CITY TRANSACTION TESTING:
Continuous monitoring revealed few issues

August 2016

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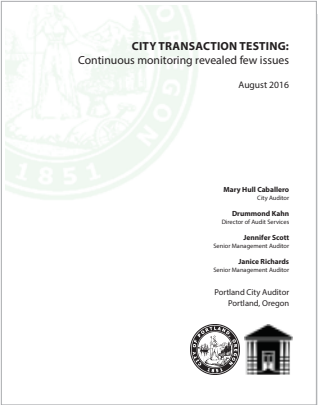August 2016

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TO: Mayor Charlie Hales
                Commissioner Nick Fish
                Commissioner Amanda Fritz
                Commissioner Steve Novick
                Commissioner Dan Saltzman
                Fred Miller, Director, Office of Management and Finance
                Christine Moody, Chief Procurement Officer, Procurement Services Division

SUBJECT: Audit Report – City Transaction Testing: Continuous Monitoring Revealed Few Issues (Report #454)

The attached report contains the results of our City Transaction Testing audit. The response from the Office of Management and Finance is included at the end of the report.

We appreciate the cooperation and assistance we received from the Procurement Services Division as we conducted this audit.

Mary Hull Caballero

Mary Hull Caballero
City Auditor

Audit Team: Drummond Kahn
                       Jennifer Scott
                       Janice Richards

Attachment

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Summary

The City introduced procurement cards in 1997 to streamline the purchase and approval process and reduce administrative costs. The City of Portland allows authorized employees to use procurement cards for purchases up to $5,000. Procurement Services provides some overall central coordination of cardholder accounts and transactions, but individual bureaus are responsible for monitoring their employees' card usage for appropriateness and compliance with policy.

We reviewed more than 400,000 procurement card records for transactions posted between July 2012 and June 2015, testing for transactions prohibited by the City policy and others that may signal the existence of irregularities, risks and potential fraud. We did not find anything to indicate fraud, misuse or a general lack of oversight. We had questions about a few transactions and referred them to Procurement Services for additional review.

Audit Results

Purchases of prohibited items

While procurement cards offer numerous benefits, they also carry risks. The City Procurement Card Policy Manual identifies allowed and prohibited uses of procurement cards. Purchases may include office supplies, refreshments for meetings, advertising, and professional membership dues. Prohibited purchases include alcohol, cash advances or money orders, and entertainment. Personal use of City procurement cards is not allowed and cardholders must reimburse the City for unauthorized or inappropriate expenditures as soon as possible. The Policy Manual also prohibits lending procurement cards to other people, including coworkers.

We identified a few transactions where prohibited items may have been purchased, but they included reasonable explanations or the value of the item was less than $10.

We found six purchases for airline tickets for City business-related travel. Two contained explanations that the purchase card was used because of travel agent mistakes or last-minute booking. Two contained notes that the employees would be coached on the procurement card policy, and two were approved but did not contain an explanation why the procurement card was used. At the time we performed our review, it was prohibited to use a purchase card to buy airline tickets. The Policy Manual was updated in January 2016 to allow for the purchase of airline tickets.

We also identified a transaction where an employee used another employee's procurement card because the limit on the first employee's card was not high enough to cover a purchase.

Card use while on extended leave

The Policy Manual states that employees are not eligible to use procurement cards while they are on extended leave from work. We identified one transaction without an explanation for car wash services made while an employee was on a two month Family Medical Leave.

Gift card purchases

City policy allows bureaus to recognize employees for professional achievement in the form of cash, gifts, or other appropriate incentives. There is no prohibition against using a procurement card to purchase gift cards, but procurement cards may not be used for cash advances or money orders. Gift cards are comparable to cash, and as such, present a risk of fraud or theft. Additionally, Internal Revenue Service requirements state that gift cards from an employer to an employee are taxable, regardless of value.

We identified more than 700 purchases of gift cards. They were purchased primarily to recognize employees and community members. The purchases appeared justified based on our review. We did not verify that gift cards were protected from theft after they were purchased and before they were distributed.

Split transactions

City Code and policy limit procurement card purchases to $5,000. The Policy Manual specifically prohibits splitting or fragmenting a purchase so that it falls under the maximum allowable limit for a procurement card. We identified one item that appeared to be a split transaction.

Items on City price agreements

The City maintains price agreements with more than 60 vendors for specific types of goods, ranging from office furniture to supplies. In on-line procurement resources for City employees, each price agreement is designated as either authorized or unauthorized for procurement card purchases. We identified purchases that seem to match items on City price agreements that are not eligible to be purchased with procurement cards.

Credit limits out of step with actual spending

Establishing spending limits is a mechanism to manage procurement cards and prevent misuse and limit losses if a card is misplaced or stolen. In 2002, our office recommended that the City reduce single and monthly procurement card transaction limits to match actual use to minimize risks.

The City has established 50 different card profiles for procurement card users. Single transaction limits range from $14 to $5,000 and monthly limits from $500 to $150,000. We compared transactions to purchase limits and found instances where credit users' limits far exceeded their actual spending. We shared two of these users' transactions and level of use with Procurement Services for their review. Procurement reduced the monthly limit for one employee, while they maintained the limit for another employee who needed a high limit for emergency purchases.

City employees as procurement card user and approver

Card use should be monitored and approved by someone other than the cardholder. When there are inadequate separation of duties, the risk of errors or inappropriate purchases increases.

We identified cardholders who also had approval authority. We shared the details with Procurement Services, which explained that cardholders may have approval authority for others, but not their own cards. The electronic procurement card system does not allow cardholders to approve their own transactions.

No procurement cards used after employment with the City

Procurement card accounts should be closed immediately after a cardholder's end of employment. We found no evidence of card usage after cardholders left City employment.

Objective, scope and methodology

We reviewed more than 400,000 City procurement card records for transactions posted between July 2012 and June 2015 as part of our continuous monitoring efforts. We performed typical checks of transactions that may signal the existence of irregularities, risks and potential fraud. We also performed checks of transaction types prohibited by City policy. When there was a match for a test that signaled a questionable transaction, we examined details of the transaction available in the electronic records and shared them with Procurement Services. Procurement Services explained many of the transactions, and we found that most were reasonable. At the conclusion of our audit, we shared all results with Procurement Services for their review. We did not conduct detailed work with individual bureaus about their transactions.

We examined documents to gain an understanding of the City's procurement card program. These documents included City and state policies, procedures, laws, and other regulations related to the use of procurement cards. We also interviewed City managers overseeing the City's procurement card program, including the Chief Procurement Officer and Procurement Card Program Manager. We also interviewed City accounting managers.

We interviewed staff, reviewed available system documentation, record layouts, field definitions and sample extracts of data sets. We also researched best practices for procurement card testing and fraud detection. We reviewed prior audits of the City's procurement card program and assessed the implementation status of prior recommendations. We reviewed audit reports issued by other jurisdictions. We used this information to identify a series of diagnostic tests we performed on the procurement card data.

We analyzed City procurement card and other data and performed the transaction tests using ACL, a software application widely used in the auditing profession for data analysis.

We relied on management's representations of data from its information systems. We did not perform tests of specific data reliability as part of our review, but did verify and review the data for reasonableness. We did not audit source documents.

Our review was focused on tests described above. Our results are not intended to provide assurance that all procurement card use is free from error, fraud, waste, or misuse.

Government auditing standards require auditors to determine if previous recommendations in a related area have been implemented. We issued our audit report, City Financial Transactions: Issues Warrant Management Attention, in 2012 and followed up on the implementation status of the recommendations. We found that two of the recommendations had not been implemented and four still were in process (see Appendix).

Link to our 2012 audit report:
http://www.portlandoregon.gov/auditservices/article/412124

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require us to 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.

APPENDIX
Status of prior audit recommendations

Status of prior audit recommendations
City Financial Transactions: Issues Warrant Management Attention

2012 Audit Recommendations	Bureau reported status in 2013	Bureau reported status in 2015
Issue: Payments to some potentially noncompliant businesses		
1. Review the questionable items identified in the audit results and take appropriate action.	Implemented	Implemented
2. Develop a formal policy to govern vendor records management, as planned.	In Process	In Process
3. Enhance current procedures for examining vendor compliance to ensure vendors are current with applicable registration requirements prior to and while doing business with the City.	In Process	In Process
Issue: Vendor records sometimes incomplete		
4. Review the vendor master records for duplicate, incomplete, and erroneous information and clean the data as needed.	In Process	Implemented
5. Develop formal policy on required information in the vendor master records and ensure data entry procedures maintain a complete record.	In Process	In Process
6. Develop regular verification procedures to ensure records are current and accurately reflect City activity with its vendors	Implemented	Implemented
Issue: Employees as City vendors; potential related parties		
7. Review questionable transactions identified in the audit results and take appropriate action.	Implemented	Implemented
8. Establish a process to periodically monitor transactions for potential related party relationships.	Implemented	Implemented
Issue: City employees and vendors included in Oregon death data		
9. Periodically obtain death data from the Oregon Health Authority for comparison to employee and vendor records.	Not Implemented	Not Implemented
Issue: Information systems access appears to be appropriately managed		
10. Strengthen existing controls for assigning user IDs to ensure elevated access provided to users for a particular reason is reduced when that reason no longer exists.	In Process	Implemented

Status of prior audit recommendations
City Financial Transactions: Issues Warrant Management Attention

2012 Audit Recommendations	Bureau reported status in 2013	Bureau reported status in 2015
Issue: SAP documentation is limited; not able to reach a conclusion on transactions occurring outside business hours		
11. Add a mechanism to ensure transactions occurring outside of standard business hours are appropriate and authorized.	Not Implemented	Not Implemented
12. Evaluate existing SAP documentation and update or develop new as needed.	Implemented	Implemented
Issue: Duplicate payments and inconsistencies between vendor and payment data		
13. Perform additional review of the potential duplicate payments by comparing two or more data fields and take appropriate action, as needed.	Implemented	Implemented
14. Strengthen existing policies and procedures to govern payments and records management.	In Process	In Process

CITY OF PORTLAND
OFFICE OF MANAGEMENT AND FINANCE
Charlie Hales, Mayor
Fred Miller, Chief Administrative Officer

To: Jennifer Scott
           Drummond Kahn

From: Ken Rust, Chief Financial Officer *KLR*

Date: August 19, 2016

Re: City Transaction Testing audit, 2016

Thank you for the opportunity to review your recent audit – 2016 City Transaction Testing, and for the chance to discuss the draft audit with Audit Services staff.

The Office of Management and Finance considers this to be a "clean audit", in that the audit neither found any problems nor made any recommendations for remedial action. We will continue to look for efficiencies and improvements in our business processes and systems.

Mary Hull Caballero, City Auditor
Drummond Kahn, Director of Audit Services

Other recent audit reports:

Presidential Campaign Visits: The City should follow policy and charge for services (#489, May 2016)

Payment Card Data Security: Consumer information is safer (#486, May 2016)

Technology Projects: Lack of governance hurts City projects and disaster planning (#460B, February 2016)

City Council Grants: No competition and limited oversight (#479, January 2016)