CITY OF WILMINGTON
Purchasing Cards (P-Card)
Internal Audit Review

City Auditor's Office

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Highlights

Why We Did This Audit

Internal Audit (IA) performed a scheduled audit for P-Cards. The audit was in accordance with the 2020 Internal Audit Plan.

Methodology

During the audit period of July 1, 2019 to June 30, 2020, there were 33 active P-cardholders. To meet our objectives, IA examined various Finance documentation including accounting, and procurement files. IA also evaluated controls related to the administration of the p-card program and reviewed policies and procedures for compliance.

Audit Review Committee:

Ronald Pinkett, Chair

Ciro Adams
Marchelle Basnight
Angelique Dennis
Bud Freel
Tanya Washington

Objective and Scope

Internal Audit (IA) conducted a Performance Audit of Purchasing Cards (P-cards). Our objectives during this engagement was to evaluate City of Wilmington's (CoW's) usage of P-cards by comparing them to the City's current policies and best practices. Additionally, IA reviewed the adequacy of internal controls P-card and verified whether compliance with the P-card program exists. The scope of the audit focused on the accuracy and completeness of P-cardholder transactions and procurement program activity. IA examined 33 cardholders and 103 of their transactions for review from FY20.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). These 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.

Background

The P-card program is designed to enable the City of Wilmington to make purchases quickly and efficiently, thereby reducing the volume of invoices and request for checks being processed. The P-card program is intended to:
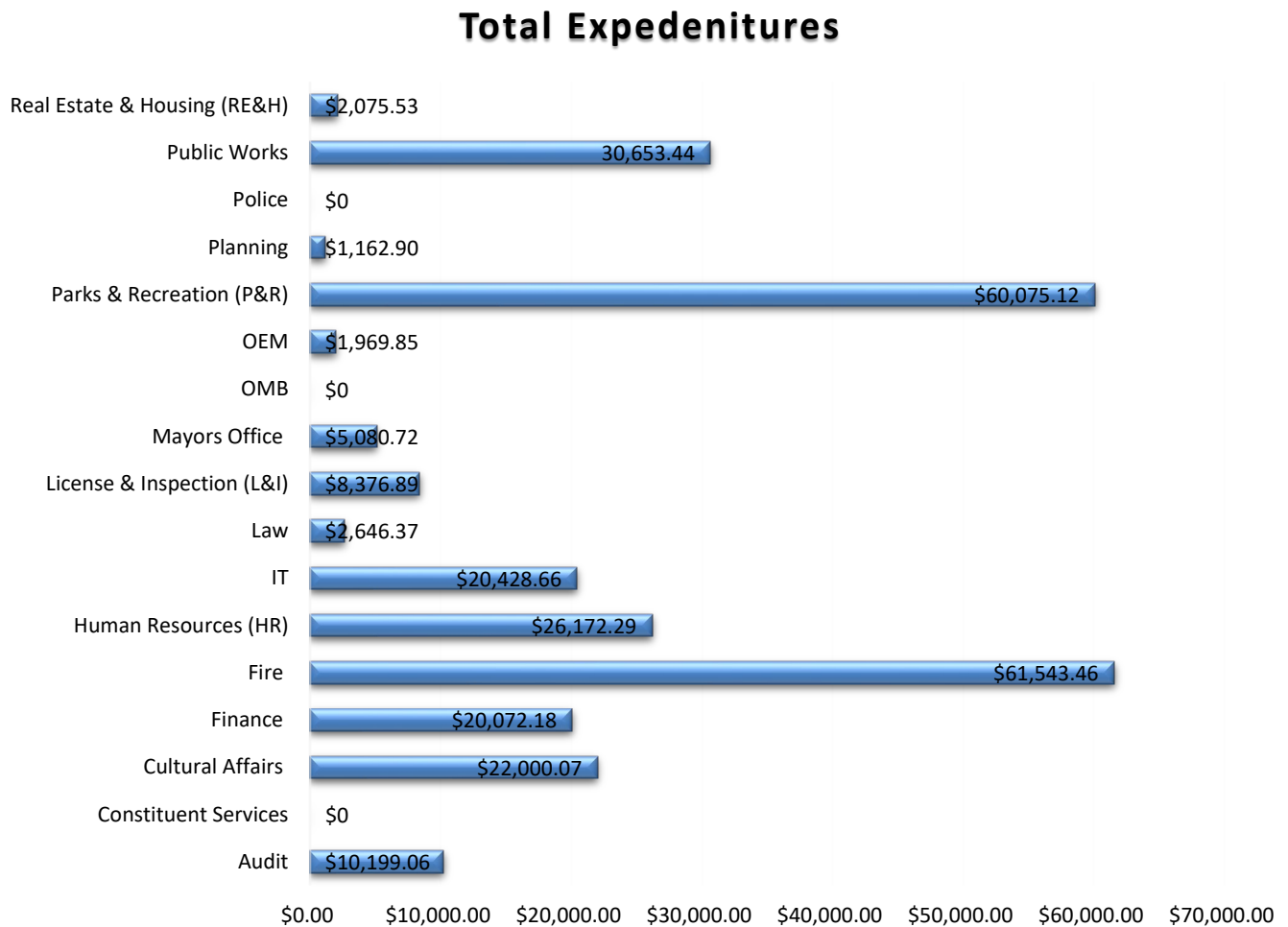
- Reduce the volume of accounts payable transactions and associated administrative costs by consolidating multiple vendor payments while providing departments a time-saving convenience.
- Provides a convenient method for small purchases and to facilitate e-commerce, including Internet purchases and/or payments.
- Ensure that procurement of goods and services with purchasing cards is accomplished in accordance with the City's Purchasing Policy to carry out the program.
- Facilitate good management practices and proper tracking of expenditures.
- Ensure that appropriate internal controls are established to prevent fraud and unauthorized purchases.
- Provides excellent value through rebates earned by making purchases on P-cards.

In other corporations and municipalities, the use of P-cards has been proven to be a cost-effective method for obtaining supplies and services. Some common examples of associated expenses include travel, training, business memberships, office supplies, and meals. These common transactions are managed through the P-card process as long as it is for a business purpose. The P-card is used and processed by vendors like a traditional credit card. The City utilizes Bank of America (BoA) to administer its P-card program by use of an application known as Works.

This application enhances the City's ability to manage all P-card transactions. All P-cardholders are assigned a credit limit and have a transaction limit of $5,000. During the Fiscal Year (FY) from July 1, 2019 to June 30, 2020 there was a total of $272,456.54 worth of transactions that was processed in BoA Works.

Key Statistics:

FY20 - Total p-card expenditures by department

Total Expedenitures

Department	Amount
Real Estate & Housing (RE&H)	$2,075.53
Public Works	30,653.44
Police	$0
Planning	$1,162.90
Parks & Recreation (P&R)	$60,075.12
OEM	$1,969.85
OMB	$0
Mayors Office	$5,080.72
License & Inspection (L&I)	$8,376.89
Law	$2,646.37
IT	$20,428.66
Human Resources (HR)	$26,172.29
Fire	$61,543.46
Finance	$20,072.18
Cultural Affairs	$22,000.07
Constituent Services	$0
Audit	$10,199.06

$0.00 $10,000.00 $20,000.00 $30,000.00 $40,000.00 $50,000.00 $60,000.00 $70,000.00

What we found

Key Findings

Following are key issues that resulted in a process/area to be risk rated a three or four. See **Attachment A** for the detail of these and all comments identified during the review.

Risk Ranking:		(See Attachment B for full rating definitions)			
Process / Area	**Process / Area Owner**	**1 Strong Controls**	**2 Controlled Effectively**	**3 Controlled - Improvement Required**	**4 Significant Improvement Required**
Compliance					✓
Reconciliation					✓
Strategic Operations					✓

Compliance

1. Noncompliance exists with the policy manual for P-cardholders regarding the following issues. Fifty-four percent of cardholders were not providing proper supporting documentation such as an explanation for their business purpose with the item description in BoA Works system. Furthermore, several meals were purchased out of compliance to policy manual 1000.5. In addition, nine out of 33 (27%) cardholders did not complete the required training before being issued a P-Card. There were two split purchases that resulted in expenses over the allowable 5k threshold. Prior to requesting the list from Procurement, they were not properly managing the training files nor the signed agreements. It was noted that unauthorized proxy cardholders were using P-cards in place of the assigned P-cardholder. There is no mention of allowable proxy cardholders.

Reconciliation

2. Control weaknesses were identified during our review of the P-card reconciliation process. Seven of 21 (33%) P-Cardholders were able to produce a P-card reconciliation report. It was noted by the accounting staff that there are no monthly statements, so they do not perform a monthly reconciliation on P-Cards. Additionally, Finance does not require the P-cardholders to complete one as well.

Strategic Operations

3. Control weaknesses exists surrounding how P-card transactions are being processed. For instance, it was noted on the Internal Control Questionnaire completed by Finance that P-Cards do not have Merchant Category Code (MCC) restrictions. Based on this information, the

following vendors fall under that category and should be considered high risk and not allowed by Finance (e.g. PayPal, Groupon, Vera Bradley, Grubhub, and Uber/Lyft).

Additional Observation

It was noted that the Procurement Division is not properly reviewing or maintaining the roles and privileges in BoA Works. IAD requested to review any reporting performed by the P-Card administrators of all P-cardholders and their valid approvers. Ensuring the roles and privileges in BoA Works system by verifying proper access is given to perform their required duties associated with their status. Periodically, the p-card administrators should review the list of active cardholders in works and check the permissions to minimize the risk of fraud or abuse.

All P-Cardholders have the same credit limit of $20,000 and daily transactional limit of $5,000. For security this should be modified and changed according to departmental need and position. Additionally, there are several departments and p-cardholders who have access to a p-card and have not used them for the entire FY20. If it is determined that P-cards are not needed for those functional areas and/or users; those cards should be suspended.

Management Responses to Audit Recommendations

Recommendation #1: Training is set to occur once a year but if a P-cardholder requests additional training or if they violate a process P-cardholders should be required and/or allowed to repeat training to ensure proper understanding and sign off that additional training occurred.

Management should consider updating the Policies and Procedures (P&P). In its current form the P&Ps are slightly conflicting and may cause confusion to current P-cardholders.

Finance is the overseer of P-Cards and should properly monitor and address incorrect actions that may take place.

Management should ensure that all staff adheres to the P-card manual and the Finance Department should enforce the rules set forth in the manual.

Management response & action plan: The Finance Department acknowledges the finding. After review of the finding, upper management discussed this matter with the Procurement Manager advising that all cardholders are required to have training whether formal or informal along with documentation of that completed training, prior to the issuance of the actual Pcard. The Procurement Manager will research the issuance list against the training list to establish who has not received training but has been issued a Pcard. Per the Pcard Policy Manual, under **Mandatory Training** on page 2, states that: "Prior to the issuing of a Pcard, and annually thereafter, all cardholders and cardholder Managers shall successfully complete training by the Director of Finance or Designee and the Pcard Administrator. The training class is classroom based. Cardholders that violate the City's Pcard Policy will be required to attend an additional training class to maintain the Pcard privileges."

The Finance Director may grant an exception to the $5000 purchase limit on Pcards, on a case by case basis. Such requests must be directed to the Procurement Manager for review and submitted to the Director of Finance for approval.

Unfortunately, the BOA online Works application does not require or decline a transaction if the description is not inputted into the system. Necessary information, that needs to be inputted into the system such as the description requirement, is provided to the cardholder during training. The purpose and description information is also requested by the Finance Department on the Purchase Card Transaction Information form which is required to be attached as back up to the transaction in the BOA Works application. The Department Heads is responsible for P-card transaction activity including authorizing transactions within their respective departments. We will continue to address this issue with the Pcard Department Head's, Users and Reconcilers during annual training as well as when it is brought to our attention. The Procurement Division does offer training to any cardholder at any time.

A transaction cannot be approved without an approver approving the transaction. At times, the system has shown incorrect information regarding past transactions and we will work with the vendor to correct. The Finance Department does house the names of the approvers for each department.

Finance acknowledges the finding. We will track and obtain the approving officials and the accounts list and house them in the Procurement Division for future retrieval. This information has been inputted into

the BOA works application and is currently being used by reconciler and approvers to complete transactions.

The Pcard Policy Manual under **Proxy Reconciler** on page 1, states that: **"**In some departments administrative personnel are tasked to represent the actual Cardholder during reconciliation processes. This usually occurs when the cardholder does not have access to a computer to input data. The Proxy Cardholder can perform those tasks normally assigned to the Cardholder. A Proxy Cardholder may not have the role of Cardholder Manager for the same Cardholder."

Completion Date: Completed

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Recommendation #2: Management should consider having all P-cardholders create an expense report and perform a monthly reconciliation. The accounting staff should review the expense reports from P-cardholders and performing their version of a reconciliation which should be performed monthly or quarterly.

City of Wilmington (CoW) should create a set up through BoA to have monthly statements generated as this is a common practice with P-cards in other municipalities.

BoA Works has a training module for cardholders explaining how to create the expense report. The administrators should ensure all P-cardholders understand and know how to fully access and create the monthly reconciliation.

Management response & action plan:

The BOA online Works application provides an electronic expense report reflecting all cardholders' transactions for review on a monthly basis. The use of the reports is highly recommended but not required by the Finance Department. As with any regular invoice that is processed through Munis, all purchases within the BOA Works application go through a workflow process, along with a secondary approval and attached images as back up documentation of the transaction. Information is posted daily to the Works application enabling departments to reconcile transactions as receipts and invoices are received, rather than waiting until the end of the month or the billing cycle. The Pcard Policy Manual under **Reconciliation on pages 3-4**, requires the reconciler to compare receipts to transactions posted in the BOA Works application. It is the internal Department Head's decision to designate the frequency of the reconciling of their transactions, depending on staffing and the availability to perform this task. The reconciliation process is recommended weekly, at a minimum on a monthly basis since all transactions for the month must be reconciled per the Pcard Policy by the 25th of each month for the most recent completed billing cycle.

Completion Date: Completed

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Recommendation #3: MCC codes not only allow proper tracking of purchases but will allow CoW to enforce certain rules and usage to vendors by ensuring valid business purposes for transactions.

Finance should require the list from departments and utilize what is common for those specific areas. Then allow certain functional areas to use those known vendors.

The CoW should consider or seek rewards, rebates or other form of perk, which can be an added benefit for using P-cards and increase cash flow for everyday business purchases.

Management response & action plan: We acknowledge the finding. The P-Card program is used for less than 1% of the City's non-personnel expenses and provides an efficient payment alternative. The P-Cards may be used at any qualified merchant that accepts visa for appropriate authorized business expenditures, excluding those blocked by assignment. The cards are restricted from use at certain types of vendors, as defined by Merchant Category Codes (MCC). The Pcard Policy Manual, under **Purchase Restrictions on page 6,** states that: "The Director of Finance, Department Heads or their Designees may request additional Merchant Category Codes (MCC's) restriction to individual cards which can include Accommodations, Car Rentals, Oil/Gas, Restaurant/Food, and Travel. These limitations enable specific controls on cardholders and minimize errors, restricting the employee to specific procurement functions". However, in today's modern world, vendors may invoice using PayPal. Uber and Lyft are also used for example by cultural affair in paying artist for transportation as listed in their contract for City sponsor events. The Procurement Manager will reach out to BOA to block Groupon and Vera Bradley in order to reduce potential risk, while at the same time providing departments the spending power and flexibility, they require to perform normal business Pcard transactions. Please note that adequate supporting documentation must be obtained for each purchase.

The City is involved in the B.O.A. rebate program.

Completion Date: Completed

__Audit Team__

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Tamara Thompson, Audit Manager