



P-CARD CONTROLS AT THE AIRPORT

AUDIT REPORT #0301

October 2002



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MEMORANDUM

To: Mayor and Members of the City Commission

From: Sam M. McCall, City Auditor

Date: October 22, 2002

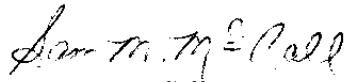
Subject: Report on an Audit of P-Card Controls at the Airport (#0301)

We have completed an audit of the Purchase Card Controls at the Airport (#0301). We submit this report which contains audit objectives and the action plans provided by the employees responsible for their implementation. We will follow up on the implementation of the action plans on a periodic basis.

We thank the employees of the Aviation Department for sharing their knowledge and opinions in this cooperative effort.

Please let me know if you need further information or wish a briefing on this report.

Respectfully submitted,


Sam M. McCall
City Auditor

SMM/mbd
attachment

cc: Members of the Audit Committee
Appointed Officials
Executive Team
Kenneth Austin, Director, Aviation
Philip Inglese, Assistant Director, Aviation
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P-Card Controls at the Airport



Sam M. McCall, CPA, CIA, CGFM
City Auditor

Report #0301

October 22, 2002

Executive Summary

This audit addresses internal controls over the purchase card (P-Card) program at the Aviation Department. The audit was conducted at the request of the Assistant City Manager for Development and Transportation Services and the City Attorney. Their request was made subsequent to identification of suspected P-Card misuse by an Aviation Department employee. We noted that the Aviation Department implemented certain corrective actions subsequent to determination of the noted misuse. While those actions were appropriate, we identified issues that indicate additional corrective actions are needed. The most significant issues pertain to needed improvements in management's oversight of the department's P-Card program. Other issues were identified for which we have recommended procedural revisions to enhance accountability and to ensure that P-Cards are used only for appropriate purposes. Furthermore, procurement issues not directly relating to the P-Card program were identified during the audit. Those issues resulted in inefficient acquisitions of goods/services and noncompliance with City procurement policy. Recommendations are made to address those issues.

In February 2002, Aviation management became aware of incidents of P-Card misuse. The suspected employee was dismissed after an internal review by the Aviation Department and arrested subsequent to a criminal investigation by TPD.

In February 2002, the Aviation Department identified instances where a City P-Card was used for inappropriate purposes. To determine the extent of the misuse, the department conducted an internal review of all P-Card transactions made by the suspected employee. Based on that review, the employee was dismissed and the Tallahassee Police Department (TPD) conducted a criminal investigation. The TPD investigation of the alleged misuse

culminated in the arrest of the former employee, who was charged with one count of grand theft. This matter has been turned over to the State Attorney for prosecution. The case has yet to go to trial.

Pursuant to a request, we reviewed internal controls relating to the P-Card program at the Aviation Department.

The City Auditor was requested by the Assistant City Manager for Development and Transportation Services and the City Attorney to review the internal controls relating to P-Cards within the Aviation Department. We began our review on June 3, 2002, after TPD completed their criminal investigation.

Several corrective actions were taken by Aviation management subsequent to the identified incident.

We noted that the Aviation Department revised its procedures relating to the P-Card program subsequent to the determination of employee misuse. Those corrective actions were taken into consideration during our review. The department's revised procedures provided a good framework for an improved control environment and structure. However, we identified certain issues indicating the need for additional improvements.

Additional corrective actions are recommended. The most significant issue pertains to a need for improved management oversight.

The most significant of those issues pertain to the need for improved management oversight of department P-Card activity. For example, we noted that some P-Card transactions were approved by the Facilities Maintenance division manager without adequate support to demonstrate what was purchased and/or the purpose of the purchase. We also noted where management within the Facilities Maintenance and Finance and Administration divisions did not take timely or appropriate follow up actions when notified of P-Card transactions that were not adequately supported or explained. These deficiencies contributed to management not detecting the misuse by the dismissed employee.

Other P-Card issues identified included the need for: (1) documented justifications for P-Card purchases, (2) prohibition against an employee using another employee's P-Card, and (3) documented reviews of P-Card transactions shown on monthly cardholder statements provided by the bank.

We also noted other procurement issues at the Aviation Department that were not directly related to the internal controls over the P-Card

Other procurement issues were identified for which enhanced controls are recommended.

program. These issues came to our attention during the examination of transactions and related documents. Specifically, we noted instances where: (1) sales taxes were paid on transactions that should have been exempt from such taxes, (2) purchasing instead of renting tents would have saved the City approximately \$14,000, and (3) employee business card purchases were expensive and not in compliance with City policy.

Recommendations to address the noted issues have been made and are included in this report.

We would like to acknowledge the full and complete cooperation and support of the Aviation Department director and staff during this audit. They implemented several corrective actions prior to our review and have been receptive to additional recommendations contained in this report.

P-Card Controls at the Airport



Sam M. McCall, CPA, CIA, CGFM
City Auditor

Report #0301

October 22, 2002

Objectives

The audit focused on internal controls over P-Card usage at the Airport.

The objectives of this audit were to: (1) review controls over the use of City Purchasing Cards (P-Cards) within the Aviation Department, (2) evaluate compliance by the Aviation Department with policies and procedures established for City P-Cards, (3) identify the weaknesses in the internal control structure that precluded timely detection of the alleged P-Card misuse by an Aviation Department employee, and (4) make recommendations to address and remedy identified issues and weaknesses.

Scope

This audit addressed the use and administration of the P-Card program within the Aviation Department.

This audit addressed the use and administration of City P-Cards by the Aviation Department. Our audit focused on controls established to ensure that P-Cards were used only for appropriate purposes and in accordance with applicable policies and procedures. Part of that focus included a review of the adequacy of departmental procedures established for the P-Card program at the Airport and a review of transactions for compliance with citywide policy and departmental procedures.

Audit efforts concentrated on activity subsequent to procedural revisions made on March 26, 2002.

In response to a misuse of a City P-Card by an employee, the Aviation Department revised its departmental procedures established for the administration of the P-Card program, effective March 26, 2002. We considered and reviewed activity prior to that date. We also focused on the revised procedures and control environment/structure and transactions subsequent to that date.

Methodology

Departmental procedures established for the P-Card program were reviewed for overall adequacy and for potential conflict with City policies or sound business practices (e.g., internal controls). We interviewed Aviation Department staff and reviewed relevant records and documentation for the P-Card program. In addition, P-

Card transactions were sampled and tested for compliance with City policy and departmental procedures.

We reviewed policies and procedures, interviewed staff, tested sampled transactions, and reviewed relevant records.

We concentrated our efforts on activity subsequent to revision of departmental processes and procedures on March 26, 2002, which resulted because of suspected P-Card misuse by an employee. However, we also reviewed some activity and processes prior to those revisions. As a result, transaction testing included the following:

- A random sample of 20 P-Card transactions from charges occurring from the period beginning with the inception of the P-Card program at the Airport and ending March 26, 2002 (i.e., prior to the revisions).
- A random sample of 20 P-Card transactions for the period subsequent to March 26, 2002 (i.e., after the revisions).
- A judgmental sample of 25 P-Card transactions from all charges occurring since the inception of the program at the Airport.

In summary, we tested 65 transactions totaling \$20,005.40.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards and the Standards for the Professional Practice of Internal Auditing, as applicable.

Background

APM No. 603 establishes policies and procedures for City P-Card usage.

The City initiated the P-Card program in 1998. The objective of the P-Card program is to reduce the cost of procuring supplies and services with a cost of less than \$10,000 through administrative efficiencies. Administrative Procedures Manual (APM) No. 603 was established to provide citywide procedures for the procurement of supplies and services through P-Card purchases. APM No. 603 established requirements at three levels: (1) general, (2) department, and (3) cardholder. Requirements that we found significant to this audit included the following.

General requirements:
 P-Cards shall be used only to make authorized purchases on behalf of the City; personal purchases are not permitted.

| |
|---|
| All P-Card transactions must be reviewed, approved, and coded, or disputed in the period that the charges appear on the monthly invoice received from the bank. |
| The purchase of food or entertainment shall be supported by documentation that indicates the purpose/nature of the City business and the names of the individuals involved. |
| <u>Departmental requirements:</u> |
| Department managers at all levels shall be alert to the potential for card misuse. |
| Departments must establish departmental level procedures that include, among other things, P-Card documentation submission standards and general oversight measures. |
| <u>Cardholder requirements:</u> |
| Cardholders shall adhere to City and department procurement and P-Card polices and procedures. |
| Cardholders shall timely submit documentation that supports P-Card transactions (i.e., to supervisory staff responsible for approving those transactions). |
| Cardholders shall review and approve monthly cardholder statements. |

APM No. 603 provides latitude to City departments in developing department level procedures for processing P-Card purchases in accordance with City policy. For example:

- A department may elect to have the cardholder’s supervisor review and approve individual purchases as they occur, and then complete a separate review and approval of the monthly activity statement after each billing cycle, or
- A department may elect to accumulate the purchases for an entire billing cycle and have the supervisor review and approve the monthly activity statement and the individual transactions at the same time.

The Aviation Department elected to require cardholders’ supervisors to review and approve purchases as they are made and conduct separate reviews of the cardholders’ monthly activity statements at the end of each billing cycle. Regardless of the method implemented, proper internal controls are necessary to ensure purchases are appropriate and in compliance with APM No. 603.

Since the inception of the P-Card program, the Aviation Department has executed in excess of 3,800 P-Card purchases totaling more than \$1.1 million.

The Aviation Department implemented the P-Card program in October 1999. As shown in the following table, between that date and May 31, 2002, department employees executed in excess of 3,800 purchases with a total value in excess of \$1,160,000.

| Division | Employees With P-Cards since Program Inception | Number of Purchases since Program Inception | Value of P-Card Purchases since Program Inception |
|------------------------|---|--|--|
| Facilities Maintenance | 14 | 2,597 | \$746,402.96 |
| Operations | 7 | 454 | \$156,905.60 |
| Airport Management | 2 | 302 | \$93,431.84 |
| Business Services | 3 | 338 | \$83,729.81 |
| Finance and Admin. | 5 | 103 | \$51,900.52 |
| Capital Pgm. Admin. | 1 | 70 | \$28,997.66 |
| Total | 32 | 3,864 | \$1,161,368.39 |

As of the start of our fieldwork on June 3, 2002, there were 23 Aviation Department employees with City P-Cards.

The Aviation Department established departmental procedures for the administration of the P-Card program, effective July 3, 2001. Those initial procedures provided a basic framework for administration of the program, including the following requirements:

- P-Cards are to be used only by the designated cardholder (no employee should use the P-Card of another employee).
- A standard "Request for Purchase" form (an internally developed form) must be completed for each transaction to document the vendor, item (services) descriptions, quantities, prices, total purchase, and supervisor approval. The name and

signature of the cardholder must also be placed on the form. The Request for Purchase form is a generic form that is used to both initiate the Purchase Order process (hence the name Request for Purchase) and to document supervisory approval and facilitate processing of P-Card purchases subsequent to the acquisitions.

- Receipts (e.g., from the vendor) must be obtained for each transaction.
- Purchases must be in accordance with City procurement policies.
- After approval by the applicable supervisor/manager, Request for Purchase forms and supporting receipts must be forwarded to the department P-Card coder for processing. (The P-Card coder matches transactions to the monthly bank invoices and codes transactions for accounting purposes.)

In February 2002, Aviation management became aware of suspected P-Card misuse by an employee in the Facilities Maintenance Division.

During February 2002, Aviation management became aware that an employee of the Aviation Facilities Maintenance Division had allegedly used a City P-Card for inappropriate purposes. Records prepared by the Aviation Finance and Administration Supervisor indicate that awareness originated through the suspicions and efforts of the P-Card coder. After Aviation management followed up on those suspicions, the suspected employee was suspended, had P-Card privileges revoked, and was eventually terminated from City employment. The matter was turned over to the Tallahassee Police Department (TPD) for investigation as a possible theft of City resources. After the investigation the former employee was arrested and charged with one count of grand theft. The case has since been turned over to the State Attorney for prosecution.

The Assistant City Manager for Development and Transportation Services and the City Attorney requested that the City Auditor's Office review the controls relating to P-Card usage at the Aviation Department. We began our review in June 2002, after TPD completed their criminal investigation that led to the arrest of the

former City employee. We determined that the Aviation Department had already initiated several actions. Those actions included: (1) a complete revision of the departmental procedures relating to the use and administration of the P-Card program, (2) re-training of P-Card holders in the department, and (3) suspension of the P-Card coder within the Finance and Administration Division. Additionally, the P-Card coder was placed in a conditional employment status pending the conclusion of this audit.

Per the employee Disciplinary Action Report, the P-Card coder was suspended for:

“1. failure to perform one or more of the requirements of job in a satisfactory manner; and
2. infractions of rules and regulations, policy or procedures, as established by the City and Department.
Employee – over a period of time – failed to consistently secure proper authorization and documentation to complete purchase card transactions and failed to follow established departmental procedures by not consistently sending out reports of purchase card suspense items to supervisors and/or management.”

(Note: This issue is further addressed on page 18 of this report.)

In response to the P-Card misuse, departmental P-Card procedures were revised March 26, 2002.

The departmental procedures were revised effective March 26, 2002. The procedures were enhanced to address both use of P-Cards within the various divisions and processing of P-Card transactions by the Finance and Administration Division. A summary of the significant changes included:

- Addition of the process for issuance of new P-Cards.
- Established authority for cardholders to make purchases within their spending and transaction limits (These procedures do not require supervisor approval prior to purchases).
- Clarified deadlines to submit required documentation supporting/justifying P-Card transactions to the P-Card coder in the Finance and Administration Division.
- Required the maintenance of a suspense file for P-Card transactions in which adequate support has not been provided by

applicable divisions; issuance of a monthly report on suspense transactions to division managers; follow-up by Finance and Administration supervisory and management staff when suspense items are not timely resolved; and revocation of a cardholders privileges when deemed appropriate.

- Required that individual cardholder statements be copied by the P-Card coder and forwarded to division managers for review by the divisions managers and/or the cardholders; that disputed charges reflected on those statements be resolved or returned to the P-Card coder for the suspense file (see above), and that statements and related transaction support be filed by cardholder.

The re-training of employees was conducted by the Aviation Department on March 26, 2002. The training involved a review of the revised procedures and City procurement policies. Each cardholder was provided a copy of the revised procedures and relevant forms. Each attending employee signed a form acknowledging receipt of the revised procedures and relevant forms and certifying that they will comply with those procedures.

Issues Regarding Management Oversight of P- Card Activity

One of the most important and effective controls relative to the P-Card program is management review and oversight. To achieve this control, the Aviation Department established departmental procedures and processes providing for review and approval of P-Card transactions by certain supervisory/management staff. For example, departmental procedures, both prior to and after the March 26, 2002 revisions, required supervisors (division managers) of individual cardholders to document their review of each transaction and related support prior to forwarding the related documentation to the P-Card coder for processing. Notwithstanding these procedures and processes, we identified areas (issues) where improvements are needed to enhance the management oversight function. Some of these issues contributed to the alleged misuse by the employee not being detected in a timely manner. (See “Background” section above.) These issues are described in the following paragraphs of this report.

Evidence suggests supervisory reviews were not always sufficient to detect unauthorized purchases.

Evidence from the department's internal review suggests that supervisory review of individual transactions were not always sufficient to detect unauthorized purchases. As noted in the Background section of this report, unauthorized purchases were identified by the department's internal review after the P-Card coder became suspicious of certain transactions within the Facilities Maintenance Division. Based on the department's review, there were sixteen purchases in which some or all of the items purchased appeared to be for unauthorized purposes. There was no evidence of supervisory approval for seven of these sixteen purchases (the seven purchases totaled \$709.47). However, our analysis showed that for the other nine purchases the related Request for Purchase form was documented as having been approved by the division manager prior to submission to the P-Card coder for processing. These nine purchases, totaling \$1,688.52, are reflected in the following table.

| Date | Vendor | Amount | Description |
|-------------------|---------------|---------------|--|
| August 21, 2001 | Wal-Mart | \$183.55 | Video cassette recorder and accessories |
| December 8, 2001 | Lowe's | \$162.86 | Shelving, spray paint, plywood, and shingles |
| December 12, 2001 | Wal-Mart | \$71.61 | Christmas decorations |
| December 15, 2001 | Lowe's | \$67.91 | Handsaw and bi-fold doors |
| December 23, 2001 | Wal-Mart | \$709.38 | Digital 8mm camcorder and accessories, car cover, and lug wrench |
| December 27, 2001 | Lowe's | \$43.98 | Drill and drill bit/screwdriver set |
| January 23, 2002 | Lowe's | \$81.79 | Video cassette recorder mount |

| | | | |
|------------------|--------|----------|--------------------------|
| January 26, 2002 | Lowe's | \$97.06 | Garden tools and fencing |
| February 2, 2002 | Lowe's | \$270.38 | Blower/weed-eater |

Assertions made by the division manager, as documented in the records prepared by the Aviation Department in regard to this investigation of employee misuse, indicate that approval may not have been made for these nine purchases as her initials were not on the attached supporting vendor receipts. Notwithstanding that information, the division manager's signature/initials was/were on the related Request for Purchase forms; which is the established departmental procedure for documenting supervisory approval of P-Card purchases. These factors are indicative of lack of adequate managerial oversight.

Our testing identified two additional inappropriate P-Card purchases.

Our testing disclosed two additional inappropriate purchases that were not detected through the established supervisory review process. Our testing of P-Card transactions disclosed two other instances where inappropriate purchases were made with a City P-Card. The same employee that was dismissed for misuse of City P-Cards also made those purchases. These instances involved the acquisition of auto repairs and a vehicle tire from a local automobile dealer using a P-Card of another Facilities Maintenance employee. The details are as follows:

- The first incident occurred in October 2001 and involved two transactions: (1) the purchase of a truck tire and (2) a subsequent credit for sales tax relating to that purchase. Both transactions were included on the same Request for Purchase form, which was signed by both the cardholder (not the employee making the purchase) and the division manager. (The cardholder did not recall why he signed the Request for Purchase form in this instance.) The supporting documentation attached to those transactions did not appear adequate for a proper review in that the support consisted of credit card signature slips which did not contain any details of what was purchased. In response to our inquiry, a copy of the sales slip

was obtained from the vendor. From that documentation, it appears that the employee involved in the previously described misuse had used another employee's P-Card for inappropriate purposes. In this instance, the employee making the purchase incorrectly wrote on the Request for Purchase form that the purchase was for equipment repairs relating to airport operations.

- The second incident occurred in January 2002 and was for mechanical repairs to the same non-City vehicle to which the first incident related. The name of the cardholder was written on the Request for Purchase form. However, the cardholder's signature was not on the form. Other than that circumstance, this instance was similar to the first in that:
 - The Request for Purchase form was signed/approved by the division manager.
 - The same P-Card of the other employee was used.
 - Only a credit card signature slip was provided as support.
 - The description written on the Request for Purchase form was not accurate (i.e., "idle air control switch old truck").

In both incidents, support for the P-Card transactions was not sufficient to justify the validity and purpose of the charges. However, the division manager approved those transactions for further processing by the P-Card coder. The total of these two additional unauthorized purchases was \$329.94. All information relating to these purchases was provided by the Aviation Department to TPD for their review and disposition.

As noted in the Background section of this report, the Aviation Department implemented corrective actions in March 2002 that included revised departmental procedures and re-training of department employees, including division managers. We recommend that the division managers and other Aviation Department management use the revised procedures and training as tools to enhance their level of review and oversight for timely detection of inappropriate P-Card purchases. For example, division managers should ensure that adequate support, such as detailed

vendor receipts, are provided by the cardholder prior to approving a transaction and submitting the related Request for Purchase form to the P-Card coder for processing.

Instances were noted where required forms were not signed by cardholders but were still approved for processing by supervisors.

Instances were noted where the Request for Purchase forms were not signed by the cardholder but the supervisor still approved and processed the forms. Departmental procedures required the cardholder to complete and sign a Request for Purchase form for each P-Card transaction. The signature represents the cardholder's attestation as to the accuracy and validity of the transaction, and serves as an indication to the approving supervisor/manager that the transaction is for proper purposes. In 2 of 20 sampled transactions, occurring after the department revised its procedures effective March 26, 2002, the Request for Purchase form was signed and approved by the division manager although not signed by the cardholder. Two additional instances came to our attention during our fieldwork. These four transactions were made in the Facilities Maintenance Division and totaled \$1,602.32. While there was nothing to indicate that the purchases were not proper, the lack of the cardholder's signature on the Request for Purchase forms shows the division manager had not ensured the completeness of the form prior to approval.

We recommend that the division managers approve and submit to the P-Card coder only those Request for Purchase forms that have been signed by the applicable cardholder. In the event the cardholder is not available to sign the form, the division manager should provide appropriate explanation on the form.

Management in the Facilities Maintenance and Finance and Administration divisions and the P-Card coder did not follow up and timely resolve P-Card transactions for which adequate supporting documentation was not available.

Management within the Facilities Maintenance and Finance and Administration divisions and the department P-Card coder did not follow up and timely resolve items appearing in the P-Card system for which adequate documentation was not available to substantiate the charges. The City uses the P-Card system of its contracted bank to operate the P-Card program. Transactions are reflected in that system as they occur. P-Card coders in each City department/office are provided access to those charges. The P-Card coders are to review and match the charges to the appropriate documentation

(e.g., Request for Purchase form and supporting receipts) and code them for entry into the City's accounting system. All transactions must be reviewed, matched, and coded by the 10th of each month to keep the system operating. Disputed transactions not resolved by that deadline must also be coded and then correcting entries made in the subsequent period as they are resolved. Accordingly, for the Aviation Department, it is imperative that cardholders and supervisors timely submit required forms and support to the P-Card coder and that disputed items be timely and diligently researched and resolved.

During the course of fieldwork we noted that, prior to the corrective actions initiated in March 2002, there was a pattern for transaction support not being timely provided by the Facilities Maintenance Division to the P-Card coder. In order to meet the City deadline for processing those charges, the Aviation P-Card coder had coded the transactions using her best judgment. Based on our interviews and available documentation, she notified the division managers (e.g., through e-mails also copied to the Finance and Administration Supervisor) periodically of many of those transactions for which support was needed. For example, e-mails and documents were available for the months June through November 2001 showing that the P-Card coder notified divisions managers of 123 charges (122 pertained to Facilities Maintenance) totaling \$71,256.59 that had been coded in the system without support. In those e-mails, the P-Card coder indicated coding had been made based on her judgment and requested the division managers to provide the required support. In November 2001, we noted that the P-Card coder also followed up on the outstanding items contained in the previous month's e-mail. Other than that instance, evidence was not provided to show that the P-Card holder continued to follow up on items for which previous requests for support had been made. These circumstances indicate lack of management oversight and assistance within the Facilities Maintenance and Finance and Administration Divisions. Such oversight is necessary to ensure that required documentation is timely submitted by cardholders, reviewed by division managers, and forwarded to the P-Card coder.

The previous paragraphs indicate that the P-Card coder generally provided initial notifications to division managers of transactions needing additional support. However, the department's internal review of transactions executed by the employee dismissed for P-Card misuse identified eight instances where the P-Card coder processed transactions without evidence of supervisory approval (seven instances) or lack of receipts (one instance), but did not notify the applicable division manager of the lack of proper approval/support. Each of these transactions pertained to the Facilities Maintenance Division and occurred during the period July 3, 2001 (effective date of original departmental procedures), and December 2, 2001. Documentation was not available to explain why the P-Card coder did not request appropriate support for these eight transactions, which totaled \$1,007.61. In response to our inquiry, the P-Card coder could not recall why support was not requested in these instances.

As part of the corrective actions taken by the Aviation Department in March 2002, a formal suspense file was established within the Finance and Administration Division for all transactions pending adequate support. A monthly report of the pending transactions is prepared and forwarded to division managers for their review and processing. The Finance and Administration Supervisor is required to follow up weekly and monthly with the division managers on pending transactions and deficiencies in the suspense file. Lack of timely resolution of items is now to be reported to the Finance and Administration Administrator. Corrective actions may include suspension of the cardholder's privileges.

At the conclusion of our fieldwork, many items pertaining to prior periods had been resolved. However, the suspense file still contained twenty-three items totaling \$10,075.86, for which support had not been provided to the P-Card coder. Those items related to purchases made within the Facilities Maintenance Division during the period July 2001 through February 2002. We recommend that efforts be continued to resolve these remaining items and to comply with the revised procedures implemented as corrective actions.

Management did not regularly review summary P-Card activity.

Management did not regularly review summary P-Card activity. Various reports are available through the P-Card system to assist managers in reviewing and monitoring the P-Card program within their departments/offices. Reports can be obtained that show activity by cardholder, vendor (merchant), and merchant category. Review of such reports can provide management information as to whether usage is proper and whether adjustments/changes should be made. The Aviation Department did not obtain and use such reports for monitoring P-Card activity. Departmental procedures should be revised to require reports to be routinely generated and provided to applicable supervisory/managerial staff for their review.

Weaknesses in controls over P-Card purchases are primarily attributable to a lack of management oversight.

The primary breakdown in the controls over P-Card purchases can be attributed to a lack of management oversight. As noted in the Background section of this report, the employee Disciplinary Action Report stated that the “Employee – over a period of time – failed to consistently secure proper authorization and documentation to complete purchase card transactions and failed to follow established departmental procedures by not consistently sending out reports of purchases card suspense items to supervisors and/or management.” As described in the preceding paragraphs, the P-Card coder generally did notify supervisors and managers of those purchases for which supporting documentation was not timely submitted. Furthermore, both City policy and documented departmental procedures assign responsibility for the submission of required supporting documentation to the cardholders. Neither the City policy nor the departmental procedures (both prior and subsequent to March 26, 2002) specify who has primary responsibility (P-Card coder or supervisors/managers) to ensure that cardholders timely submit required documentation. That responsibility would appear to reside with the supervisors/managers. Accordingly, although the P-Card coder did not consistently continue to follow up on items for which previous requests for support had been made, and in a few instances (total of 8) did not notify management of transactions processed without evidence of supervisory approval, the primary breakdown in controls is attributable to lack of adequate

management oversight within the Facilities Maintenance and the Finance and Administration divisions.

Procedural Issues

As previously noted within the Background section of this report, the Aviation Department implemented revised procedures in March 2002 to strengthen the control structure pertaining to the P-Card Program. As intended, these revisions provided a framework for a better system of internal control. However, we noted issues that may merit additional improvements, as discussed in the following paragraphs.

Justification and public purpose for each P-Card transaction was not clearly documented.

Justifications for each purchase should be adequately documented.

The standard Request for Purchase form used by the Aviation Department requires the recording of various information, including vendor name, item descriptions, quantities, and prices. Although not addressed in the revised procedures, the form also has a place for the cardholder to note the justification for the purchase. During our testing and review of 20 randomly selected transactions occurring subsequent to the procedure revisions, we noted four purchases where the justification was not recorded on the form and was not otherwise determinable from the nature of the purchase. An additional three instances were noted in the 25 judgmentally selected transactions. All seven items totaled \$675.80 and involved purchases of a digital voice recorder, batteries, jumper cables, food, repairs, and party supplies. In response to our requests, reasonable justifications for the purchases were provided. We recommend that the Aviation Department revise the departmental procedures to require specific justification to be included in the designated place on the Request for Purchase form when the public purpose is not apparent based on the item purchased.

Aviation Department employees used P-Cards assigned to other individuals.

Contrary to good internal control practices, employees used P-Cards assigned to other individuals. During our testing and review we noted two transactions where employees made purchases using another employee's P-Card. In both instances, the employee had physical possession of the other employee's P-Card when making the purchase. Those instances were in addition to those described

above where inappropriate purchases were made using the P-Card of another employee. The two transactions were as follows:

- A temporary employee was provided the P-Card of a supervisor to make a purchase of food for \$37.12 that had been ordered for a working lunch.
- An employee used the P-Card of a supervisor to purchase parts and supplies totaling \$332.37.

The initial department procedures implemented July 3, 2001, provided that P-Cards are to be used only by the designated cardholder. The use of P-Cards by anyone other than the cardholder increases the risk of misuse of City P-Cards and could limit the ability to determine responsibility in the event of a misuse. The Aviation Department should revise the departmental procedures to clearly preclude an employee from providing their P-Card to another employee. Employees that are expected to make P-Card purchases on behalf of the City should be issued their own card.

Reviews of monthly cardholder statements were not documented.

Reviews of monthly activity statements provided by the bank were not documented. The bank contracted to operate the City P-Card program provides the City with cardholder statements reflecting P-Card activity for each month. Section 603.09 of the City P-Card policy requires that each cardholder review and approve his/her monthly cardholder statement. Section 609.10 requires the cardholders to sign the account statements indicating the reviews were done. Such reviews and approvals serve to ensure that only appropriate amounts are charged to the City's account. The Aviation Department procedures, as revised March 26, 2002, instruct division managers to review these monthly statements and/or to pass them to the cardholder for review.

At the time of our fieldwork, we noted that reviews of cardholder statements by Aviation Department staff (cardholders and their supervisors) were not documented. As the result of our inquiry, the Aviation Finance and Administration Division sent an e-mail to all division managers indicating that it was now highly recommended

that the managers review the monthly statements with each of their employees, and that the managers must sign and date the statements and return them to the Finance and Administration Division for inclusion in P-Card program records. Notwithstanding this emphasis on reviewing the statements with individual cardholders, this e-mail results in a procedure that is not in accordance with City policy (i.e., as it provides an option in which cardholders will not review and approve their statements).

The review and documented attestation by each cardholder helps ensure that all charges are accurate and proper, including detection of instances where a P-Card is used by someone other than the designated cardholder. Accordingly, we recommend that changes be made to the departmental procedures specifically requiring documented approvals of monthly statements by both the cardholders and the division managers.

Other Procurement Issues

Other issues not directly related to P-Card controls or usage were noted during the audit. Those issues include the inappropriate payment of sales taxes, inefficient tent acquisitions, and noncompliance with City procurement policy relating to employee business cards. Each of these areas is discussed in the following paragraphs.

Two instances were noted where a supervisor paid state sales taxes.

In two of the 65 sampled transactions we noted that a supervisor paid state sales taxes on in-state purchases. As the City is exempt from such taxes and the City's State tax exemption number is encoded on each City P-Card, it was not apparent why such taxes were paid in those instances. The first purchase was for items from an auto supply store in which taxes of \$6.15 were paid. The other instance was for food acquired for a working lunch where sales taxes of \$3.37 were paid. Both purchases were by a supervisor in the Facilities Maintenance Division. Although the sales taxes were clearly documented on the accompanying receipts, the division manager approved the purchases. There was no evidence that attempts were made to recover the sales taxes.

Manager reviews of P-Card purchases should be thorough and diligent for the purposes of determining conformity with the City's procurement policies as well as ensuring the accuracy and propriety of transactions. Aviation Department staff should be reminded of the City's exemption from in-state sales taxes. In those instances where sales taxes are paid, appropriate efforts should be made to recover the taxes from the vendor through a P-Card credit (refund) transaction.

Savings of approximately \$14,000 would have been realized if tents had been purchased rather than rented.

Significant savings would have been realized had airport tents been purchased instead of rented. During our review of P-Card activity it came to our attention that the Aviation Department was renting tents for the airport vehicle inspectors located at the short term parking and rental car return entrances, and for the taxi waiting area. These inspection points and waiting area resulted from the terrorist events of September 11, 2001. Our analysis showed that during the period September 21, 2001, through June 1, 2002 (the time that we brought the issue to the attention of management), the Aviation Department had made 37 P-Card payments totaling \$17, 537 to one vendor for rental of the tents.

Our inquiry of several vendors that sell tents similar to the ones rented by the Aviation Department revealed that the cost to acquire the tents was significantly less than what has been expended in rental fees. The average cost to acquire a tent similar to those rented is \$1,150. If three tents had been purchased rather than rented, the total costs to the City would have been \$3,450, representing a savings of approximately \$14,087.

Our analysis showed that in January 2002 there was a significant increase in the weekly amount paid for the tent rentals. Specifically, the weekly payments went from \$240 to \$660. At that point the City had already paid \$4,717.50 in tent rentals (approximately \$1,267.50 more than the costs to purchase three tents). This change in the monthly rental payments should have brought the issue of rental versus purchase costs to the attention of management, such that discussions could have been held with the vendor to negotiate a favorable purchase price or significantly reduced rental rates.

We recognize that the events of September 11, 2001, resulted in a temporarily unstable environment at the nation's airports; and, as a result, many tentative decisions were necessary for operating purposes. As a result of revised security procedures, the department discontinued tent rentals for the vehicle inspection and the taxi waiting areas as of October 1, 2002. At the time of discontinuance, total payments for all tent rentals discussed above amounted to \$22,900.

Employee business card purchases were expensive and not in compliance with City policy.

Employee business card purchases were expensive and not in accordance with City policy. One of our sampled transactions represented payment for employee business cards. Our review showed that the purchase did not appear to comply with City Administrative Procedural Manual (APM) No. 504. Specifically, APM No. 504 stipulates the cardstock, ink, and general design that must be used for City employee business cards. The policy also states that cards not in conformity with the policy may not be purchased. The purchased cards did not meet the noted stipulations in regard to cardstock, ink, or design. The cards were purchased for \$199.50 (500 cards). Our analysis showed that since January 1, 2000, the Aviation Department had purchased twenty boxes of similar business cards (500 per box) for a total of \$2,439, or an average of approximately \$122 per box.

For comparative purposes, we noted that the City has a contract with a printer to produce City business cards that meet the City's specifications for employee business cards. The contracted rate for those cards is \$22 for 500 cards (i.e., compared to an average of \$122 per 500 cards paid by the Aviation Department). While the Aviation Department may not have been able to use that contract and vendor for its business cards (i.e., the Aviation Department used its own logo in addition to the City's logo and the contract does not address cards with additional logos), this indicates the need for the Aviation Department to negotiate with vendors for rates more beneficial to the City.

We recommend that the future purchases of employee business cards be in conformity with City policy as to cardstock, ink, and design.

Adequate documentation justifying food purchases was not always maintained.

Documentation justifying food purchases was not always maintained. During the course of our examination we identified seven food purchases. Those purchases ranged from \$24.86 to \$208.80, and totaled \$652.04. Upon inquiry, it was determined that four of these food purchases were for quarterly department-wide meetings held in informal settings (picnic and cookouts). The indicated purpose of the meetings were to communicate current issues and events with airport employees as well as boost morale and present reward and recognition program awards. Managers of the airport's vendors/tenants were invited to these events. The remaining three purchases were for working lunches authorized by Aviation Department management.

These food purchases appeared to be within the guidelines established by the City. However, adequate documentation was not maintained justifying the purpose/nature of the City business and/or the quantities of food purchased. Specifically:

- While the purpose/nature of the quarterly department-wide meetings was implied, records were not prepared and retained indicating the number of anticipated attendees. Such records, which should be based on the number of Aviation department employees and airport vendors/tenants expected to attend (e.g., based on historical data and/or known current circumstances), are appropriate to justify the amount of food purchased for those meetings.
- For the three working lunches, documentation was not prepared and retained indicating that the food purchases were for working lunches or showing the names or number of employees/persons for whom the food was purchased.

For future food acquisitions, the Aviation Department should prepare and maintain appropriate records documenting the

nature/purpose of the related City business and justifying the amounts purchased. For working lunches or similar meetings, the Aviation Department should indicate the names of those in attendance.

Conclusion

Weaknesses in internal controls over P-Card activity at the Airport resulted in the processing and payment of several inappropriate purchases. A subsequent review by the Aviation Department resulted in the dismissal of the suspected employee, who was arrested by TPD upon completion of an investigation of the improper purchases.

Recommendations have been made to assist management in improving the control structure over the P-Card program, the most significant of which relates to improving management oversight of P-Card activity.

Inappropriate uses of a City P-Card occurred within the Facilities Maintenance Division. The suspected employee was dismissed after an internal review by the Aviation Department. A subsequent TPD investigation resulted in the former employee's arrest. While enhancements were needed to departmental procedures, not timely detecting the inappropriate uses is primarily attributable to the lack of adequate management oversight within the Facilities Maintenance Division.

In response to the inappropriate use of City P-Cards by an employee, the Aviation Department revised its departmental procedures and provided re-training to employees. These revisions and re-training efforts represented improvements to the existing control structure within the department. However, we identified several issues in the audit indicating a need for the Aviation Department to further enhance the system of internal controls and departmental procedures relative to the P-Card program. These enhancements are needed to ensure that P-Cards are used only for proper purposes and are otherwise used in accordance with established City procurement policy and good business practices.

The most significant issue addressed in the audit is management oversight of the P-Card program. Division managers have (should have) first hand knowledge of the charges and a direct line of communication with the cardholders they supervise. Accordingly, the division managers have the primary responsibility for ensuring that P-Card charges are accurate, proper, and supported. The department P-Card coder should be responsible for matching support submitted by division managers to charges in the P-Card system, and notifying management when disputed/unsupported items are not timely researched and resolved. Management of the Finance and Administration Division should be responsible for

following up on P-Card charges to ensure that items are timely processed and disputed/suspense items are timely researched and resolved. Corrective actions previously taken by the Aviation Department, in conjunction with the implementation of recommendations made within this audit, should help ensure that the management oversight function is properly performed.

***Response From
Appointed
Official***

City Manager:

This audit was undertaken at the request of the Assistant City Manager for Development and Transportation Services and the City Attorney. As was noted in the Auditor's report, a number of issues have been, or are in the process of being addressed. The assistance being provided by the City Auditor's Office to help the Airport improve its procedures for overseeing the Airport's P-Card program is greatly appreciated.

Completion of the recommended action plan will assure increased compliance with City and departmental p-card policy and procedures that will help prevent future inappropriate use of the p-card.

We appreciate the collaborative support on this project by the department, the Tallahassee Police Department, the City Attorney's office, and City Auditor's staff. With this timely review and the prompt response by the department, the City demonstrates to the community its commitment to investigating fraudulent activity and identifying ways to prevent such behaviors from happening in the future by fully prosecuting individuals involved in criminal activity and by evaluating and improving our processes. Again, thanks to all for the conduct of a very thorough process.

Copies of this audit report #0301 (project #0211) may be obtained from the City Auditor's web site (<http://talgov.com/citytlh/auditing/index/html>), by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (dooleym@talgov.com).

Audit conducted by:
Dennis Sutton, CPA, Senior Auditor
Bert Fletcher, CPA, Audit Manager
Sam M. McCall, CPA, CIA, CGFM, City Auditor

| Appendix A – Action Plan | | |
|---|----------------------|-------------|
| Action Steps | Responsible Employee | Target Date |
| A. Objective: Improve management’s oversight of Purchase Card activity | | |
| 1. The Aviation Department director will reinforce to managers responsible for reviewing and approving P-Card purchases that they must be cognizant that inappropriate purchases are a possibility regardless of the level of trust placed in the cardholders, and that they must diligently review purchases for inappropriate/unauthorized items. | Ken Austin | 12/31/02 |
| 2. Managers responsible for the review and approval of P-Card purchases will not approve transactions for further processing until adequate supporting documentation has been obtained and completed in accordance with departmental procedures. In the event that it is not possible to obtain or complete adequate supporting documentation (within the time period stipulated in the departmental procedures) the manager will provide a written explanation to the Finance and Administrative Division; departmental procedures will be revised to clarify this responsibility. | Clara Tait | 12/31/02 |
| 3. In addition to the periodic suspense file reports already provided to divisional managers, a report identifying all outstanding items in the formal suspense file will be provided to the Assistant Aviation Director at the end of each month. | Clara Tait | 12/31/02 |
| 4. Summary activity reports available through the Infospan system will be generated on a regular basis and provided to applicable managerial staff. | Clara Tait | 10/1/02 |
| 5. Additional training will be provided to all department P-Card holders upon revision of departmental procedures pursuant to all encompassed action steps. | Clara Tait | 6/30/03 |

| Action Steps | Responsible Employee | Target Date |
|---|----------------------|-----------------|
| <p>B. Objective: Improve internal controls over P-Card usage at the Airport through changes to, and increased compliance with, departmental P-Card procedures.</p> | | |
| <p>1. Departmental P-Card procedures will be revised to require cardholders to provide justification (in the space provided on the Request for Purchases Form) for purchases where the public purpose is not apparent based on the items purchased.</p> | <p>Clara Tait</p> | <p>12/31/02</p> |
| <p>2. Departmental P-Card procedures will be revised to require documented approvals of monthly P-Card activity statements by both the cardholder and the appropriate division manager, and to require retention of such approved statements in accordance with public record retention laws.</p> | <p>Clara Tait</p> | <p>12/31/02</p> |
| <p>C. Objective: Take appropriate actions to address other procurement issues identified in the audit of P-Card controls at the airport.</p> | | |
| <p>1. For the two instances noted in the audit where sales taxes should not have been paid, efforts will be made to recover those funds for the City.</p> | <p>Helen Ash</p> | <p>3/31/03</p> |
| <p>2. Whenever sales taxes are paid in conjunction with a purchase, the applicable manager responsible for reviewing and approving the purchase will ensure that appropriate efforts are made to recover the funds. In the event efforts to recover paid sales taxes are not successful, a written explanation of the recovery efforts and lack of success will be attached to the documentation supporting the purchase. Departmental procedures will be revised to clarify this responsibility.</p> | <p>Clara Tait</p> | <p>3/31/03</p> |
| <p>3. The Aviation Department has determined under the new City “logo policy” that it is no longer appropriate to use a departmental logo on employee business cards or other stationery. Accordingly, future business card purchases will be made through the vendor with which the City has contracted for those services.</p> | <p>Clara Tait</p> | <p>3/31/03</p> |

| Action Steps | Responsible Employee | Target Date |
|---|----------------------|-------------|
| 4. The Aviation Director will remind division managers of the importance and significance of conducting cost-benefit analyses whenever decisions must be made as to the purchase or rental of items. | Ken Austin | 12/31/02 |
| 5. For working lunches or similar business related meetings where food is provided, the department will document attendees and the nature/purpose of the meeting. For events where the attendees are not readily determinable, justification for the amounts purchased and the nature/public purpose of the event will be documented. Departmental procedures will be revised to clarify this responsibility. | Clara Tait | 3/31/03 |
| <p>D. Objective: Improve internal controls over the P-Card program by clearly specifying that P-Card holders are not to allow other employees to use their P-Card or P-Card number.</p> | | |
| 1. Department procedures that prohibit sharing of P-Cards among employees will be clarified to preclude the use of a P-Card number by an employee other than the employee to whom the P-Card and number was assigned. | Clara Tait | 3/31/03 |