
CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Follow-Up Audit of Finance Department

Purchasing Card Program

Project No. AU15-F02

February 18, 2016

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted a follow-up audit of the recommendations made in the Audit of the Finance Department's (Finance) Purchasing Card Program dated November 17, 2014. The objective for this follow-up audit is:

Did Finance successfully implement action plans to address prior audit recommendations relating to the Purchasing Card Program?

Finance did implement action plans to address the three recommendations from the prior audit. Areas that were effectively implemented include:

- The Program's website and policies and procedures were updated and include detailed guidance on responsibilities and standard processes.
- Periodic reviews and monthly monitoring procedures were implemented to ensure that transactions are valid, recorded correctly, and appropriately monitored within the departments.
- Training is conducted for all purchasing card system users to include Site Administrators and Program Administrators.
- User roles are monitored by Finance to ensure that duties are appropriately segregated in the Wells Fargo Commercial Card Expense Reporting (CCER) system.

We did note one area that still needs improvement with regard to the process for approving purchases prior to uploading them into SAP. Purchases totaling approximately \$303,000 (6% of total P-Card purchases) were not approved in the CCER system prior to payment in FY 2015.

A process that would serve as a mitigating control consists of monthly reviews and reconciliations to transactions logs. However, the process is not consistently conducted by all City departments.

The Finance Department Management's verbatim response is in Appendix B on page 7.

Table of Contents

Executive Summary	i
Background.....	1
Audit Scope and Methodology	2
Prior Audit Recommendations and Status	3
A. Program guidelines and policies are ineffective.....	3
B. Defined control processes not conducted and/or are weak.	3
C. Information Technology controls are weak.	5
Appendix A – Staff Acknowledgement	6
Appendix B – Management Response.....	7

Background

In November 2014, the Office of the City Auditor completed an audit of Finance's Purchasing Card Program. The objective of that audit was as follows:

Is the Purchasing Card Program managed in compliance with policies and procedures?

The Office of the City Auditor concluded that the Purchasing Card Program was not managed in compliance with policies and procedures.

The report noted that Finance had made significant improvements to the Purchasing Card process and the program is meeting its objectives for allowing small dollar items to be purchased in an efficient manner. However, internal controls were lacking and/or were not working as expected, as summarized below.

- Program guidelines and policies did not provide enough detail to be effective and were outdated in some areas.
- Control processes outlined in the Purchasing Card Policy were not being conducted and/or were weak.
- Information Technology controls for the Works System were weak.

Management agreed with our recommendations and developed action plans to address all items.

Audit Scope and Methodology

The audit scope was limited to the recommendations and corresponding action plans from the original report for the time frame of FY 2015.

The audit methodology consisted of interviewing Finance personnel to obtain an understanding of newly implemented controls. We also reviewed source documents such as policies and procedures, journal entries, Compliance and Resolution department reviews, requests for merchant category code deviations, system users and transactions, and the Program Administrator's user files.

We relied on computer-processed data in the City's SAP accounting system and the Wells Fargo CCER system. Our reliance was based primarily on performing direct tests on the data rather than evaluating the systems' general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this follow-up performance audit in accordance with generally accepted government auditing standards. Those 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Prior Audit Recommendations and Status

A. Program guidelines and policies are ineffective.

Prior recommendation:

The Director of Finance should update the guidelines within the policy and the website to ensure that they reflect current processes. Updates should be communicated to all applicable employees to include Managers approving purchases, Site and Program Administrators and Cardholders and should be kept current, dated and approved by management.

Status: Implemented

Finance's website for the Purchasing Card Program includes detailed policies and procedures, training slides, training schedule, and current contact information for the Program Administrators. The policies and procedures cover key areas including restricted purchases, roles, a review checklist, end of billing cycle responsibilities, and end of fiscal year procedures.

B. Defined control processes not conducted and/or are weak.

Prior recommendation:

The Director of Finance should:

1. Ensure that internal controls are in place and utilized for monitoring of purchases, by complying with current guidelines relating to annual reviews, customer service visits and audits. Additionally, training should be required for Site Administrators.
2. Implement a standard reconciliation process to include the identification and reclassification of swept transactions. Additionally, limit the number of users with access to sweep transactions and ensure that swept transactions are communicated to the Site Administrators and managers of the appropriate department.

Status: Partially Implemented

In FY 2015, Finance's Compliance and Resolution Division reviewed 3 judgmentally selected departments for compliance to the Purchase Card Program policies and procedures. These reviews are a key control that allows Finance to determine if purchases are appropriate and adequately supported with transaction logs, purchase descriptions, and receipts. The division plans to review 12 more departments in FY 2016. Memos detailing the results are

presented to the departments and provide necessary feedback on non-compliance. For instance, all 3 memos provided examples of purchases for which there may be contracts (i.e. restricted purchases).

Additionally, training had been attended by all 25 users randomly sampled. Roles, privileges, merchant category code strategies, and credit card limits were appropriate for the sample tested.

As a result of the prior audit, Finance strengthened the monitoring of transactions that were swept into the default GL account in SAP¹, as well as declines and possible payments of sales tax. For January through March 2015, declines and sales tax amounts were appropriately communicated to the Site Administrators. We also observed that the transactions posted to the default GL account were appropriately identified and reclassified. In addition, the uploading of transactions to SAP has been limited to Finance staff.

We did note one area that still needs improvement with regard to the process for approving purchases prior to uploading them into SAP. Purchases totaling approximately \$303,000 (6% of total P-Card purchases) were not approved in the CCER system prior to payment in FY 2015. \$35,000 was swept into the default account, while \$268,000 was swept into other GL accounts.

Monthly transaction logs, which include a signature line for the Site Administrator, serve as a mitigating control; however, 2 of 3 departments reviewed by the Compliance and Resolution Division were not using the logs. Furthermore, we tested 10 random transactions and observed that 8 of 10 corresponding logs were missing or incomplete. Auditors also noted that the logs do not include any reference to the reconciliation that is being performed and that some cardholders are using outdated logs which do not include a date field.

Policies and procedures require the Site Administrators to review monthly statements and reconcile them to the transaction logs. Evidence of review and approval should be documented on the transaction logs and in the Wells Fargo system.

Lack of approval increases the risk of fraudulent and misclassified transactions.

Updated Recommendation

The Director of Finance should:

- Implement a standard monitoring process to ensure that unapproved statements are regularly communicated to the departments.

¹ This occurs when the transactions are not recoded to the correct GL accounts in the CCER system.

- Additionally, for unapproved transactions, ensure that a documented reconciliation is taking place between the transaction log, the Wells Fargo statement and the transactions recorded in SAP.

C. Information Technology controls are weak.

Prior recommendation:

The Director of Finance should strengthen Information Technology general controls by:

1. Ensuring that the Program Administrators gain a thorough understanding of the Works system roles and privileges. Additionally, they should retain appropriate support for all deviations from standard user access such as merchant category codes.
2. Appropriately segregating duties by limiting the Program Administrators' access and restricting cardholders from approving their own purchases in Works.
3. Complying with Administrative Directive 7.8E *User Account Management* by conducting reviews to ensure that individuals are only given access to the minimum necessary resources they need to perform their duties associated with their position in the City.

Status: Implemented

Training is provided to the Program Administrators. Because the new Program Administrators started their positions at the end of FY 2015, training is still in progress. However, a basic understanding of the system – necessary for day to day operations – has been obtained. Additionally, support was maintained by the Program Administrators for the creation of merchant category code strategies for specific departments (i.e. settings to determine which vendors employees can use) and the 25 temporary merchant category code changes that were randomly sampled.

Finance implemented controls to ensure that access in the Wells Fargo system is limited and appropriately segregated. For the randomly sampled months of January, February, and April 2015, auditors verified that the Compliance and Resolution Division adequately reviewed user access to ensure that each user only has one role. Additionally, we verified that system controls prohibit Program Administrators from obtaining the role of approver. We also noted that the Program Administrators do not have access to their own user settings, decreasing the risk that they will inappropriately change their roles.

Appendix A – Staff Acknowledgement

Sandra Paiz, CFE, Audit Manager
Rebecca Moulder, CIA, Auditor in Charge
Christopher Moreno, CFE, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

February 11, 2016

Kevin W. Barthold, CPA, CIA, CISA
 City Auditor
 San Antonio, Texas

RE: Management's Acknowledgment and Corrective Action Plan for the Follow-Up Audit of Finance Department Purchasing Card Program.

- Fully Agree (provide detailed comments)
- Agree Except For (provide detailed comments)
- Do Not Agree (provide detailed comments)

The Finance Department has reviewed the audit report and has developed the Corrective Action Plan below for the updated recommendation.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	<p>Unapproved Purchases The Director of Finance should:</p> <ul style="list-style-type: none"> • Implement a standard monitoring process to ensure that unapproved statements are regularly communicated to the departments. • Additionally, for unapproved transactions, ensure that a documented reconciliation is taking place between the transaction log, the Wells Fargo statement and the transactions recorded in SAP. 	4	Accept	Melanie Seale/ Assistant Finance Director	January 2016

Follow-up Audit of Finance Purchasing Card Program

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>Action Plan:</p> <p>The Purchasing Department consolidated with the Finance Department in FY12 and the Finance Department has since made significant improvements to the P-Card Program. A detailed analysis was conducted in March 2012 through June 2013 and a committee consisting of subject matter experts from Purchasing, Accounting, Compliance & Resolution, and shared service functions developed improved processes and internal controls.</p> <p>On July 1, 2014 a new contract was executed with Wells Fargo and we facilitated a seamless transition from Bank of America. The Wells Fargo system has additional features and improved system controls to include receipt imaging and Chip & PIN technology. Following the internal audit that was performed in FY14 and the transition to Wells Fargo, an updated P-Card Manual was released and uploaded to a renovated P-Card website on cosaweb, along with other supporting documents and a training schedule.</p> <p>The "sweeping" process was strengthened in conjunction with the implementation of the Wells Fargo system. Each month P-Card transactions are accumulated in the Wells Fargo system and must be allocated to the correct G/L classification by Department personnel prior to the close of the month. In the event that the City Department does not assign a G/L account to a P-Card transaction it is swept to a default general ledger 5402999 entitled "Unclassified P-Card Charges". In order to ensure P-Card expenses are properly classified, the Finance Department monitors the default general ledger and ensures all transactions have been properly classified prior to closing the month end.</p> <p>The City's Corporate statement closes on the 15th each month and Approvers must approve all transactions in the system by the 15th business day after closing. Should an approver miss the deadline, the transactions are pulled by central Finance and posted. A list of transactions hitting 5402999 is sent to the Site Administrators by the Controller's Section and a journal entry is required to ensure proper posting in SAP.</p> <p>In response to the recommendations above, the Program Administrators have requested signed transaction logs for every statement that was not approved in the Wells Fargo system in FY15. All signed transaction logs have been received for the statements not approved in the system and have been reviewed by the department and Central Finance to ensure all charges are appropriate and are classified properly in SAP. The Program Administrators are sending a list of all statements not properly approved in the system to the Site Administrators monthly and requiring a copy of the signed and dated transaction log confirm that they were approved purchases. The Site Administrators are being asked to also confirmation that the proper accounting codes were used and posted in SAP or attach any necessary Journal Entries to correct items that were not posted correctly.</p> <p>The transaction log is validated against the statements and the receipts and retained in the respective department. Finance's General Ledger Section completes a review of transactions to ensure reasonable general ledger codes are used, posts the statement in SAP and requires journal entries if not properly coded.</p>				

Follow-up Audit of Finance Purchasing Card Program

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>Action Plan (Continued):</p> <p>Additionally, Compliance & Resolution is completing reviews in the departments and the Finance Fiscal team is working with the departments to provide additional training and process recommendations based on any findings.</p> <p>The Finance Director distributed a memo to all P-Card Program participants specifically addressing areas of concern identified by Compliance & Resolution, Internal Audit, and Finance, reminded each participant of the necessity to following the Purchasing and Accounts Payable Administrative Directives and the P-Card Manual. Where areas of concern with individual Participants continue, we will be removing their access and taking appropriate disciplinary action, working with their Department Director.</p>				

We are committed to addressing the recommendation in the audit report and the plan of actions presented above.

Sincerely,



Troy Elliott, CPA
Director
Finance Department

2/11/2016
Date



Ben Gorzell, Jr., CPA
Chief Financial Officer
City Manager's Office

2/11/2011
Date