40,000 had a high purchase of \$20,000 over a two year period. Another individual with a single transaction limit of \$30,000 had a high purchase of \$17,000 over a two year period. Another individual with a single transaction limit of \$30,000 had a high purchase of \$10,000 over a two year period of time.

Some cards have the same single transaction dollar limit as they do their total monthly limit.

The Cardholder Agreement form that is signed by the cardholder does not indicate the limits.

Out of 10 cards over \$2,999.99 only one had a Purchasing Manager's approval.

Criteria (The way it should be)

Standard limits should be in place. Standards should only be exceeded after justification from the Department and approval by the Purchasing Manager.

Communicate the limit by placing it on the Cardholder Agreement so the cardholder knows what their limits are and has a record of them.

The P-card policy states, "No single purchase limit is to exceed \$2,999.99 unless approved by the Purchasing Manager."

Effect (So what?)

A disgruntled employee may leave employment with the card in hand and no deactivation. That employee could purchase up to their limit.

The higher the limit passes the \$3,000 threshold the greater the risk State Law could be violated.

By not having a record of what their limits are they could unintentionally forget them or have a good reason for intentionally forgetting them.

Limits can get out of hand if the Purchasing Manager is not approving them.

Cause (Difference between condition & criteria)

Lack of monitoring over the internal control of P-card limits and proper communication associated with the P-card program.

Recommendation

- 1) Review and adjust these limits as appropriate.
- 2) The city has the ability to raise and lower limits within minutes. Use this to the City's advantage.
- 3) Reemphasize compliance with State Law and our policies at the next training class.
- 4) Place the limits on the cardholder agreement.
- 5) Make sure the Purchasing Manager approves all P-cards above \$2,999.99.

Management Response

We agree

Action Plan

Purchasing will again rely on "best practices", State Law and Purchasing Policies with regard to adjusting P-Card limits.

Purchasing will develop a new cardholder agreement which will be very clear regarding transaction limits, unauthorized purchases, etc. This form will be provided to all current and future cardholders and maintained by our office. We anticipate updating our P-Card training and requiring all current cardholders to attend to receive up-to-date training, sign a new agreement, etc.

As part of the new policy, the Purchasing Manager must approve all cards issued that will have limits increased beyond \$ 2,999.99 for a single purchase. Any increases must be on a very limited basis and should be rare exceptions. The Purchasing Manager will rely on the Department Director to justify approval of this increase. It will be incumbent on the Purchasing Manager to monitor the transaction and reduce the increase once the transaction is complete.

Clearly, having -0- limits on single purchase for P-Cards is unacceptable and will be corrected immediately.

Implementation Date

September 1 , 2014

Finding #5 – Preferred Vendors

Condition (The way it is)

The Purchasing Policy states the following, "The Purchasing Department maintains a vendor listing by commodity of vendors wishing to do business with The City of League City that may be utilized." However, when asked about this list the P-card Administrator indicated there was no list. This was confirmed by the Purchasing Manager. He indicated the city uses "Public Purchase" as a vehicle to allow vendors to register according to their commodity. Bid notices can then be sent to them.

The data analysis showed there were opportunities for the city to use its large purchasing power to leverage for discounts from various vendors.

Criteria (The way it should be)

Prudent business practices dictate the city always pursues the best value for the taxpayer.

Effect (So what?)

The city may be spending more than it needs to

Cause (Difference between condition & criteria)

Lack of monitoring over high volume vendors

Recommendation

- 1) Create a vendor listing according to the Policy or provide information on "Public Purchase."
- 2) Use data analysis to determine high expense vendors and negotiate discounts.

Management Response

We agree

Action Plan

Purchasing will create reports and analytical tools inside the P-Card software (SDOL) and begin working and negotiating with our high expense vendors, negotiate discounts and/or better terms and produce an agreement for that provider.

Implementation Date

September 8, 2014

Finding #6 – Capitalized Expenses

Condition (The way it is)

The Purchasing Policy and P-card Policy needs to address capitalization vs. expensing an item. It was noticed during this audit that several items in the Public Works Department (Lift Station Pumps, Sewage Pumps and Hot Mix Asphalt) and should have been capitalized.

Criteria (The way it should be)

Reliability of the financial statements requires accurate coding of expenses

Effect (So what?)

The Financial Statements could mislead readers. Financial analysis of the financial statements may be flawed.

Cause (Difference between condition & criteria)

The audit did not find a verification on the account coding for the capitalized expenses. No guidance on coding capitalized expenses was found.

Recommendation

- 1) Create a Capitalization Policy for the City.
- 2) Create a mechanism for the review of account coding particularly capitalized expenses.

Management Response

The City has a Fixed Asset policy which covers capitalization guidelines. The threshold for capitalization is \$5,000. If the repair of an item does no more than return the asset to its original condition and thus provides no additional value, then the cost of the repair will be expensed. If the repair or replacement of the item increases capacity or serviceability of the original asset or extends significantly the life of the asset, then it will be capitalized as an addition to the original asset. The items questioned during the audit were properly coded and would have been considered maintenance items in accordance with City policy. Expenses coded to the correct capital outlay object codes are reviewed and capitalized by the accounting department. Accounting also reviews maintenance accounts for mis-coded items that should have been charged to capital outlay. Management agrees that the asphalt purchase was a capital improvement that was overlooked in the review process.

Action Plan

We will reinforce to the departments during the Purchasing training the capitalization limits and the correct account numbers to utilize. Purchasing will also be mindful of the policy and the account numbers. Purchasing, accounting and budget will be mindful of the potential for capital expenditures as we review maintenance accounts, and work to identify them in advance in order to facilitate appropriate accounting treatment.

With lower PCard limits, and expenses going through the traditional purchasing channels, these errors should be easier to avoid.

Implementation Date

September 1, 2014

Auditor's Comment

The City Auditor desires to clarify the position taken.

At the time of this audit, the auditor found no capitalization policy on Policy Tech which is the city's central repository for all policies. Employees cannot be expected to follow policies that are not easily accessible to all employees.

The auditor understands that there are gray areas surrounding the capitalization issue.

According to the publication Accounting for Capital Assets, A Guide for State and Local Governments it states for an Improvement, "An improvement provides *additional value*. Such added value is achieved either by 1) lengthening a capital asset's estimated useful life or 2) increasing a capital asset's ability to provide service (i.e., greater effectiveness or efficiency).

The same article states for Repairs and Maintenance, "In contrast to improvements, repairs and maintenance *retain value* rather than provide additional value."

Improvements should be capitalized and recognized as expense (i.e., depreciation or amortization) over the estimated useful life of the improvement. The cost of repairs and maintenance must be reported as expense of the period in which incurred.

Pumps – Subsequent to the management response additional review was conducted by the City Auditor. The pumps invoice amounts were \$5,853, \$6,375, \$39,394.

In a recent city survey that Auditor performed it was mixed as to the way cities handle the rebuild, repair or replacement of a lift station pump. Some cities expense all costs associated with pumps. Some cities capitalize all expenses associated with pumps. Another city it depends on the size of the pump. Another city expenses the rebuild of a pump while capitalizing the replacement of a pump.

Care must be taken if the new pump is more efficient or effective than the previous pump. That would require capitalization. Ultimately, the accounting used must come from a thorough understanding of whether value is being retained or additional value is being added.

Beyond the standard definition provided above an asset is an economic resource of the organization that provides future benefit. An expense is generally consumed within the year. The pump provides future benefits that exceed one year.

The City Auditor is respectful of Finance's judgment regarding pumps.

Finding #7 – Department P-Cards/Emergency Cards

Condition (The way it is)

The P-card program in the city has numerous Department P-cards where any individual from the department can use the card. Generally, these cards have high limits as opposed to individual cards. According to JPMC, the purpose of these cards is to eliminate the need for individual cards. That does not seem to be the case. The audit found many individual cards along with high limit department cards.

Additionally, according to JPMC, "The issue with a department card is that it prevents the cardholder the ability to dispute a transaction with a vendor for a chargeback. The merchant can deny the chargeback claim since they cannot validate the individual did the purchase since there is not a name on the card."

The city has 10 emergency cards in a file cabinet in the purchasing department. These cards are used just-in-case. The issues that apply to the department cards also apply to the emergency cards.

Criteria (The way it should be)

The least amount of cards outstanding that can provide the greatest benefit

Effect (So what?)

The more cards dispersed the more administrative cost there will be. The greater the chance for lost, stolen, or fraudulent cards. It is much harder to assign accountability to a departmental card/emergency card.

Cause (Difference between condition & criteria)

Consideration was not given to the individual cards issued in the department if a departmental/emergency card was issued and the risk that these cards present.

Recommendation

The city should do away with departmental cards and emergency cards

Management Response

We agree

Action Plan

Purchasing will discontinue both department and emergency cards, collect all of them and dispose of them by shredding. As noted in Finding # 2: The notable exception is that of a city-wide emergency (hurricane for example) where city administration will identify individuals who will be authorized to purchase goods and supplies during the emergency. Those individuals will have their limits increased during the phase.

Implementation Date

Immediately

Finding #8 – Sole Source, Emergency Purchases and Required Quotes

Condition (The way it is)

The audit found numerous items (nine) in the sample that did not have the requisite documentation for sole sources and emergency purchases.

Approximately, 11 in the sample did not have quotes as required.

Criteria (The way it should be)

Purchasing policy dictates required documentation for sole source (manufacturer's written certification and explanatory memo), emergency purchases (emergency purchase requisition) and purchases over \$3,000.

Effect (So what?)

The City (for these nine and 11) is noncompliant with the city's Policies and Procedures and State Law.

Cause (Difference between condition & criteria)

The P-card Policy does not directly state how to handle these circumstances only the Purchasing Policy. There is no mechanism in place to check for compliance regarding these policies.

Recommendation

- 1) Update the P-card Policy with sole source, emergency purchases and purchases over \$3,000 information or require no sole source or emergency purchases can be made with a P-card.
- 2) Create a mechanism to monitor the performance of getting the required quotes. Repeat offenders should have their limits dropped or their card privileges taken away.

Management Response

We agree

Action Plan

Sole Source and Emergency purchases will no longer be acceptable with P-Card transactions. The notable exception is that of a city-wide emergency (hurricane for example) where city administration will identify individuals who will be authorized to purchase goods and supplies during the emergency. Those individuals will have their limits increased during the phase.

Policy requirements will be reinforced at the upcoming training and as policy dictates cards will be cancelled for violators.

Implementation Date

June 2, 2014

Finding #9 – IT Purchases

Condition (The way it is)

The P-card Administrator indicated to the City Auditor that IT does not always go through Purchasing. The question came about when the P-card Administrator could not answer if certain IT vendors had contracts with the city.

Additionally, the P-card policies do not state if all IT purchases go through IT.

Criteria (The way it should be).

The Purchasing department should be utilized by all departments. IT purchases should be vetted by IT first.

Effect (So what?)

The Purchasing Department may lose accountability over the contracts the city has and the IT Department may lose accountability over the IT resources of the city.

Cause (Difference between condition & criteria)

Information and Communication is not taking place where it should be.

Recommendation

- 1) Management needs to ensure that IT goes through the Purchasing Dept.
- 2) All IT purchases are vetted by IT.

Management Response

Agreed

Action Plan

The Finance Director and Purchasing Manager have met with IT and have reinforced the policy and revised the practices. Purchase orders and standard purchasing channels will be utilized by IT, and all departments.

Implementation Date

Immediately

Finding #10 - \$50,000 Threshold

Condition (The way it is)

The city has several vendors that appear to be over the \$50,000 threshold.

Criteria (The way it should be)

State Law states that the \$50,000 threshold applies to all purchases in an organization not just from one department. The city should use caution. State law provides that there are criminal penalties if a city makes component, sequential or incremental purchases to avoid the competitive bidding requirements.

Effect (So what?)

The possibility of noncompliance with State Law

Cause (Difference between condition & criteria)

Our policies do not warn against this issue and there is no monitoring for this issue.

Recommendation

Create a monitoring mechanism that checks monthly for the \$50,000 threshold and explain in the Policies.

Management Response

We agree

Action Plan

Purchasing has initiated a procedure to reduce the P-Card limits as addressed in Finding # 4. Purchasing will rely on "best practices", State Law and Purchasing Policies with regard to adjusting P-Card limits

Implementation Date

June 30, 2014

Finding #11 – P-card Rebates

Condition (The way it is)

The city is provided a rebate on P-card Purchases. Currently that rate is 1.60%. It is determined by the Consortium's purchases and the city's purchases. No monitoring was found to ensure it is accurate.

Additionally, in communication with Fort Worth it was found the Commercial Card Agreement is its Third Amendment. Only the initial contract was provided to the auditor.

As part of the Commercial Card Agreement there is a section called Single Use Account (SUA). This is a card-less Account used in connection with a single, unique transaction. Our accounting system would need to be integrated with JPMC. This would cost approximately \$2,000 however the payback if, for example, we put \$2,000,000 of Accounts Payable on this system per years would yield an additional rebate of \$24,800 per year. SUA's are fraud protected.

Criteria (The way it should be)

Checks and balances are in place to verify amounts we get from JPMC.

Effect (So what?)

No checks and balances on the accuracy of the rebate.

Cause (Difference between condition & criteria)

Lack of monitoring

Recommendation

- 1) Verify the accuracy of the rebate.
- 2) Ensure the city has the latest amendment in its possession.
- 3) Consider a SUA free analysis to determine if that payment system would be advantageous to the city.

Management Response

Agree

Action Plan

Accounting will work with purchasing to review the rebate and assess the reasonableness of the funds received.

The SUA has been considered in the past and was not implemented at the time due to a lack of rebate available on SUA payments. We will revisit this option.

Implementation Date

June 30, 2014

EXHIBIT A

Sampling Methodology

The audit took several different types of samples from a database of approximately 28,150. 115 judgmental samples were picked from the following sorts:

- Employee
- Vendor
- MCC
- Vendors > \$50,000
- Weekends and Holidays

EXHIBIT B

Reliability and Integrity of Information

The reliability and integrity of the JPMC database was checked while doing the various steps of the audit program. The auditor compared information from the database to the back-up documents. That check did not yield any discrepancies.

It was found that during the month of January 2013 JPMC duplicated charges. We saw this in the database. It was also found that the database did not show credits with a negative sign, therefore until the supporting documentation was observed the credit was not known.

While these were discrepancies in the database used for the audit they did not impact the audit's conclusions and recommendations.

EXHIBIT C

FINAL ANALYSIS

The success of this program depends on a team effort as outlined on page 4.

The team needs to keep in mind the three phases of Program Controls:

Program Compliance

Policies and Procedures
Training and Communication
Senior Management Support

Point-of-Sale Controls

Spend Limits
MCCs

Tracking and Monitoring

Access to Mastercard's Smart Data On-Line
Monthly Reconciliations
Spot Audits
Data Analysis

