



**A Report to the
Austin City Council**

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Procurement Card Usage Audit – Communications and Technology Management

September 2015



REPORT SUMMARY

While Communications and Technology Management (CTM) generally complies with procurement card policies, the department can improve how it documents and maintains records for purchases.

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GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this 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.

AUDIT TEAM

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September 2015



Report Highlights

Why We Did This Audit

This audit was conducted as part of the Office of the City Auditor's (OCA) FY 2015 Strategic Audit Plan based on a risk assessment of procurement card usage in all departments.

What We Recommend

The City's Chief Information Officer should ensure existing Citywide procurement card policies are communicated to CTM staff to address identified issues.



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PROCUREMENT CARD USAGE AUDIT – COMMUNICATIONS AND TECHNOLOGY MANAGEMENT

BACKGROUND

- The City of Austin's procurement card program, which provides City credit cards to individual users in departments, was established in 1998 to streamline the City's payment process for transactions below the \$3,000 single bid limit and provide a more efficient and cost-effective alternative to purchase orders and petty cash.
- The Purchasing Office administers the procurement card program.
- Directed by the City's Chief Information Officer, Communications and Technology Management (CTM) provides information technology infrastructure and services to City departments, external agencies, and Austin residents.
- During the period we tested, there were 3,045 transactions by CTM procurement card holders, totaling \$1,062,251. There was approximately one procurement card for every 3.3 employees, and the average expenditure per procurement card was \$11,301.
- This audit of CTM is the first in a series of audits of procurement card usage by OCA. CTM was selected due to risks such as the number of card holders and ability to purchase on behalf of other departments.

OBJECTIVE AND SCOPE

The objective of the audit was to evaluate CTM's usage of procurement cards as compared to City policies and best practices. The audit scope included CTM procurement card transactions from October 1, 2013 to March 31, 2015.

WHAT WE FOUND

While CTM generally complies with procurement card policies, the department can improve how it documents and maintains records for procurement card purchases. CTM could not provide supporting documentation or evidence of approvals for the purchases described below. These transactions indicate a lack of awareness of policies and monitoring of procurement card activity by department employees, which increases the risk that procurement card holders may misuse City resources without management's knowledge.

- One purchase of \$5,883 split into two transactions of \$2,942 each to circumvent the single transaction dollar limit amount of \$3,000, violating procurement card policy.
- Three of five food and ice purchases we tested violated procurement card policy by not including required elements in supporting documentation.
- CTM did not use the IT requisition process as required by procurement card policy to purchase six of eight sampled software and hardware purchases.
- Out of eight software and hardware purchases, six were for other City departments; four of those six (67%) purchases lacked evidence of approval from the other departments.
- CTM did not provide evidence of prior approval for a gift card purchase for a Rewards & Recognition event, violating procurement card policy.
- CTM did not provide evidence of the card holder reimbursing the City for five accidental personal purchases, totaling \$145.

BACKGROUND

The City of Austin's procurement card program was established in 1998 to streamline the City's payment process for transactions below the \$3,000 single bid limit. It was also designed to provide a more efficient and cost-effective alternative to purchase orders and petty cash. The Purchasing Office administers the procurement card program for all City departments except Austin Energy. This audit of CTM card usage is the first in a series of audits of departmental procurement card usage by our office.

CTM provides technology infrastructure and services to City departments, external agencies, and Austin residents. The City's CIO serves as CTM's director.

In FY 2014 and the first half of FY 2015, there were 3,045 transactions by CTM procurement card holders, totaling \$1,062,251. There were 94 card holders out of 309 full-time employees in FY 2015, or approximately 1 procurement card for every 3.3 employees. On average, the total expenditure per procurement card was \$11,301.

OBJECTIVE, SCOPE, AND METHODOLOGY

The Procurement Card Usage – Communications and Technology Management Audit was conducted as part of the OCA FY 2015 Strategic Audit Plan, as presented to the City Council Audit and Finance Committee based on a risk assessment of procurement card usage in all departments. CTM was selected for this first procurement card audit due to risks such as the number of card holders and ability to purchase on behalf of other departments.

Objective

The objective of the audit was to evaluate CTM's usage of procurement cards as compared to City policies and best practices.

Scope

The audit scope included all CTM procurement card transactions from October 1, 2013 to March 31, 2015.

Methodology

To accomplish our audit objectives, we performed the following steps:

- evaluated risk of fraud, waste, and abuse relevant to the audit objective;
- interviewed CTM Chief Financial Manager;
- consulted with Purchasing Office personnel regarding procurement card policies and procedures;
- researched criteria related to procurement card usage and purchasing;
- evaluated internal controls over procurement card purchases at CTM;
- obtained from the City's procurement card tracking system the population of all CTM procurement card transactions occurring during the scope period;
- selected a random sample and a judgmental sample of procurement card transactions;

- reviewed supporting documentation for transactions, including receipts and invoices, from procurement card holders; and
- analyzed all CTM procurement card transactions in the scope period using a test for split transactions.

DRAFT - Audit Working Paper

AUDIT RESULTS

Finding: While CTM generally complies with procurement card policies, the department can improve how it documents and maintains support and approvals for procurement card purchases.

While CTM generally complies with procurement card policies, the department can do more to ensure it maintains adequate records supporting procurement card purchases. CTM could not provide supporting documentation or evidence of approvals for purchases described in the following table. Examples include a split transaction to circumvent the single transaction limit, a lack of approval and required documentation for certain purchases, software and hardware purchases outside of the technology requisition process, and personal purchases made accidentally with procurement cards with no evidence of reimbursement to the City.

These transactions indicate a lack of monitoring or an awareness of policies by department employees, or in some cases, intentional non-compliance so employees could meet deadlines. While we did not specifically identify intentional misuse for personal gain, these incidents increase the risk that procurement card holders may misuse City resources without management's knowledge.

EXHIBIT 1 Analysis of Results

What We Found: CTM is not sufficiently approving or maintaining supporting documentation for certain purchases	Why it Matters: Violations of policies may increase the risk of misuse of City resources
Split Transaction <ul style="list-style-type: none">Identified a purchase totaling \$5,883, split into two transactions of \$2,942 each to circumvent the \$3,000 transaction limit that would require use of a purchase requestThese items were included on an existing master agreement with the City	<ul style="list-style-type: none">Violation of procurement card policy
Lack of Required Documentation <ul style="list-style-type: none">Three of five (60%) food/ice purchases did not include the type and location of the event, event participants, and the business purpose	<ul style="list-style-type: none">Violation of procurement card policyWithout the required documentation, there is less assurance that food and ice purchases are for City business
Software and Hardware Purchases Outside of the Technology Requisition Process <ul style="list-style-type: none">Six of eight (75%) software and hardware items not ordered through CTM's service desk, through which the department tracks the purchase requests	<ul style="list-style-type: none">Violation of procurement card policyCannot ensure software purchases comply with licenses, IT equipment contracts are administered properly, or products have adequate support

What We Found: CTM is not sufficiently approving or maintaining supporting documentation for certain purchases	Why it Matters: Violations of policies may increase the risk of misuse of City resources
Lack of Approval for Software and Hardware Purchases <ul style="list-style-type: none"> Out of the eight software and hardware purchases, six were for other City departments; four of those six (67%) purchases lacked evidence of approval from the other departments 	<ul style="list-style-type: none"> Cannot ensure the other departments approved these purchases Increased risk that purchases may have been for personal use
Lack of Approval for Gift Card Purchase <ul style="list-style-type: none"> No approval for one gift card purchase for a Rewards & Recognition event out of six gift card purchases during the period we tested 	<ul style="list-style-type: none"> Violation of procurement card policy Increased risk that taxpayer money could be fraudulently expended (gift cards easily converted to cash)
Lack of Evidence of Reimbursement for Accidental Personal Purchases <ul style="list-style-type: none"> No evidence of reimbursements to the City for the five accidental purchases tested, totaling \$145 	<ul style="list-style-type: none"> Violation of procurement card policy Increased risk that procurement card holders who make personal use of procurement cards may fail to reimburse the City

SOURCE: OCA analysis of data from the City's procurement card tracking system, supporting documentation for procurement card purchases, and the ProCard Policy Manual, September 2015

RECOMMENDATIONS

- The City's Chief Information Officer should ensure existing Citywide procurement card policies are communicated to CTM staff to address identified issues, including:
 - observing the single transaction limit (\$3,000) or requesting increases in advance;
 - purchasing all software and hardware through the technology requisition process;
 - maintaining approvals and supporting documentation for certain purchases as required;
 - monitoring to identify personal purchases and ensure they are reimbursed to the City; and
 - using existing master agreements for purchases where possible.

MANAGEMENT RESPONSE: **Concur.** Refer to Appendix A for action plan.

ACTION PLAN

Procurement Card Usage Audit – Communications and Technology Management

Recommendation	Concurrence and Proposed Strategies for Implementation	Status of Strategies	Proposed Implementation Date
<p>The City's Chief Information Officer should ensure existing Citywide procurement card policies are communicated to CTM staff to address identified issues, including:</p> <ul style="list-style-type: none"> a) observing the single transaction limit (\$3,000) or requesting increases in advance; b) purchasing all software and hardware through the technology requisition process; c) maintaining approvals and supporting documentation for certain purchases as required; d) monitoring to identify personal purchases and ensure they are reimbursed to the City; and e) using existing master agreements for purchases where possible. 	<p>Concur with the recommendations. Due to the nature of our business some of the findings could not be avoided.</p> <p>We will communicate procurement card policies at team meetings, quarterly all employee meetings, and develop an "on demand" training video to educate staff on the mentioned policies.</p>	Planned.	Jan 2016