



**A REPORT FROM
THE OFFICE OF INTERNAL AUDIT**

**PRESENTED TO THE CITY COUNCIL
CITY OF BOISE, IDAHO**

AUDIT / TASK: #16-12, P-Card Program Review
AUDIT CLIENT: Purchasing / Cross-Functional
REPORT DATE: November 1, 2016
AUDIT GRADE: Satisfactory

**REPORT AUTHORS: Paige Holstine, Audit Intern
Steven Rehn, CIA, CFSA**

**APPROVED FOR RELEASE: Steven Rehn, CIA, CFSA
Director of Internal Audit**

**AUTHORITY: Boise City Code, 1-09-03
FY2016 Work Plan**

OFFICE OF INTERNAL AUDIT ACTIVITY REPORT

TASK #16-12, P-Card Program

DATE OF ENGAGEMENT: August 29, 2016

INTRODUCTION

Purchasing cards, also known as P-Cards, are one of several purchasing / payment options used by the City. They generally reduce the time and costs associated with making payments for goods and services - compared to more traditional purchasing methods. P-Card transactions also increase efficiency through a streamlined approval workflow.

When compared to prior periods, P-Card usage this year again suggests staff members continue to place reliance on this particular method for purchasing. Various measures of total spending and card use reflect increasing levels of activity in most cases. (See **Appendix A**, attached)

Due to the portability of the cards, and their distribution among City employees, there is a potential increase in risk when compared to traditional payment methods. Therefore, effective control processes and procedures are vital to safeguarding City resources and preventing misuse. As of the date of this review, the relevant control measures that were in place within the City's P-Card program included the following:

- Application and approval processes prior to card issuance
- Periodic P-Card training / re-training for new and existing cardholders
- Established standard credit / spending limits –per transaction, per day, and per month – with provisions for exceptions when needed
- Prohibitions on transactions with un-approved vendors, based on the Merchant Classification Code (MCC) used by the vendors
- Review and approval processes by designated personnel for all purchases
- Electronic access to posted transaction records.

The Office of Internal Audit schedules periodic reviews of higher-level P-Card program activity in order to assess compliance with established program parameters. This review is focused primarily on the controls overseen by the Department of Finance and Administration's Purchasing Division. In addition to this review, Internal Audit performs a daily automated review of all P-Card transactions in order to monitor both individual transactions and program controls, as well as to provide ongoing assurance and more timely feedback on program operations.

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SCOPE AND METHODOLOGIES

Internal Audit established a scope period of four quarters duration subsequent to the last P-Card review. This period included all P-Card transactions that were posted between July 1, 2015 and June 30, 2016. At management's request, Audit also included administrative actions up to the engagement date in order to provide management with a degree of assurance relative to current activity.

The detailed objectives established for the review consisted of the following:

- P-Cards were issued upon proper authorization by departments
- New and existing cardholders received training in card use
- Systemic restrictions on P-Cards were in place and functioning
- P-Card accounts were closed and cards captured / deactivated promptly from terminated employees
- Goods or services purchased with P-Cards supported the mission of the departments for which they were acquired.
- Use of P-Cards did not circumvent formal purchasing processes

Internal Audit employed various methodologies during the review which included staff interviews, the review of associated documentation, and testing of activities surrounding P-Card purchases. The methods employed and the evidentiary materials developed were deemed to be adequate to support the conclusions contained within this report.

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EVALUATION AND COMMENTS

Based on the review performed, it appears that the controls and processes associated with administration of the P-Card program are functioning in a “**Satisfactory**” manner. (Refer to **Appendix B** for additional details concerning Internal Audit’s existing grading scale.)

Continuous audits of P-Card activity are performed daily, and were performed over the course of this project’s scope period. The daily audits are focused on identifying a number of activities that might signal a deviation from the program parameters, including purchases from prohibited and / or high-risk vendors, out-of-pattern changes to card spending limits, large dollar transactions, split transactions, and cardholder terminations. In this way, Audit can identify discrepancies as near to occurrence as possible, and initiate corrective action if necessary.

This audit extends our review of the P-Card program to include higher-level program controls not necessarily included within the daily reviews. During this project we completed the following tasks:

- Verified that 52 new cardholders met all card issuance guidelines, as set out in P-Card regulation, before receiving cards
- Verified that a sample of 57 existing cardholders passed ongoing training within 25 months of their previous P-Card training
- Traced individual card profile / credit limit changes back to evidence of approval from appropriate levels of management
- Reviewed 37 card accounts with high spending limits for reasonableness within the context of cardholder job duties / responsibilities
- Reviewed 444 active cards for compliance with established spending limits and prohibitions
- Tested the time elapsed between employee terminations and card capture / deactivation for 30 employee separation events
- Tested a random sample of 69 individual transactions to ensure goods and services aligned with the business model of the Department for which they were purchased
- Reviewed purchase activity to confirm that P-Cards were not used to bypass formal purchasing processes

During the course of our work the objectives established for this review were met. We did not detect any issues that were worthy of separate comment. Overall, P-Card program administration appears to be highly effective, resulting in a control environment that displays a high degree of integrity.

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FINDINGS AND RECOMMENDATIONS

There are no formal findings or recommendations included within this report. No issues worthy of separate mention were noted during the review.

CONCLUSION

The controls employed by the Purchasing Division appear to be effective in maintaining an efficient and effective P-Card environment.

Internal Audit would like to express its appreciation for the assistance provided by the management and staff of the Department of Finance and Administration during the course of this review, as well as the cooperation of P-Card program participants spread across the various City departments.

MANAGEMENT PARTICIPANTS

Colin Millar, Purchasing Manager / Department of Finance and Administration
Deborah Lindley, P-Card Administrator / Department of Finance and
Administration

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APPENDIX “A”

Purchasing Card Usage Statistics

| Month | Total Transaction Dollars | Total # of Transactions | Average Dollars per Transaction | # Active Cards | Average Spending per Card | Average Transactions per Card |
|--------------------------------|---------------------------|-------------------------|---------------------------------|----------------|---------------------------|-------------------------------|
| Jul-15 | \$834,523.76 | 2,884 | \$289.36 | 329 | \$2,536.55 | 8.77 |
| Aug-15 | \$736,436.56 | 2,551 | \$288.69 | 296 | \$2,487.96 | 8.62 |
| Sep-15 | \$807,506.62 | 2,324 | \$347.46 | 291 | \$2,774.94 | 7.99 |
| Oct-15 | \$754,152.10 | 2,535 | \$297.50 | 300 | \$2,513.84 | 8.45 |
| Nov-15 | \$626,567.39 | 2,265 | \$276.63 | 294 | \$2,131.18 | 7.70 |
| Dec-15 | \$830,834.74 | 2,578 | \$322.28 | 307 | \$2,706.30 | 8.40 |
| Jan-16 | \$689,351.77 | 2,348 | \$293.59 | 300 | \$2,297.84 | 7.83 |
| Feb-16 | \$696,983.97 | 2,425 | \$287.42 | 305 | \$2,285.19 | 7.95 |
| Mar-16 | \$737,836.86 | 2,646 | \$278.85 | 307 | \$2,403.38 | 8.62 |
| Apr-16 | \$814,534.42 | 2,493 | \$326.73 | 307 | \$2,653.21 | 8.12 |
| May-16 | \$831,767.65 | 2,665 | \$312.11 | 307 | \$2,709.34 | 8.68 |
| Jun-16 | \$879,138.78 | 2,954 | \$297.61 | 323 | \$2,721.79 | 9.15 |
| Total | \$9,239,634.62 | 30,668 | | | | |
| Current Monthly Average | \$769,969.55 | 2,556 | \$301.52 | 306 | \$2,518.46 | 8.36 |
| Prior Monthly Average | \$672,978.00 | 2,466 | \$272.81 | 293 | \$2,295.06 | 8.41 |
| Change | 14.4% | 3.7% | 10.5% | 4.4% | 9.7% | - 0.6% |

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APPENDIX “B”

Evaluation and Grading of Audits

Each audit will be evaluated or graded, and will receive one of the three following ratings. Grades will be assigned based on the perceived “best fit.” Thus, not all attributes associated with an assigned grade may be present within a given Department or Division.

- **Satisfactory** – No significant weaknesses or operational issues were noted during the audit. If any issues were noted, they did not materially detract from the business unit’s ability to deliver services and / or to accomplish defined mission, goals, and objectives. Overall, systems of internal control are effective, and management oversight is adequate and effective.
- **Needs Improvement** – Weaknesses or issues detrimental to operational efficiency or effectiveness existed within the audited area, and were encountered frequently enough to lose the appearance of “isolated.” Issues noted were strongly suggestive of an impaired ability to provide services at needed levels, or to accomplish mission, goals, and objectives successfully. Internal control mechanisms may not be universally in place, implemented, or actively observed. Management oversight is weak.
- **Unsatisfactory** – Material or significant issues were noted within the operations under review. Issues posed risks that were mission-fatal; the business unit could not successfully deliver services in an acceptable fashion. Management failed to implement appropriate internal control mechanisms. Management oversight is ineffective, absent, or willfully avoided.