

MUNICIPAL AUDITING REPORT

CITY OF ROANOKE

Purchasing Cards - Executives

Report Number: 10006

Audit Plan Number: 09106

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BACKGROUND

The City began utilizing purchasing cards in 2001 in order to reduce the overall costs of procuring small dollar goods and services. Purchasing cards are under the MasterCard brand and are limited to purchases of up to \$2,500 per transaction with a total purchase limit of \$15,000 per month. Departments can request an adjustment to increase these limits if there is a justifiable need. Transactions are restricted to certain types of purchases, and the card is blocked from use at selected merchant category types.

There were 644 purchasing cards in use on February 28, 2009. The number of active cards may be different at any given time. The following table provides perspective related to the purchasing activity managed through the City’s purchasing card program:

Period:	Number of Transactions	Total Dollars	Average Spend
7-1-08 thru 2-28-09	14,713	\$3,143,961	\$213.69
7-1-07 thru 6-30-08	26,955	\$5,846,327	\$216.89

The Purchasing Division administers the City’s purchasing card contract with Fifth Third Bank, processes individual requests for cards, issues cards, and provides cardholder training. Cardholders are responsible for adequately documenting the purpose of the purchase, including retaining itemized receipts. City policy provides an approval hierarchy intended to ensure purchase activity by each cardholder is reviewed by a superior or other person independent from the cardholder. The approval hierarchy is as follows:

Expenditure Incurred By:	Statement Reviewed By:
Division Manager	Department Director
Department Director	Assistant City Manager
Assistant City Manager	City Manager
Council-Appointed Officers	Purchasing Manager
Constitutional Officers/Court Officials	Purchasing Manager
City Council Member	City Clerk

Each cardholder receives a monthly statement from Fifth Third Bank. The statement, as well as itemized receipts, is given to a designated City department employee. The designated employee ensures he or she has an original receipt for each charge listed on the statement. A Web-based application, SDOL, reports point-of-sale data for each transaction, including the date, time, amount, and merchant. Using the original receipts and any notes provided by the cardholder, SDOL is used by the designated employee to enter the description of each purchase and the City expenditure (object) code against which the purchase is to be charged.

When a cardholder either forgets to request a receipt or loses a receipt, the department must make every effort to secure a duplicate receipt from the vendor. If a duplicate cannot be obtained, an affidavit must be completed by the cardholder.

The person responsible for approving credit card purchases can sign onto the SDOL system and review each purchase description, vendor, amount, and object code to which the purchase was charged. Approval can be documented in the SDOL system by marking each transaction or by clicking the "approve all" button. Purchases are not required to be marked as approved in the SDOL system and will post to the accounting records as entered.

City policy requires that the monthly statement from Fifth Third Bank for each purchasing card must be signed and dated by the designated reviewer. The signed monthly statement, original receipts, and affidavits must be forwarded to the Department of Finance by the 15th of the following month.

The Purchasing Division and the Department of Finance perform monthly audits of purchasing card records. The Department of Finance selects a sample of monthly statements and verifies the statements are signed and supported by attached receipts. The Purchasing Division reviews certain monthly activity for indications of policy violations, unusual vendors and out of the ordinary activity.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objective:

To determine if credit card purchases by City executives were in accordance with City policies and procedures.

Scope:

We audited all purchasing card expenditures reported for City executives between July 1, 2006, and February 28, 2009. For the purpose of this audit, we defined City executives as being the following positions:

- Constitutional Officers
- Council-Appointed Officers
- Deputies and Assistants reporting directly to an Officer
- Directors and Managers who report directly to the Assistant City Managers
- Court Officials
- Members of the City Electoral Board

Methodology:

We identified all City executives with purchasing cards using the City's organizational flowchart, various court Web sites, and SDOL data.

- 45 cardholders
- 50 active purchasing cards
- 2,109 transactions totaling \$512,092 for the period under audit.

We developed several reports using the purchasing card data and Microsoft Access that helped us to analyze the data and target our test samples.

We developed reports showing line item purchases by:

- Vendor
- Object code
- Cardholder
- Department

We reviewed the reports for notable patterns, unusual vendors, unusual amounts, days of the week, times of day, and seemingly incompatible accounts. We identified 146 transactions we felt warranted additional research. Based on this research, we selected 86 transactions to test. We designed our testing to verify:

- Purchases were not broken up to avoid the \$2,500 transaction limit.
- Itemized receipts were retained.
- Purpose of expenditures was adequately documented.
- Expenditures were coded to appropriate accounts.
- Purchases appeared reasonable and to be linked to City business.
- Purpose of business meals and names of people attending were documented.
- Alcohol was not purchased.
- Technology-related purchases were approved by the Department of Technology.
- Original receipts were retained for all purchases reported by Fifth Third Bank.
- Expenditures were properly approved.

We developed a query using Access to identify all transactions exceeding the maximum allowed amount of \$2,500 [none noted].

We developed a report to accumulate purchases by cardholder, by month, to verify total purchases did not exceed the maximum allowable amount of \$15,000 per month [none noted].

We developed a report summarizing purchasing card expenditures by cardholder, by year, and evaluated it for notable changes in spending totals between years. Significant variances were noted for 15 cards. We developed a report showing purchases grouped by account code and sorted by vendor, which we used to identify unusual trends and out of the ordinary transactions. We identified 36 transactions for detailed testing, to include reviewing receipts and other supporting documents, and interviewing cardholders.

We created a report showing transactions made on weekends, sorted by cardholder. We reviewed the report for unusual items such as meals or gas with no vehicle rental, airfare, or lodging. We also considered the nature of the goods or services provided by vendors and purchasing patterns. We selected 18 transactions for more detailed review of receipts and other supporting documents.

OBSERVATION

Observation: Detailed Itemized Receipts

Criteria:

City Purchasing Card Policies and Procedures, August 11, 2008: Cardholders must: “Make sure that an itemized receipt is obtained, documenting all items purchased. This may be a separate item of documentation from the charge slip, or the charge slip may reflect each item purchased.”

Detailed receipts help ensure the nature of the purchase can be understood and properly coded to the accounting records. The City policy prohibiting the purchase of alcohol with City funds cannot be effectively administered if receipts for business meals do not detail the food and beverages purchased.

Condition:

We selected 140 expenditures for detailed review. These expenditures included items such as lodging, meals, fuel, rentals, office supplies, telephones, Internet service, furniture, and paint. We identified 21 expenditures for meals that were not supported by a receipt detailing the specific food and beverages purchased. In all cases, the purpose and persons attending the meals were documented.

Effect:

Summary receipts provide insufficient detail to enable responsible reviewers to adequately evaluate the reasonableness of meals, the number of people in attendance, and adherence to the City’s policy prohibiting purchases of alcohol with City funds.

Cause:

Employees have not recognized the need for itemized restaurant receipts, as it is common practice for most people to keep only the charge slip showing the total paid when using their personal credit card. City policies related to business meals do not include any reference to the requirement for itemized receipts that is specified in the policies and procedures for purchasing cards.

Action Plans:

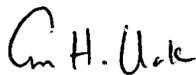
The Purchasing Division will notify all purchasing card contacts about the requirement to obtain itemized receipts for business meals. The requirement for itemized receipts for business meals will also be incorporated into the Purchasing Division's training presentation for new cardholders.

The Department of Management and Budget will revise the meal reimbursement administrative procedure [6.2] to explicitly require itemized receipts for business meals.

The Department of Finance will continue reviewing a sample of purchasing card statements each month for compliance with City policies. Finance will identify meal charges that are not supported by itemized receipts and will contact departments to reinforce the requirement.

CONCLUSION

We conclude that credit card purchases by City executives were substantially in accordance with City policies and procedures.



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