

Internal Audit Report



**Purchase Card Transaction  
Propriety**





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# Auditor's Conclusion

November 2, 2020

Internal Audit has completed the Purchase Card (P-Card) Transaction Propriety engagement. We conducted this engagement as part of our 2019 Annual Audit Plan.

The audit objective was: Review procurement card purchases for compliance with applicable City policies.

To these ends, Internal Audit:

- Interviewed City personnel involved with the Purchasing cards, as necessary.
- Reviewed relevant City policies and procedures.
- Reviewed transactional data.
- Conducted analytical tests on transactional data using TeamMate Analytics.
- Reviewed purchase receipts and monthly logs.

Based on our engagement procedures, we conclude that some, but not all purchases reviewed, were in compliance with City policies. We have detailed our issues and recommendations in the *Issue Details* section of this report.

*Wayne C Sommer*

Wayne C. Sommer, CPA, CGMA  
Internal Audit Manager

## **Audit Profile**

### **Audit Team**

Wayne Sommer, CPA, CGMA – Internal Audit Manager  
Michelle Crawford, M.Acct, CIA, CFE, CRMA – Supervising Auditor  
Sheree Van Buren, CIA – Lead Auditor

### **Scope**

All purchase card transactions from January 1, 2019 through December 31, 2019, excluding City Council purchases. City Council activities are outside of our audit authority.

### **Background**

The City has many Purchasing Card (P Card) users. In 2019, there were 258 purchase cards with at least one transaction.

As noted in BPM 2-03 on Small Dollar Purchases, card custodians (cardholders) have primary responsibility for making proper purchases, obtaining approval for purchases, and processing purchasing card information. It is expected that all cardholders review and understand their responsibilities and have a cardholder agreement on file prior to card issuance and use. The approving officials provide the final review and approval of monthly purchasing card transactions. Approving officials are responsible for understanding card transactions, reviewing transaction statements and supporting receipts, and ensuring purchases comply with policies. The Department Director determines the cardholders, approving official, and spending limits. The Director has overall responsibility for appropriate purchasing card use.

The Finance Department is the program administrator. Finance issues cards, provides card training, and provides additional audit functions to ensure proper card usage.

Our testwork included reviews of dollar amounts, high-risk merchant category codes (MCCs) and/or suppliers (e.g., Amazon), key words that could indicate a prohibited purchase per City policies and procedures, and other relevant considerations.

## Engagement Results

We noticed weaknesses in purchasing card user management. We believe there is vulnerability for waste and poor stewardship; these practices need to be reviewed.

Below is a breakout of purchase card use by each Department for calendar 2019.

Department	Transactions	Dollar Amount
Parks, Recreation, and Open Space	4,480	\$ 671,429.67
Police	2,945	622,909.15
Water	2,224	422,984.91
Public Works	1,252	250,521.13
Library & Cultural Services	1,523	219,820.59
Fire	868	188,720.39
Communications	546	132,184.98
Neighborhood Services	813	128,597.41
City Council	422	93,523.70
General Management	475	93,319.49
Information Technology	324	85,540.33
Human Resources	401	83,957.15
Court Administration	382	78,160.27
City Attorney's Office	321	75,120.54
Planning and Development Services	339	71,830.64
Finance	177	60,068.46
Judicial	332	46,366.54
Civil Service Commission	268	42,396.29
Public Defender's Office	84	6,702.81
<b>Grand Total</b>	<b>18,176</b>	<b>\$ 3,374,154.45</b>

Below is a list of the top ten vendor-suppliers based on 2019 data and key word searches (looking for varied spellings of vendor names).

Vendor-Supplier	Total Billing Amount	Transactions by Supplier
Amazon	\$ 213,399.65	2,213
Home Depot	158,865.61	1,179
Southwest	88,569.90	249
PayPal	60,888.13	237
United	40,491.14	163
4imprint <sup>1</sup>	35,325.31	45
Best Buy	29,709.44	98
AWWA <sup>2</sup>	29,672.40	57
Accelerate Colorado <sup>3</sup>	29,446.00	14
B&H Photo	24,318.19	46
<b>Total top 10</b>	<b>\$ 710,685.77</b>	<b>4,301</b>

<sup>1</sup> 4imprint provides promotional products

<sup>2</sup> American Water Works Association

<sup>3</sup> Accelerate Colorado is a statewide partnership organization whose membership is comprised of local governments, private businesses, and civic organizations.

Below is a list of the top 10 merchant categories and their codes based on 2019 data.

<b>Merchant Category</b>	<b>Total Billing Amount</b>	<b>Transactions by Category Code &amp; Description</b>
Book Stores (5942 <sup>4</sup> )	\$ 241,799.54	2,422
Home Supply Warehouse Stores (5200)	174,576.30	1,309
Organizations, Charitable and Social Service (8398 <sup>5</sup> )	171,453.34	594
Organizations, Membership (8699)	147,775.09	493
Other Business Services (7399)	143,945.16	484
Eating Places, Restaurants (5812)	112,916.88	895
Grocery Stores and Supermarkets (5411)	106,772.24	1,908
Southwest Airlines (3066)	87,970.77	282
Other Schools and Educational Services (8299)	85,462.74	287
Hotels, Motels, Resorts (7011)	84,342.80	299

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<sup>4</sup> *Book Stores* includes purchases from Amazon.

<sup>5</sup> Includes PayPal purchases, associations, etc.



## Issue Details

### **Purchasing Card Guidelines**

The purchasing card guidelines need improvement. They do not address all types of purchases, nor do they reference other guidance as necessary. Staff need to know that there may be multiple sources of policy information they need to research to fully understand what is and what is not allowed.

The purchasing card guidelines did not address the following:

*Alcohol:* Our review included alcoholic drink purchases at a trade show dinner and alcohol purchased from liquor stores. The liquor store purchases were for special events and training activities for Aurora Police (the "Wet Lab" for APD recruits to learn how to interact with drunk people). While it appears these purchases were reasonable, the policy does not include guidance on the level of approval required for these types of purchases.

*Items for employees:* Our review identified multiple purchases for employees such as coffee, soda, party supplies, flowers, etc. Some users paid sales taxes on these items. The purchasing card log sheet includes small print under the log that these purchases are only allowed if approved in writing by the Supervisor/Department Head before the event. For most of these items in our review, the supporting documentation did not include a Supervisor/Department Head pre-approval (more detail in **Approvals**). The guidelines do not address these types of purchases nor does it address if sales tax should be paid on these types of items.

*Improvements to City facilities:* Guidelines do not address restrictions on improvements to City facilities such as painting or the purchase of painting supplies/services on the purchasing card.

*City vehicles:* Guidelines do not address restrictions on maintenance services for City vehicles using the purchasing card.

City staff must review multiple policy documents (such as purchasing card guidelines, employee manual, etc.) to understand what is allowed for purchases using purchasing cards. These documents do not cross-reference each other adequately. As a result, staff may not be aware of what is allowed or required for purchasing card use. Below is a list of all guidance we identified during our review.

- Employee Manual: Threshold for employee gifts
- APM 2-07: Levels of approval and signature authority
- BPM 3-06: Travel, transportation, lodging, and meals
- APM 4-6: Information Technology purchases
- Purchasing card log sheet: Purchases of coffee, soda, refreshments, flowers, or meals primarily for employee meetings.
- BPM 2-03: Purchasing card guidelines, including some prohibited and restricted transactions



Guidelines educate employees on how they can and cannot use the City purchasing card. This guidance should be easily accessible, complete, and easily understood. Without clear purchasing card guidelines, employees may use cards in a prohibited manner.

### **Recommendation**

We recommend Finance update the purchasing card guidelines, reference other guidance as necessary, and distribute that information to all cardholders and approving officials.

Finance may want to consider working with the graphics design department to develop an easy to use one-page guidance sheet.

### **Management Response**

We agree with the recommendation. We will strengthen the guidelines to address the types of purchases identified in this issue as well as reference other sources of city policy information; the revised guidelines will be distributed to all cardholders and approving officials.

Estimated Implementation Date: March 31, 2021

Issue Owner: Controller

Issue Final Approver: Finance Director

### **Non-Compliance**

Our review identified transactions that did not comply with the Purchasing Card Guidelines (Guidelines). The Guidelines include requirements for the purchase of food and the prohibition of splitting transactions.

Per the Guidelines, "Any purchase of food, primarily for employee meetings, must have a receipt signed by a supervisor. Purchases for meeting expenses should list attendees and explain the purpose of the meeting."

Many of these types of purchases did not have documented Supervisor/Department Head pre-approval (more detail in 'Approvals'). Some food purchases lacked documentation such as:

- the supervisor's signature on the receipt,
- a list of attendees, or
- the meeting's purpose.

Per the Guidelines, "Payments for purchases are not to be split in order to stay within the single purchase limit." We identified three transactions with split purchases.

*Transaction 1:* The purchase was for technology items totaling \$2,644.94, which exceeded the single purchase limit by \$144.94; the user split the purchase into two payments.

*Transaction 2:* The purchase was for two technology items at \$1,999.99 each, which exceeded the single transaction limit; the user split the purchases into two payments.

*Transaction 3:* The purchase was for an invoice totaling \$5,460, which exceeded the card limit; the documentation includes a note to split the payment into two parts.

Policy compliance ensures that transactions are an appropriate use of taxpayer funds.

### **Recommendation**

We recommend purchasing card users and those who approve their transactions ensure compliance with the purchasing card guidelines.

### **Management Response**

We agree with the recommendation. We will strengthen the guidelines to enhance compliance by emphasizing the requirements related to food purchases and that split payments are not allowed. We will provide options in the guidelines that can be utilized by purchasing card users when larger purchases are necessary.

Estimated Implementation Date: March 31, 2021

Issue Owner: Controller

Issue Final Approver: Finance Director

### **Approvals**

We noted incidences of missing purchasing card log approvals and technology purchase approvals.

The approving official provides the final review and approval of monthly purchasing card transactions (BPM 2-03). The purchasing card log sheet includes a box for the approving official's initials and date of approval. Four percent of transactions reviewed (13 logs) did not have the approving official's initials in the box or elsewhere on the log in our review. The groups with the most issues in this area were the Civil Service Commission, accounting for six of the 13 logs lacking approval, and Public Works, accounting for four of the 13 logs lacking approval.

City Business Policy Memorandum 2-03 states that the, "[p]urchase of telecommunications and telephone equipment, computers, component parts (other than supplies), etc., or any other items or services described in APM 4.6", on the purchasing card must comply with certain restrictions and prohibitions. APM 4.6 states, "Departments are required to purchase computer hardware, software, peripherals, supplies and services through the Information Technology Department."

Our review included computer and iPad purchases that lacked evidence of IT approval. We also reviewed a transaction for a subscription renewal for *G Suite* (*G Suite* is a suite of cloud computing, productivity, and collaboration tools, software and products developed by Google). Per APM 4.6, "Standards for hardware and software are established to ensure city-wide consistency in work practices and timeliness in performing job functions that use technology." This purchase was not approved by IT and the Technical Program Manager recommended the discontinuance of this product.

We reviewed 43 purchases for small items such as coffee, refreshments, party supplies, flowers, etc. Of those purchases, 81% (35 purchases) had no documentation of the required Supervisor or Department Head pre-approval based on the support provided. The breakdown of the lack of pre-approval for this category of purchases follows.

<b>Department</b>	<b>Percentage Lacking Pre-Approval</b>
Parks, Recreation, & Open Space	26%
Judicial Services	20%
Public Works	17%
Neighborhood Services	9%
Finance	9%
Library & Cultural Services	6%
City Attorney	3%
Civil Service	3%
Communications	3%
Court Administration	3%
Police	3%

Without documented approvals and pre-approvals (where required), City staff may not identify errors or may make purchases that do not follow City policies.

***Recommendation***

We recommend approving officials document their approvals (pre-approvals) on all purchasing card log sheets in compliance with the guidelines. We also recommend the discontinued purchase and use of any software not approved by IT.

***Management Responses***

Finance Response

We agree with the recommendation. We will strengthen the guidelines to emphasize that approvers document their approvals on all purchasing card log sheets. We will also stress that no software can be purchased or used without approval from IT. This will also apply to other technology purchases as identified by IT.

Internal Audit also provided this recommendation to Parks, Recreation, and Open Space (PROS) Business Services for a response. Bradley Boswell, Manager of Business Services provided the below response.

PROS management agreed with the recommendation and developed a plan of action as follows:

1. All card custodians, users and approving officials must complete Purchasing Card Training on an annual basis through the LMS system (Aurora Learn). Training covers:
  - BPM 2-03 Small Dollar Purchase Policy
  - Purchasing Card Reminders and Tips
  - Purchase Card Training Video Tutorial (15 min)
  - Test covering training module (10 questions, 100% to pass)
2. All purchasing card users must have a signed Purchasing Card Agreement on file with the card custodian.
3. Approvals – The approving official (PROS Division Managers and Director) provides the final review and approval of monthly purchasing card transactions (BPM 2-03). All approving officials must document their approvals (pre-approvals where applicable) on all purchasing card logs in compliance with PROS Department Purchasing Card Procedures. Per BPM 2-03, Card Custodians are responsible for verification of all logs, receipts and maintaining copies of logs and receipts with purchasing card.
4. Detail - purchasing card custodians must include explanation of all purchases on the purchasing card log, including where a receipt lacks sufficient detail to clearly identify what was purchased.
5. Card custodians must maintain an e-file of purchasing card logs and receipts.

Estimated Implementation Date: March 31, 2021

Issue Owner: Controller

Issue Final Approver: Finance Director

### ***Lacking Details***

Nineteen purchases reviewed did not include detailed receipts or sufficient supporting documentation (explanation for the item purchased). This equated to 6% percent of all transactions, totaling \$12,779, lacking sufficient detail. PROS accounted for 47% of those purchases (nine transactions costing \$6,207.)

For this test, relying only on the documentation provided with the purchasing card logs, we could not verify whether these purchases were appropriate.

### ***Recommendation***

We recommend purchasing card users include purchase explanations when a receipt lacks sufficient detail to make it clear what was purchased. Approving officials should verify the documentation is adequately detailed.

### ***Management Responses***

Finance Response

We agree with the recommendation. We will strengthen the guidelines regarding receipts by requiring adequate detail to make it clear what the purchase was for and why it was necessary.

PROS management agreed with the recommendation and developed a plan of action as follows:

Beginning in 4Q 2020, Business Services Staff will perform spot check reviews, periodically, for each PROS Division with findings reported to specific division manager, business services manager and director with expectation of transaction-specific corrections no less than 30 days after receipt of the monthly spot check report. Spot checks will test for full policy compliance for procedure, approvals and detail.

Business Services recommends PROS establish an internal KPI of no less than X% pre-spot check accuracy for 2021. This emphasizes accurate purchasing card use and management prior to spot checks thus minimizing/eliminating findings by other audits.

Estimated Implementation Date: March 31, 2021

Issue Owner: Controller

Issue Final Approver: Finance Director

## ***Gift Cards***

Our review identified multiple purchases of gift cards for employees and non-employees.

### *For Employees*

The Employee Manual Section 1.5 (2b) states, "The value of non-cash gifts (such as plaques, statuettes, etc.) that exceed \$250 and cash and non-cash equivalent awards (e.g. – gift cards, credit cards, etc.) over \$25 must be reported to payroll for the appropriate deduction of taxes and proper reporting." The purchasing card guidelines do not reference the employee manual requirements for how to account for gift cards or the tax.

### *For Non-Employees*

The purchasing card guidelines do not address how to account for gift cards for non-employees.

Of the 54 gift card transactions reviewed, 83% (45 transactions), had no documented recipient confirmation with the purchasing card support. Forty-one of the transactions included gift card purchases for non-employees. The supporting documentation did not include any confirmation from the recipient. In three of the transactions, we were unable to determine if the gift card was for an employee. The below chart depicts the breakdown across departments.

<b>Department</b>	<b>Percentage Missing Documentation</b>
Police	22%
Communications	18%
Judicial Services	13%
Neighborhood Services	11%
Parks, Recreation, & Open Space	11%
Finance	7%
Public Works	7%
Library & Cultural Services	7%
Court Administration	2%
City Manager's Office	2%

Without documentation indicating the recipient's name and proof the recipient received the gift card, we cannot determine if the purchaser distributed all gift cards appropriately or whether these cards were used for legitimate City business.

### ***Recommendation***

We recommend Finance develop a section in the Guidelines, specifically addressing gift card purchase and distribution requirements. At a minimum, they should include when gift cards can be purchased (for employees and non-employees) and provide guidance for tracking distribution and reporting information to Payroll where required. We recommend that the approving official review and approve all gift card supporting documentation.

### ***Management Responses***

#### Finance Response

We agree with the recommendation. We will strengthen the guidelines to include processes for approval of gift card purchases and the documentation required to support their distribution.

Internal Audit also provided this recommendation to APD Business Services for a response. Christine Waters, APD Senior Financial Analyst provided the below response.

The Department takes very seriously the purchase and handling of gift cards. Several years ago, we implemented a system that enabled our Victim Services Unit (VSU) to purchase Gift cards to use if calls for their services required immediate purchases of food, clothing, or other supplies for victims of a crime. At that time, the Victim Services Coordinator received funding from the Victim Advisory Board to provide dollars for the purchase of these gift cards. She then created a process for accounting for and distributing these cards. Each Card purchased is recorded on a log identifying where the card was purchased, the PIN of each card, the denomination of the card, the victim's name the card was issued to (redacted on sample included), the case number, and the Victim Advocate's name that took the card and gave to the victim. The Victim that is given the card completes a VSU Gift Card Request Form with their name (also redacted on sample included), their date of birth, and their address and phone number. Also included on that form is the case information including the Case Number, date of occurrence and type of case. The reason for issuance of the Gift Card to the victim is also included on the

form with the amount of the card also denoted. The form is signed and dated by the Victim Advocate and the recipient (a witness also signs the form indicating that they saw the card being given to the victim. (See procedures on attached documents).

The Card Log is locked in the VSU Supervisor's office in a drawer. The Gift Cards are locked in a separate box in the drawer. The key for this box is in a separate location. The Victim Coordinator meets during the year with the Victim Advisory Board and provides a spreadsheet of the amount deposited and spent during the year including the amount of funds which are still available for the purchase of additional gift cards.

Internal Audit notes that although VSU has a sufficient process in place, the supporting documentation was not included or referenced to in the support provided for review by the approving official.

Estimated Implementation Date: March 31, 2021

Issue Owner: Controller

Issue Final Approver: Finance Director

### ***Credit Card Details***

Our review identified four transactions where supporting documentation included the full purchasing card number. We immediately informed each card user to redact the card number on their support. Including complete purchasing card numbers increases the risk that purchasing card numbers could be improperly released, stolen, or misused.

### ***Recommendation***

We recommend purchasing card users and approving officials redact complete purchasing card information such as number, expiration dates, CVV information from purchasing card documentation.

### ***Management Response***

We agree with the recommendation. We will strengthen the guidelines to emphasize that purchasing card users and approvers redact complete purchasing card information from documentation to reduce risk.

Estimated Implementation Date: March 31, 2021

Issue Owner: Controller

Issue Final Approver: Finance Director

### ***Sales Tax***

Some users paid sales tax on purchases, without documenting why paying the tax was unavoidable. Supporting documentation lacked detail to determine if sales tax was paid.

Our review identified multiple instances where users paid sales tax ranging from \$.37 to \$228.42, for a total paid amount of \$375.41. Guidelines state, "Card users should take advantage of the City's tax-exempt status by not paying sales tax whenever possible."



## **Recommendation**

We recommend purchasing card users comply with guidelines to avoid paying sales tax whenever possible and document instances where paying could not be avoided.

## **Management Response**

We agree with the recommendation. We will strengthen the guidelines regarding sales tax to emphasize not paying sales tax when cost effective. When sales tax is paid, the purchase receipt should document why paying sales tax could not be avoided.

Estimated Implementation Date: March 31, 2021

Issue Owner: Controller

Issue Final Approver: Finance Director

## **Memberships**

Users purchased memberships for Sam's Club, Costco, and Amazon Prime with purchasing cards. For any identified membership purchases, we determined if the card used to purchase the membership was actually used at the store. Two Amazon Prime memberships purchased with a purchasing card did not have any purchases made from Amazon with that purchasing card. It was not clear why a membership was purchased.

We identified several additional concerns with Amazon purchases. From our analysis using key word searches, approximately \$213,000 was spent on Amazon purchases with p-cards in 2019. The City does not have a central Amazon business account. Business accounts allow City staff to better monitor Amazon purchases and provide easier access to purchase details when needed.

Some employees utilized personal Amazon Prime accounts. When this occurs, the likelihood of misuse increases and there is a risk that the City tax-exempt status may be used for personal purchases.

## **Recommendation**

We recommend the City obtains a central Amazon Prime business account. If this is not possible, we recommend departments set up accounts and cease using purchasing cards on personal Amazon accounts.

## **Management Response**

We agree with the recommendation. The city is in the process of obtaining a central Amazon Prime business account.

Estimated Implementation Date: March 31, 2021

Issue Owner: Controller

Issue Final Approver: Finance Director

## ***Other Issues***

Our review identified various issues with purchasing card transactions.

### Differing amounts

Support for a transaction included an invoice for \$2,620.00; the payment processed was for \$2,640.00. There was no explanation for the difference.

### Late fee

An invoice for monthly service at a City facility included a \$10 late fee and no documentation for why the fee was incurred.

### Missing purchase credit

An administrative staff indicated on an invoice that an item was being returned as it was not the correct item and credit was requested. No credit was received, and there was no additional explanation as to what happened.

### City vehicle services

An employee had a City vehicle serviced at a local dealership. There was no documentation that Fleet approved the service of this vehicle at the dealership. Taking vehicles or equipment outside the City may result in higher costs or unnecessary maintenance.

### Personal purchases

Our review identified two transactions where a City purchasing card was used for personal purchases. Documentation included the original charge and the refund to the City from the employee.

- In the first instance, the original charge documentation showed the purchasing card purchase was associated with a personal Amazon account (not a City email address.) There was no explanation as to why a City purchasing card was associated with a personal account.
- In the second instance, the purchase was made via a personal PayPal account (not a City email address) but charged to the City purchasing card. Again, there was no explanation as to why a City purchasing card was associated with a personal account.

In both instances, the employee reimbursed the City via the Cashier's Office.

## ***Recommendation***

We recommend approving officials ensure they:

- Reconcile invoices to UMB charges and contest inaccurate charges,
- Document sufficient explanation for payment of any late fees,
- Follow-up to ensure all credits are received, and
- Ensure purchases comply with City guidelines.

We also recommend Finance develop guidance prohibiting attaching City purchasing cards to personal accounts.

### **Management Response**

We agree with the recommendation. We will strengthen the guidelines prohibiting the use of personal accounts with city purchasing cards and will enhance procedures for approving officials review and reconciling of purchasing card transactions to help ensure the accuracy and appropriateness of all charges.

Estimated Implementation Date: March 31, 2021

Issue Owner: Controller

Issue Final Approver: Finance Director

### **Finance Review**

Finance lacks formal procedures for reviewing purchasing card transaction support and reconciling purchasing card travel expenditures to travel and expenditure forms.

Our conversations with Finance revealed they do not have formal procedures for consistently reviewing purchasing card transaction support. Our engagement identified issues and concerns with purchasing card documentation. Finance is responsible for purchasing card oversight. While it is the card users' departments' responsibility to follow procedures and perform the required reviews and approvals, without any review from Finance, how would errors or issues be detected outside that department? Finance should have a methodology to select high risk items, large purchases, or heavy users for periodic review. Otherwise, recurring audits would be the only other oversight for purchases which is not a sufficient control.

Finance does not have procedures to reconcile purchasing card travel documentation to the travel and expense documentation. Periodically reconciling a sample of travel documentation can identify duplicate claims, reduce errors, and increase the likelihood of detecting fraud or abuse.

### **Recommendation**

We recommend Finance develop procedures for reviewing purchasing card transactions. Also, establish procedures to reconcile purchasing card travel documentation to the travel and expense documentation.

### **Management Response**

As Finance does not have the resources to undertake this review responsibility alone, we propose the creation of an oversight committee made up of rotating department representatives to review a sampling of high risk purchasing card transactions each month. In addition, all purchasing card users will be required to take and pass the Purchasing Card Training on LMS or, potentially, lose their purchasing card privileges.

Estimated Implementation Date: March 31, 2021

Issue Owner: Controller

Issue Final Approver: Finance Director