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OFFICE OF THE CITY AUDITOR Audit Report

PROCUREMENT CARD SYSTEM

January 2006





CITY OF STOCKTON

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Stockton City Council

AUDIT SUMMARY: PROCUREMENT CARD SYSTEM

In accordance with our 2005-2006 audit plan, we have completed our audit of the City of Stockton Procurement Card System. Designated employees are provided a credit card as a means to purchase supplies and materials needed in the performance of their jobs. Procurement card purchases reduce the need for purchase orders and blanket purchase orders.

Our audit objective was to determine whether procurement cards are being used in compliance with established policies and procedures. Where we identified opportunities for program improvements, we communicated them to management. Based on the results of our audit, we conclude that overall the procurement card program is functioning adequately. There are however, instances of non-compliance with policies and procedures, and control processes that could be improved to strengthen and enhance monitoring of procurement card transactions.

We commend management's continuing efforts to streamline operating procedures and to reinforce compliance with procurement card policies and procedures. We appreciate the cooperation and assistance extended by management and staff during this audit. Additional information about our audit can be found in the attached AUDIT REPORT.

Original signed by:

F. MICHAEL TAYLOR, CIA
CITY AUDITOR

cc: Gordon Palmer, Interim City Manager
Ren Nosky, City Attorney
Katherine Gong Meissner, City Clerk
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In accordance with our 2005-2006 audit plan, we have completed an audit of the City of Stockton Procurement Card System.

BACKGROUND

In September 2003, the City entered into an agreement with Wells Fargo Bank to provide procurement card services. The Procurement Card System was established to provide designated employees a convenient means to purchase goods and materials on behalf of the City within established guidelines. As of September 30, 2005, eighty-six Commercial MasterCard were issued by the bank. For the 8 month period March through October 2005, the average monthly total purchase was \$76,365.

Purchases are limited in terms of dollar amounts and the type of goods that can be acquired, as described in Administrative Directive FIN-30 – Purchasing Card Procedures, and in the City of Stockton Purchasing Card System Manual. Each employee authorized to use a City procurement card receives a copy of the directive and manual. The procurement card system facilitates the purchase of high volume low dollar items, reducing the need for purchase orders or blanket purchase orders.

OBJECTIVES AND SCOPE

The objective of our audit was to determine whether the procurement cards System was operating in accordance with established policies and procedures. Where we identified opportunities for program improvements to insure proper accountability and adequacy of internal controls, we communicated them to management. The audit covered the period from March through October 2005.

METHODOLOGY

Our audit was performed using the standard office methodology for compliance testing audits. Through documentation review and discussions with staff, we gained sufficient understanding of the system to conduct our work. We selected a sample of employee cardholders and transactions, and tested for compliance with policies and procedures. Where exceptions were noted, we performed additional work to assess the impact to the program.

We issued suggestion memos to management addressing operating conditions that were not in the category of an audit finding, but for consideration to enhance current operating procedures. Our audit was conducted in accordance with Generally Accepted Government Auditing Standards.

RESULTS

Based on the results of our audit, we conclude that overall the procurement card system is functioning adequately. There are however, instances of non-compliance with policies and procedures, and control processes that could be improved to strengthen and enhance monitoring of procurement card transactions.

FINDING: Procurement Card System Procedures Should be Revised

The City has an administrative directive on purchasing card procedures and a purchasing card system manual for employees. Each cardholder is given a copy of both by Purchasing Division upon issuance of the procurement card. We noted areas where these guiding documents need to be revised to better reflect practical implementation of the system.

Both Administrative Directive FIN-30 and the procurement card manual require the department head to approve transactions before the transaction log is forwarded to Accounting for processing. This requirement is not practical for a department head of a large department.

We identified conflicting due dates for transaction log summaries. The directive says 5 working days after receipt of the purchasing card statement from the card issuer, while the instructions on the back of the transaction log summary state that the packet should be forwarded to Accounts Payable by the 10th of the month.

Management Response:

The Administrative Services Department will prepare changes to both the directive (FIN-30) and the employee's system manual that will address the acceptable level of signing authority, and correct conflicting dates, as referenced in the finding. We have already taken steps to acquire from each department head the primary and back up signing authority for each card holder in his/her department.

Target Date for Corrective Action: March 1, 2006

FINDING: Non-Compliance with Procurement Card Procedures

In Audit's compliance review of procurement card transactions for the 8 month period from March through October 2005, we noted the following non-compliance items with established policies and procedures:

- Twenty seven transaction log summaries and support documents were not submitted to Accounts Payable for processing. Forty two transaction log summaries were not submitted on time. Non-submission or late submission of

transaction log summaries results in Accounts Payable charging default expenditure accounts which may not be the proper accounts to charge. To adjust an entry creates additional work for both the departments and Accounting, which is contrary to the intent of reducing administrative costs.

- Eighteen purchases were over the cardholders' single purchase limit and 6 total purchases exceeded the monthly spending limit. There were 12 instances where purchases were split to stay within the single purchase limit.
- Some items that are on the restricted list have been purchased including; airline tickets, hotel, food related items, and lease/rental agreement.
- Some purchases are supported by a charge slip with no description of the item purchased. Inadequate receipts and support documents were not questioned prior to transaction processing. These transactions apparently were accepted and approved at the initiating department.

Management Response:

The Administrative Services Department is reviewing the reconciliation process and will establish a tracking system to alert department heads if a procurement card has not been reconciled on a timely basis. We will conduct meetings of both card holders and those responsible for approving purchases to review procedures for using the card, proper completion of the logs, time line for submitting the logs, appropriate supporting documentation, and to discuss ramifications of failure to adhere to the policy. On an ongoing basis, we intend to have both the card user and signers trained on this procedure when they are added as users or signers. We will also be making draft changes to the directive (FIN-30) to include the corrective action that will take place if the procedures are not adhered to.

In addition, we will suggest changes to the directive and procedures that provide for the documentation of exceptions. In the regular course of business, there are occasional needs to spend beyond a cardholder's single and/or monthly limits. A documented authorization procedure will be established for such situations.

Some cardholders have authorization to make non-standard purchases (e.g., air fare, hotel, food, etc.) The Administrative Services Department will ensure that there is documentation supporting this authority. We recognize that the definition of "non-standard purchases" is likely to change over time; the subject directive and procedures will be maintained to reflect the current definition.

Target Date for Corrective Action: March 1, 2006

CITY AUDITOR MISSION STATEMENT

The Office of the City Auditor independently promotes ethical, efficient and effective governance for the citizens of Stockton. We provide the City Council, management, and employees with objective analyses, appraisals, and recommendations for improvements to City systems and activities. The department maintains independence and objectivity by reporting directly to the City Council and by not exercising direct authority over any department, system, or activity subject to audit.

