



FINAL REPORT

City of Stockton

PURCHASING CARD INTERNAL CONTROLS TESTING

October 1, 2020

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I. EXECUTIVE SUMMARY

A. SCOPE AND METHODOLOGY

Moss Adams LLP was contracted by the City of Stockton (the City) to evaluate and test internal controls related to the Purchasing Card (P-Card) program. The purpose of this engagement was to evaluate the program for adequate and effectively designed controls and assess whether those controls were in place, functioning appropriately, and supported by City policies and procedures. We performed a variety of procedures to assess and test internal controls over P-Card issuance, cancellation, transactions and reconciliations, and that non-compliance with P-Card policies is being identified and addressed.

This engagement was performed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants. Accordingly, we provide no opinion, attestation, or other form of assurance with respect to our work or the information upon which our work is based. This report was developed based on information gained from our interviews and analysis of sample documentation. The procedures we performed do not constitute an examination in accordance with generally accepted auditing standards or attestation standards.

B. SUMMARY OF FINDINGS AND RECOMMENDATIONS

FINDINGS AND RECOMMENDATIONS		
1.	Finding	A P-Card Approver Acknowledgment Form was not on file for one P-Card user.
	Recommendation	Prior to the issuance of a new P-Card, or the assignment of approval authority for P-Card activity, a thorough review should be performed to ensure all required supporting documentation is on file.
2.	Finding	P-Card training, prior to the issuance of a P-Card, was not being enforced in accordance with the P-Card Manual.
	Recommendation	The Procurement Division should develop a process to ensure that physical P-Cards are not issued to employees until the required training is completed. Documentation confirming training was attended prior to the card issuance date should be maintained.
3.	Finding	For instances of P-Card non-compliance identified by the Procurement Division, the level of follow-up/consequences applied were not consistent nor in compliance with the P-Card Manual.
	Recommendation	Evaluate the level of follow-up/consequences detailed in the P-Card Manual for reasonableness and update if needed. Apply levels of follow-up/consequences consistently across all users in compliance with the P-Card Manual.
4.	Finding	Adequate documentation to support the timely cancellation of P-Cards, upon an employee's termination, is not maintained.
	Recommendation	Coordinate with the HR Division to ensure that all terminations are reported timely and users complete the required Property Release Form upon termination, or ensure there is documentation for why the card was not initially



FINDINGS AND RECOMMENDATIONS		
		obtained and what alternative procedures were performed. Document all relevant information (e.g., date and reason for cancellation) when a P-Card is deactivated and cancelled with the bank.
5.	Finding	The City's P&Ps (the P-Card Manual) has several areas that could be improved or added to provide more comprehensive guidance for users.
	Recommendation	A full review of the P-Card Manual should be performed and updates and additions should be made to ensure all areas are current and provide comprehensive guidance to users.



II. BACKGROUND, SCOPE, AND METHODOLOGY

A. BACKGROUND

The City utilizes P-Cards as a payment mechanism, not a procurement method, to allow designated individual cardholders to purchase low-dollar goods (\$5,000 and under). P-Card activities are supported by the Procurement Card Policy and Procedures Manual (P-Card Manual), which designates the Director of Administrative Services/CFO as the overall program administrator who has been tasked with fulfilling certain responsibilities in administering the P-Card program in coordination with the City's Procurement, Accounting, and Accounts Payable (AP) Divisions.

The P-Card Manual includes policies and procedures governing the use of a City-issued P-Card to ensure that all cardholders are properly approved to use a P-Card, credit limits are established and set up appropriately, cardholders and approvers receive training, transactions are properly supported for official City-business only, and monthly P-Card activity reconciliations occur timely. At the time of this review, the City had approximately 200 active P-Cards.

Moss Adams LLP was contracted by the City to perform an internal audit over the evaluate internal controls related to the P-Card program and to identify opportunities for improvement. This internal controls project was performed as part of the Fiscal Year (FY) 2019–2020 Internal Audit Program. Our review was performed between April and September 2020.

B. SCOPE AND METHODOLOGY

The scope of this project was focused on internal controls related to the City's P-Card program and was performed to assess the following objectives:

- Evaluate the program for adequate and effectively designed internal controls
- Review the P-Card Manual to determine whether it reflects current practices, provides comprehensive guidance to users to support compliance, and incorporates established internal controls
- Determine if select internal controls are in place and functioning appropriately over P-Card issuance, cancellation, transactions, and reconciliations, and that non-compliance with P-Card policies is being identified and addressed

The procedures performed included:

- **Interviews and Inquiries:** In order to obtain an understanding of the specific processes and overall P-Card program activities, we conducted interviews with City personnel within the Procurement and AP Divisions who have designated responsibilities related to the P-Card function.
- **Document Review:** We reviewed the P-Card Manual, other applicable City policies and procedures, forms used to guide the P-Card processes, and select P-Card activity reports and listings.
- **Testing:** We performed the following detailed testing procedures:
 - **Non-Compliance Tracking:** To assess whether non-compliance with P-Card Manual requirements was being tracked and addressed consistently and timely, we obtained the



Non-Compliant Reasons Log for the months of January and February 2020. From these logs, we randomly selected five instances of non-compliance and tested the following:

- Determined if support was on file showing the specific reasons/instances of non-compliance
- Assessed whether the non-compliance, based on the number of evaluations that had been incurred by the Cardholder since card issuance, was addressed in compliance with the P-Card Manual, which included requesting and reviewing, when available, documentation of verbal and written warnings, notification to supervisors, and revocation of card
- **P-Card Approval and Issuance:** We randomly selected a sample of 25 active P-Card users (out of 202 total users) as of May 2020. For each user, we performed the following:
 - Determined if the P-Card Approver Acknowledgement Form was completed and approved prior to the issuance of the P-Card
 - Assessed whether a P-Card Request for New Issue or Status Change Form was completed and approved prior to the issuance of the P-Card
 - Compared limits presented on the Active Listing of P-Card users to the most recently approved New Issue or Status Change Form to determine whether the limits were accurate and current
 - Assessed for evidence that both the P-Card user and approver had received the required City P-Card training prior to the submission or approval of P-Card transactions
- **Monthly P-Card Reconciliations:** We randomly selected five P-Card users and requested the P-Card reconciliation packet to support one month (selected December 2019 or February 2020 for each user) of P-Card activity. We tested each user's P-Card reconciliation packet for the following:
 - The type and dollar amount of purchases was allowable under the P-Card Manual
 - If any purchase was listed as a “restricted” purchase, there was evidence of the required prior approval before the purchase was made
 - The Cardholder Activity Statement was approved by the monthly deadline (the 15th calendar day of the following month)
 - Sales and other taxes appeared to be applied and paid at the point of sale for all transactions
 - Account credit limit and single-purchase limit were not exceeded
 - If there were any travel related charges, there was a corresponding Travel Authorization Form to support that the charges were approved
- **Active User Assessment:** To assess whether all active P-Cards were only issued to current City employees, we performed a database comparison between the Active P-Card Users Listing, as of May 2020, to the City's Active Employee Listing. We assessed supporting documentation for any variances identified.
- **Terminated Employee Assessment:** We obtained a listing of employee terminations processed between June 2019, 2020 and May 14, 2020, and compared it to the Cancelled/De-Activated Employee Listing (i.e., listing used by the Procurement Division to track cancelled P-Cards) to assess whether any terminated employees were issued a City P-Card that was not cancelled timely upon termination. We assessed supporting documentation for any variances identified.

In addition, for April 2020, we assessed documentation for all terminated employees who were also P-Card users to determine whether a Property Release Form was obtained by the



- HR Division, the termination was reported to the Procurement Division, and there was documentation that the Procurement Division cancelled and deactivated the P-Card through the bank.
- **Sales and Use Tax Reconciliations:** We reviewed the December 2019 and February 2020 sales and use tax reconciliations performed to determine if they were being completed and reconciled timely.

C. COMMENDATIONS

Although the focus of this assessment was to identify opportunities for improvement, it is important to note the areas of commendable operations. The City should be commended for the following accomplishments:

- **P-Card Reconciliations:** All P-Card reconciliation packets rested were complete (i.e., supported by receipts for all transactions), there were no transactions that were identified as unallowable per the P-Card Manual, and all reconciliation packets were submitted by the set due date.
- **Sales and Use Tax Application:** For the two months tested, there was an adequate sales and use tax reconciliation performed that would likely identify any instances in which sales and use taxes should have been charged, but were not.
- **Readiness for Change:** During our interviews, feedback from City employees indicated an eagerness to adopt changes to the existing P-Card Manual, where needed, to further improve the overall effectiveness and control of the P-Card program.

We would like to thank City staff and management for their willingness to assist with this project.



III. FINDINGS AND RECOMMENDATIONS

P-Card Approver Acknowledgment Form

1. Finding	A P-Card Approver Acknowledgment Form was not on file for one P-Card user.
Recommendation	Prior to the issuance of a new P-Card, or the assignment of approval authority for P-Card activity, a thorough review should be performed to ensure all required supporting documentation is on file.

During our analysis of the supporting documentation for 25 active P-Card users, we identified one instance where a P-Card Approver Acknowledgment Form was not on file. According to the P-Card Manual, this form must be signed by the designated P-Card approver, signifying that the approver agrees with the terms and conditions of the City's P-Card program.

The assigned P-Card Program Administrator, or their designee, should ensure that a process is established within the Procurement Division to ensure that P-Cards are not turned over to the cardholder until all required forms are submitted. The P-Card Approver Acknowledgment Form is required to ensure that cardholders understand the responsibilities and requirements related to City-issued P-Cards and that approvers are aware of the terms and conditions that apply when they approve transactions, Activity Statements, etc. The Procurement Division should consider doing a full review of the 200 active P-Card users to determine if all required forms are on file. Ensuring P-Card Manual requirements are in place helps mitigate risk to the City in the event that fraudulent or otherwise inappropriate expenses are incurred or approved.

P-Card Training

2. Finding	P-Card training, prior to the issuance of a P-Card, was not being enforced in accordance with the P-Card Manual.
Recommendation	The Procurement Division should develop a process to ensure that physical P-Cards are not issued to employees until the required training is completed. Documentation confirming training was attended prior to the card issuance date should be maintained.

The P-Card Manual requires that users attend P-Card training, established by the Procurement Division, before they receive the physical P-Card. Training helps to ensure that employees understand expectations and guidelines related to utilizing a City P-Card. In addition, the Employee P-Card Acknowledgment Form, signed by employees at card issuance, certifies that the employee received training on the proper use of the P-Card. In our analysis of the supporting documentation for 25 active cardholders, we identified the following:

- Four instances (16%) where support showing the P-Card user had received the required P-Card training was not on file



- Twenty-one (84%) instances where the user attended P-Card training subsequent to receiving the City-issued P-Card

The assigned P-Card Program Administrator, or their designee, should ensure that a process is established within the Procurement Division to ensure that P-Cards are not turned over to the cardholder until the required P-Card training has been completed. These controls are in place to ensure that cardholders understand the responsibilities and requirements related to City-issued P-Cards. Given that 16% of all users tested did not have documentation of training received, consider reviewing all 200 users to identify the full population of those users who are missing training. For these users, training materials could be sent out for self-study training to be performed, and a new Employee P-Card Acknowledgement Form could be signed and returned after completion. This would help mitigate the risk associated with having previous acknowledgments on file despite training not have been completed.

P-Card User Non-Compliance

3.	Finding	For instances of P-Card non-compliance identified by the Procurement Division, the level of follow-up/consequences applied were not consistent nor in compliance with the P-Card Manual.
	Recommendation	Evaluate the level of follow-up/consequences detailed in the P-Card Manual for reasonableness and update if needed. Apply levels of follow-up/consequences consistently across all users in compliance with the P-Card Manual.

The P-Card Manual requires the AP Division to monitor P-Card transactions monthly for compliance, including prohibited and restricted purchases, and communicate all non-compliance to the Program Administrator to address. The P-Card Manual lays out the specific consequences for non-compliance, based on the number of violations that a user has had, as follows:

- First instance results in notification to the cardholder and their assigned approvers
- Second instance results in training of cardholder and their assigned approvers
- Third instance results in card suspension for 30 days
- Fourth instance results in revocation of card if non-compliant within 60 days of reinstatement from the third instance

During our analysis of five instances of non-compliance, we identified three instances where the level of consequence applied was less severe than the P-Card Manual requires. In one case, a P-Card should have been revoked given it was the user's fifth infraction; however, a verbal warning was issued instead. Inconsistently applying consequences that are included in the P-Card Manual could result in employees claiming unfair treatment between users or inappropriate activity.

The Procurement and AP Divisions should review the consequences for violations identified in the P-Card Manual and determine whether they are reasonable and should be enforced. If appropriate, any changes should be incorporated into the P-Card Manual. Additionally, the current process for following up on violations should be evaluated and improved to ensure the level of enforcement is



applied consistently for all users. All warnings and notifications should be formally documented, even if they are given verbally.

Cancellation of P-Cards Support

4.	Finding	Adequate documentation to support the timely cancellation of P-Cards, upon an employee's termination, is not maintained.
	Recommendation	Coordinate with the HR Division to ensure that all terminations are reported timely and users complete the required Property Release Form upon termination, or ensure there is documentation for why the card was not initially obtained and what alternative procedures were performed. Document all relevant information (e.g., date and reason for cancellation) when a P-Card is deactivated and cancelled with the bank.

When an employee termination is reported to the HR Division, they are responsible for ensuring a terminated employee completes the Property Release Form, obtaining the terminated employee's physical P-Card (if possible), and notifying the Procurement Division when a P-Card needs to be cancelled and deactivated through the bank. We identified the instances listed below where there was a mishandling of terminated employee P-Cards.

- In our comparison of the Active P-Card Users Listing to the Terminated Employee Listing, we identified one instance in which an employee was terminated in March 2020, and although the HR Division had obtained the physical card, the Procurement Division could not provide support showing when/if the P-Card and P-Card online access was cancelled with the bank.
- In testing 19 cardholder terminations from April 2020, we identified one instance where an employee termination was not reported to the Procurement Division via the Separation List, which is the main reporting tool used to ensure terminations are communicated timely. In addition, for eight of these employees, a Property Release Form was not on file to show the physical card was obtained or documenting that it could not be obtained.

The P-Card Manual does not specifically address how termination notifications should be handled and who's responsible for notifying the Procurement Division when a termination has occurred for an employee that is an active P-Card user, a timeline for reporting, how cancellation/deactivation will be processed and documented, the use of the Property Release Form as it relates to obtaining physical P-Cards, and what should be done with the P-Cards. The P-Card Manual simply states that it is the P-Card Program Administrator's responsibility to cancel P-Cards, and P-Card online access, upon an employee termination.

The Procurement Division should verify whether the P-Card was cancelled for the one terminated employee identified in this assessment that was still on the Active P-Card User Listing. The P-Card Manual should be updated to address the specific responsibilities and procedures related to the gaps described above. Cancellation of P-Cards and P-Card online access should always occur on or before the employee's last day of employment with the City, and documentation confirming P-Card cancellation should be maintained. This helps to prevent the risk that inappropriate charges could be made subsequent to an employee's termination date.



P-Card Manual

5.	Finding	The City's P&Ps (the P-Card Manual) has several areas that could be improved or added to provide more comprehensive guidance for users.
	Recommendation	A full review of the P-Card Manual should be performed and updates and additions should be made to ensure all areas are current and provide comprehensive guidance to users.

Throughout this assessment, there were several issues reported that could be addressed through updating the P-Card Manual and implementing or changing current procedures.

Based on interviews performed, there were many cases where P-Card approvers (i.e., those who approve P-Card charges and reconciliations) were changed without following the standard process of completing the P-Card Status Change Form. This creates several issues, such as (1) the person may not have the required bank access for month-end approvals, resulting in a rush before the deadline for submission, (2) the new approver may not have received the related required training or be aware of the responsibilities associated with being a P-Card approver, and (3) the required P-Card Approver Form may not be completed to ensure the approver understands their responsibilities. The P-Card Manual does not specifically address and provide guidance on changing a user's P-Card approver. Update the P-Card Manual to specifically address this by clarifying:

- The overall process that must be followed including the requirement to complete the applicable forms
- The deadline for submitting requests for an approver change, prior to the monthly submission deadline, whenever possible
- Who is responsible for requesting, approving, and processing the change
- Training requirements

The P-Card Manual does not currently require a secondary approver be assigned for all P-Card users to prevent delays in processing due to absences, approval changes, or other situations. Consider updating the manual to require the inclusion of a secondary approver for all users.

Based on interviews, there were many cases where users charged travel-related expenses on their P-Card; however, they did not attach a copy of the approved Travel Authorization Form to support that the travel was approved, prior to incurring the costs, to make them allowable charges. The P-Card Manual does not currently address how users are supposed to handle travel-related expenses, and whether the Travel Authorization Form is required when submitting their monthly P-card Reconciliation packet. The Travel and Expense Policy states that, "airfare, registration, lodging, rental vehicles, and other costs shall be paid in advance by the City using a P-Card." However, it does not address whether the approved Travel Authorization Form is required to be submitted to support P-Card charges. One or both of these policies should be updated to address this discrepancy and clarify what is required to support travel-related P-Card charges to prevent delays at month-end and time consuming follow-up required by the Procurement Division.

