MOSSADAMS

REPORT

FOR

CITY OF STOCKTON

INTERNAL CONTROLS TESTING: PURCHASING, PROCUREMENT, AND ACCOUNTS PAYABLE

November 29, 2017

Moss Adams LLP
3121 West March Lane, Suite 200
Stockton, CA 95219
(209) 955-6100

Table of Contents

I. OVERVIEW

A. BACKGROUND

Moss Adams, as the contracted internal auditor for the City of Stockton (the City), tested the operating effectiveness of key internal controls over the City's purchasing, procurement, and accounts payable (AP) processes. The review took place between January and September 2017.

The testing of internal controls for operating effectiveness was completed under the consultancy standards of the American Institute of Certified Public Accountants (AICPA). As such, this work was not an audit of internal controls that resulted in a formal opinion or other form of assurance. The specific methods used for testing controls over cash assets are presented in the *Scope and Methodology* section (below).

B. SCOPE AND METHODOLOGY

The scope of our review was the City's current purchasing, procurement, and AP processes and practices. In the City of Stockton, there are a variety of methods for purchasing goods or services, including:

- Blanket Purchase Order (BPO): There are two types of BPOs. BPOs without contracts are issued annually to selected suppliers for use by City employees to procure repetitive, high volume, low dollar value items on a continuing basis without specific purchasing authorization by transaction. BPOs with contracts are issued for a specific time limit and are managed by a single department, although they can be used by other departments.
- Purchase Order (PO): POs are generated by the City's Purchasing Division.
- Authorization for Payment (AFP): Certain types of services can be approved for payment by a department head through an AFP without the necessity of initiating a requisition and subsequent PO to expedite payment of certain claims.
- Purchasing Card (P-Card): P-Cards are used for purchases of low-dollar goods and from vendors that do not accept POs.

Based on the type of good or service and purchase amount, the City must follow applicable procurement requirements. These requirements outline the need for quotes, bid processes, and approvals. Following purchases, receipts and invoices are reviewed, approved for payment, and payment is processed by the Accounts Payable Division.

For testing, we selected a sample of BPO, PO, and AFP transactions for the period July 1, 2015 to March 31, 2016 and a sample of P-Card transactions for the period January 1, 2016 to March 31, 2016. To test the operating effectiveness of internal controls for purchasing, procurement, and AP processes, we performed a number of activities, including the following:

- Interviewed key personnel, including:
  - Accounting Manager
  - Procurement Manager
  - Purchasing Agent

- o Accounts Payable Supervisor
- Gathered and reviewed relevant documentation, including:
  - o All policies, procedures, manuals, or desk references in place from July 1, 2015 to March 31, 2016 regarding the following:
    - Purchasing and procurement, including checklists or purchasing quick references
    - AP, including guidance provided to City departments and internal checklists for AP personnel
    - P-Card Policies and Procedures Manual effective from January to March 2016
    - Revised P-Card Policies and Procedures Manuals effective August 2016, effective November 2017
  - o Purchasing Division's P-Card training materials and attendance records
  - o Purchasing Division's P-Card compliance tracking spreadsheet
  - o List of vendors on BPO List for FY 2015-16
  - o List of items available through Central Stores
  - o All transactions made across purchasing methods (BPO, PO, and AFP) from July 1, 2015 to March 31, 2016
  - o All P-Card transactions for billing cycles from January 1 to March 31, 2016
  - o List of all P-Card users with monthly and daily limits, primary and secondary approvers, and total citywide annual spending on P-Cards in 2016
  - o List of all active City employees with supervisors
  - o For sampled cardholders, transaction logs, P-Card statements, and supporting documentation
  - o For sampled cardholders, request for P-Card application form
  - o For sampled BPO transactions, delivery tag, BPO, and supporting documentation
  - o For sampled PO transactions, PO receiving form, PO, and supporting documentation
  - o For sampled AFP transactions, AFP form and supporting documentation
  - o For all applicable transactions, quotes, sole source documentation, or bid documentation
- Performed tests of internal controls relating to purchasing, procurement, and AP processes that included the following elements:
  - o *For BPOs, POs, and AFPs*
    - Purchase approval level consistent with delegated list of purchasing authority
    - Purchase requester is different from purchase approver (required for most POs)
    - Complete evidence (signature and date) of goods and services being received
    - Person receiving goods or services is different from person who approved payment for order
    - Payment Approvals performed after confirmation of receipts by department
    - Payment amount matches invoice amount
    - Invoice amount is mathematically correct
    - Record keeping complete and has sufficient support
    - Appropriate purchasing method was used
  - o *For Blanket Purchase Orders (BPOs)*
    - Purchase does not exceed authorized amount

- No item should be bought on the BPO that is obtainable through Central Stores unless authorized
- Within three working days the departments shall forward completed delivery tags to AP for processing
- At the time of purchase, delivery tag must include required elements
- All BPOs are closed out and new ones issued at the end of each fiscal year and included, as appropriate, on the blanket vendor list
- All purchases were made on active BPOs

o *For POs*
- If purchase is over $5,000 and under $75,000, there are at least three price quotations (mail, email, phone) and purchase was awarded to most advantageous quotation or reason was recorded and reasonable
- If $75,000 or more, formal competitive bidding was made for supplies or services and awarded to lowest and best responsive bidder OR City Council approved exemptions
- Purchases were not made for maintenance costs of City or agency-owned property

o *For AFPs*
- Payment was approved by appropriate department head or designee
- Category of goods or services selected by department was appropriate
- Required documentation is complete (AFP form, invoice number, account number, HTE description, date)

o *For P-Cards*
- At the time of the transactions, cardholder was an active employee (not terminated)
- Cardholder applications exist and are appropriately signed and approved
- Required training is completed
- Monthly reconciled transaction logs have all required signatures and approvals
- Monthly reconciled transaction logs have supporting documents/receipts
- Submission of reconciled monthly transaction log by the 10th of each month
- Transactions did not exceed single purchase limit
- Monthly spending did not exceed monthly purchasing limit
- No transactions made for restricted items (i.e., personal purchases; services and repairs, capital equipment or furniture, leases and maintenance agreements/contracts, cash advances)
- No transactions violated account restrictions
- If items were shipped, all were shipped to a City address
- If an issue was observed, it was noted by the Finance audit, non-compliance was tracked, and enforcement applied in accordance with the City's P-Card Manual
- Evidence that recently terminated employees' P-Cards were terminated

II. SCOPE, METHODOLOGY, AND RESULTS

A. SCOPE AND METHODOLOGY

To assess operating effectiveness of key controls over BPO, PO and AFP transactions, we performed a variety of tests. Some tests were applicable across all transaction types, while others were specific to the type of transaction.

To perform testing, we judgmentally selected transactions that occurred between July 1, 2015 and March 31, 2016. Our selection included the following:

- 10 transactions from BPOs
- 12 transactions from POs
- 18 transactions from AFPs

To assess operating effectiveness of key controls over P-Cards, we judgmentally selected 25 transactions from P-Card statements that occurred between January 1, 2016 and March 31, 2016. Our selection was based on a representative mix of dollar amounts, cardholders, departments, and vendor types.

B. TESTING RESULTS: BPOS, POS, AND AFPS

TEST	RESULTS	FINDINGS/ OBSERVATIONS
Purchase approval level consistent with delegated list of purchasing authority	BPO: 0 exceptions of 10 transactions tested PO: 0 exceptions of 12 transactions tested AFP: 0 exceptions of 18 transactions tested	Not applicable
Person requesting goods or services is different from person receiving goods or services	BPO: Not able to assess – not required PO: 2 exceptions of 12 transactions tested AFP: Not applicable	Finding 1
Complete evidence (signature and date) of goods and services being received	BPO: Not able to assess – not required PO: 0 exceptions of 12 transactions tested AFP: 2 exceptions of 18 transactions tested	Finding 2
Person requesting goods or services is different from person who approved payment for order	BPO: Not able to assess – not required PO: 1 exception of 12 transactions tested AFP: Not able to assess – not required	Finding 1
Payment approvals performed after confirmation of receipt by department	BPO: Not able to assess PO: 0 exceptions of 12 transactions tested AFP: 2 exceptions of 18 transactions tested	Finding 2 Finding 3
Payment amount matches invoice amount	BPO: 0 exceptions of 10 transactions tested PO: 0 exceptions of 12 transactions tested AFP: 0 exceptions of 18 transactions tested	Not applicable

TEST	RESULTS	FINDINGS/ OBSERVATIONS
Invoice amount is mathematically correct	BPO: 0 exceptions of 10 transactions tested PO: 0 exceptions of 12 transactions tested AFP: 0 exceptions of 18 transactions tested	Not applicable
Record keeping complete and sufficient support	BPO: 0 exceptions of 10 transactions tested PO: 11 exceptions of 12 transactions tested AFP: 3 exceptions of 18 transactions tested	Finding 6
Appropriate purchasing method was used	BPO: 0 exceptions of 10 transactions tested PO: 4 exceptions of 12 transactions tested AFP: 4 exceptions of 18 transactions tested	Finding 7

C.   TESTING RESULTS: BPOS

TEST	RESULTS	FINDINGS/ OBSERVATIONS
Purchase does not exceed authorized amount	0 exceptions of 10 transactions tested	Not applicable
No item should be bought on the BPO that is obtainable through Central Stores unless authorized	Not able to assess	Observation 1
Within three working days the departments shall forward completed delivery tags to AP for processing	Not able to assess	Finding 3
At the time of purchase, delivery tag must include required elements	9 exceptions of 10 transactions	Finding 4
All blanket purchase orders are closed out and new ones issued at the end of each fiscal year and included, as appropriate, on the blanket vendor list	5 exceptions of 5 transactions[3]	Finding 5
All purchases were made on active BPOs	0 exceptions of 10 transactions tested	Not applicable

Of the 10 total BPOs tested, five BPOs did not have contracts and thus the annual term applied.

D.   TESTING RESULTS: POS

TEST	RESULTS	FINDINGS/ OBSERVATIONS
If purchase is over $5,000 and under $75,000, there are at least three price quotations (mail, email, phone) and purchase was awarded to most advantageous quotation or reason was recorded and reasonable	3 exceptions of 4 transactions tested	Finding 8

TEST	RESULTS	FINDINGS/ OBSERVATIONS
If $75,000 or more, formal competitive bidding was made for supplies or services and awarded to lowest and best responsive bidder OR City Council approved exemptions	0 exceptions of 6 transactions tested	Not applicable
Purchases were not made for maintenance costs of City or agency-owned property	4 exceptions of 12 transactions tested	Finding 7

E.   TESTING RESULTS: AFPS

TEST	RESULTS	FINDINGS/ OBSERVATIONS
Payment approved by appropriate department head or designee	1 exception of 18 transactions tested	Observation 2
Category of goods or services selected by department was appropriate	3 exceptions of 18 transactions tested	Finding 6
Required documentation is complete (AFP form, invoice number, account number, HTE description, date)	2 exceptions of 18 transactions tested	Finding 6

F.   TESTING RESULTS: P-CARDS

TEST	RESULTS	FINDINGS/ OBSERVATIONS
At the time of the transactions, cardholder was an active employee (not terminated)	0 exceptions out of 21 cardholders tested[1]	Not applicable
Cardholder applications exist and are appropriately signed and approved	Various	Finding 10
Required training is completed	0 exceptions out of 21 cardholders tested	Not applicable
Monthly reconciled transaction togs have all required signatures and approvals	1 exception out of 24 transaction logs tested[2]	Finding 11
Monthly reconciled transaction logs have supporting documents/receipts	0 exceptions out of 24 transaction logs tested	Observation 6
Submission of reconciled monthly transaction log by the 10th of each month	Various exceptions out of 24 transaction logs tested	Finding 12
Transactions did not exceed single purchase limit	2 exceptions out of 25 transactions tested	Finding 13
Monthly spending did not exceed monthly purchasing limit	1 exception out of 24 transaction logs tested	Finding 13

TEST	RESULTS	FINDINGS/ OBSERVATIONS
No transactions made for restricted items	3 exceptions out of 25 transactions tested	Finding 14 Observations 4 and 5
No transactions violated account restrictions	0 exceptions out of 2 transactions tested[3]	Not applicable
If items were shipped, all were shipped to a City address	0 exceptions out of 15 transactions tested[4]	Not applicable
If an issue was observed, it was noted by the Finance audit, non-compliance was tracked, and enforcement applied	Various exceptions out of 24 transaction logs tested	Finding 16 Observation 6
Evidence that recently terminated employees' P-Cards were terminated	0 exceptions out of 5 cardholders tested	Not applicable

1.   We selected 25 distinct transactions and P-Card statements. However, our sample included 21 distinct cardholders.

2.   Of the 25 transaction logs we selected, 24 transaction logs are distinct. One transaction log was selected twice for testing.

3.   Of the 25 transactions sampled, two transactions related to travel.

4.   Of the 25 transactions sampled, 15 transactions involved shipping or delivery for goods.

III. FINDINGS AND RECOMMENDATIONS

1	FINDING	Appropriate segregation of duties were not in place for all purchases, and adequate documentation was not always in place to assess segregation of duties.
		Key elements of testing purchasing controls relate to the segregation of duties between individuals performing certain functions—purchase requester, purchase receiver, and payment approver. In accordance with best practices, no individual should perform more than one of these activities for a single purchase or transaction. The City's purchasing policies do not require the segregation of all of these duties or suggest mitigating controls. For example, there currently there is no requirement for the receiver of a good or service and payment approver to be distinct individuals. When testing AFPs, we observed that a single individual is required to sign the AFP form to confirm receipt of goods or services and authorize payments. Without segregating these duties of receipt and payment approval, goods or services could be misappropriated or misused without detection.
		During our testing, we found that the purchase requester may not always be different from the person receiving the order. For POs, we compared the purchase requester to the purchase receiver. In two instances, we found that the purchase requester was the same person as the purchase receiver. We also found that the purchase requester may not always be different from the payment approver. In accordance with best practices and strong internal controls, the individual requesting a good or service should be different from the individual approving payment for a purchase. In particular, for POs we compared the purchase requester to the payment approver. In one instance, the requester also approved the requisition.
	RECOMMENDATION	Strengthen policies and procedures related to segregation of duties.
		The City should update its purchasing practices and policies to provide more comprehensive direction regarding the segregation of duties. In particular, the City should provide more formal direction about required segregation of duties related to requesting, receiving, and approving purchases. For example, the City should consider the feasibility of assigning these duties to separate personnel. If segregation of duties is not feasible within certain departments or divisions, then the City should implement alternate mitigating controls, such as increased monitoring efforts to ensure the integrity of purchases. Additionally, the City should consider modifying its existing stamp templates to include signature and date lines as well as check boxes to indicate the purpose of the signature – receiver of goods/services, ok to pay, and department approval. A policy should be created to require at least two individuals involved in these three approvals.

| 2 | FINDING | Due to lack of documentation, we could not confirm that all payments were made after the receipt of goods or services by departments. |

For all types of transactions, payment approval requires a signature, but a date is not required on all forms. In the absence of this information, we could not determine whether payment approvals were performed after the confirmation of receipt by the department. Moreover, due to this lack of documentation, for BPOs, we could not accurately assess whether delivery tags were provided to AP for processing within three working days, as required by the City's Purchasing Manual. Upon inquiry we were advised that due to staffing constraints in AP, this requirement was informally discontinued in 2011. While this change in practice related to timing is reasonable, without an ongoing review process, the City is at increased risk of fraud, waste, and abuse.

RECOMMENDATION — Update policies and procedures to require payment approvals to be made after the documented received date.

The City should update its policy to include specific requirements regarding how staff must document the receipt of goods and services and the approval for payment requiring a signature, printed name, and date. To help comply with this requirement, the City should modify its delivery tag stamp to include a date. The City recently revised its Purchase Order Partial Payment Form to differentiate between the Receiver and the Approver of goods/services procured. The City should revise all existing forms to ensure that date fields are included next to all signatures and the purpose of each signature is clearly defined, such as certifying receipt of good or service or approving for payment.

3	FINDING	**Not all evidence of goods and services being received was complete.**

Reliable evidence of receipt of goods and services is an important factor in considering purchasing controls. Not all of the documentation we reviewed during testing was complete.

During testing of AFPs, we identified two instances in which we did not have assurance that goods or services were in fact received. In particular, we found one instance in which the utility bills were not approved directly by all of the departments receiving service. Upon inquiry, we were advised that this process has since been revised and all departments will be reviewing their own bills. In another instance, we found that an invoice was not provided and communications indicated that service had not yet been performed at the time of payment and instead an advance payment was being requested. Upon further inquiry, we found that this is a specific arrangement with a contractor whose services are paid for through an assessment. Although this arrangement may be reasonable and we were able to review documentation showing that staff are performing financial oversight, this type of arrangement is not addressed within the City's Purchasing Manual nor is the oversight over this process memorialized in any other policies or procedures.

	RECOMMENDATION	**Revise policies to increase documentation requirements related to the receipt of goods and services.**

To prevent payment for goods or services without documentation of successful receipt, the City should remind all individuals who review and approve payments to first confirm documentation of the receipt of goods or services and any exceptions to this requirement should be clearly stated within the City's Purchasing Manual. As part of its payment review process, the AP Division should periodically verify that payments are not approved prior to the receipt of goods or services without documented justification. Additionally, The City should continue its new practice of requiring all departments to review and approve utility bills for payment. Also, the Community Services Department should document its financial oversight practices related to contractors paid for through assessment funds.

4	FINDING	**Not all required elements of the delivery tag were consistently provided.**

According to the Purchasing Manual, for BPOs, delivery tags or stamp must include the following required elements: 1) price and extended price; 2) signature of the City employee; 3) City employee's printed name; 4) City department's 14-digit account number; and 5) the BPO number. During our testing, we found instances in which delivery tags were not completed. In particular, we found that eight instances in which printed names were omitted. Additionally, we found one instance in which no stamp or signature was documented. Upon inquiry we were advised that delivery tickets do not apply to this

vendor because shipments are made to individual departments but the statement for payment is received centrally. For this vendor, departments track their deliveries through the vendor's own website and delivery ticket system.

	RECOMMENDATION	**Improve completeness of delivery tags.**

The City should remind all individuals who use BPOs about delivery tag documentation requirements. As part of the payment review process, the AP Division should increase its monitoring of delivery tags for completeness. The City should consider providing additional training to individuals who fail to complete tags. Also, the City should revise its Purchasing Manual to clarify instances that are exceptions to the delivery tag requirement.

5	FINDING	**Not all BPOs are closed out at the end of each fiscal year.**

According to the City's Purchasing Manual in place at the time of the transactions tested, BPOs without contracts are "issued annually to selected suppliers for use by City employees to procure repetitive, high volume, low dollar value items on a continuing basis without specific Purchasing authorization." Although the manual states that BPOs are issued annually, we found that some BPOs were issued for 15 months rather than one year. Upon inquiry we learned that BPOs are issued for 15 months in order to allow three months to pay for transactions that occurred at the end of the prior fiscal year. Also, it was reported that AP will not pay any new purchases that occur on that BPO that occur after June 30 because they know that the BPO has expired. While this practice appears reasonable, it is not consistent with the Purchasing Manual.

We also found that BPOs may not always be closed out when new ones are issued at the end of each fiscal year. The City explained that the vendor does not always update the new BPO number on the invoice.

	RECOMMENDATION	**Strengthen processes related to BPO closeout.**

As part of its current Purchasing Manual revision process, the Purchasing Division should clarify the terms that BPOs are issued for to explain that they are active for 12 months but issued for 15 months in order to allow processing of invoices at the end of the year. To improve compliance with the current policy regarding BPO administration, the Purchasing Division should implement a more robust process to systematically review all BPOs at fiscal year-end and ensure the inclusion of all BPOs without contracts on the annual blanket vendor list.

| 6 | FINDING | **Record keeping may not be complete or provide sufficient support.** |

Current documentation practices may not lend themselves to ensuring appropriate segregation of duties or allowing for accurate assessment of segregation of duties after the fact. When testing PO transactions, some of the forms used did not specify the explicit purpose of the signature line on the form. For example, some of the forms used to show the receipt of goods or services required only one signature. The Purchasing Division clarified that the purpose of this signature was implied—to both confirm the receipt of goods or services as well as payment approval. Another version of this form has two signature lines—one for receipt and another line for the department head, without any specified purpose. As of July 2017, this form has been revised and a second signature line was added explicitly to acknowledge receipt of goods or services. Similarly, the City's receiving copy of the PO does not specify the purpose of the department head's signature nor is there a date field for the department head's signature. As a result of these weaknesses in the City's forms, for 11 of the 12 PO purchases tested, we found that there were signatures on the receiving copies of POs or other documents that implied approval for payment rather than explicitly stated approval. Instead, in nine instances we found that other signatures on the "ok to pay" stamp existed.

We also observed instances in which specific documentation was lacking. Of the 18 AFP transactions we tested, we found three instances in which not all information was complete. In particular, we found that supporting documentation was missing for two purchases. Additionally, we found one instance in which the department selected the incorrect category was for the payment.

| | RECOMMENDATION | **Increase compliance with recordkeeping requirements.** |

The City should continue its efforts to revise and streamline all forms used in the purchasing process.

See Recommendation for Finding 1.

| 7 | FINDING | **Not all purchases were made using the appropriate purchasing method.** |

Within the City's Purchasing Manual, the various purchasing methods are described as well as restrictions for each method. As part of testing, we compared the descriptions for each type of purchasing method and relevant restrictions to the type of purchase made.

According to the City's Purchasing Manual effective during the time of tested transactions, maintenance costs for City/Agency-owned property should be paid for using AFPs. However, of the 12 PO transactions we tested, we found four instances in which payments were made using POs for maintenance costs. Upon inquiry, we learned that these payments were appropriately made on POs rather than AFPs based on guidance that had been provided through clarifying

memos but not incorporated into the Purchasing Manual. The memo expanded the use of AFPs to include payment of maintenance costs, under category 19, as long as the payments are less than $1,000 and on a list of Purchasing approved vendors.

Within the Purchasing Manual, 21 specific categories are defined for the appropriate use of AFPs. Payments whose purposes do not clearly fall into one of the categories must be approved by the City's Purchasing Agent or Buyer assigned to the department submitting the Authorization for Payment. Additionally, the policy states that AFPs are not intended to authorize the circumventing of normal and approved purchasing policies and procedures. In our testing, we also considered the expanded use of category 19 to include maintenance costs up to $1,000 if the vendor was on an approved list.

During testing of 18 AFP transactions, we found that four did not appear to have been appropriate. We identified three transactions appear to be maintenance costs that exceeded $1,000. We found one transaction does not appear to be appropriate for AFPs given that it was for the purchase of books and media, even though this is not one of the approved categories. Upon inquiry, we were advised that routine purchases by the library are made using AFPs rather than POs, but the Manual does not reflect this practice.

RECOMMENDATION   Update purchasing policies to reflect approved practices.

The Purchasing Division should revise purchasing policies to provide more clear guidance regarding category 19 transactions as well as document the enforcement actions that will result from failure to utilize the appropriate purchasing methods. The Purchasing Division should continue working with the Library to develop a vendor pool with POs and propose this option to the City Council.

---

8 **FINDING**   Not all transactions complied with the City's procurement requirements.

According to the City's purchasing policy, purchases between $5,000 and under $75,000, at least three price quotations are required by mail, email, or by phone. Of the four transactions tested, we found that in two instances the required three quotes were not provided. Moreover, in one of these instances, the purchase was made on an unauthorized PO because the department had services rendered by a vendor prior to contacting Purchasing. In the absence of these quotes, we were not able to assess if the most advantageous quotation was selected. Additionally, we identified one instance in which sufficient sole source documentation was not provided by the department.

The City's policies do not address cumulative spending limits by vendor across purchasing methods as well as bid splitting restrictions. According to the Purchasing Division, prior to processing a PO, Purchasing staff review vendor history to verify that there is a legitimate Council approval for POs over $75,000, as well as review other POs for the same vendor to identify any similar descriptions that

would make the cumulative POs exceed $75,000. While this process is beneficial, without a clear policy to enforce or written documentation memorializing this process, opportunities for improvement remain.

RECOMMENDATION

Strengthen monitoring efforts to ensure compliance with City's procurement requirements.

The Purchasing Division and AP Division should collaborate to develop and implement a process to improve procurement monitoring efforts to ensure the integrity of the City's purchasing process. The City should also consider developing an enforcement program for individuals who repeatedly fail to comply with the City's purchasing requirements, including increased mandatory training. Additionally, the City should clarify the requirements related to sole source justification.

To avoid circumvention of procurement requirements, the Purchasing Division should consider incorporating language regarding cumulative spending and bid splitting into its revised policies. Also, the Purchasing Division should document its process for reviewing Council approval and other existing POs prior to issuance of a new PO.

---

9   FINDING

The City's purchasing practices do not include robust processes to ensure the integrity of all vendor selections.

According to the City's purchasing policies, conflicts of interest must be considered as part of the request for proposal (RFP) process. However, for purchases that are made without an RFP, policies do not address if and how conflicts of interests must be considered when making vendor selections. For example, when BPOs are established for inclusion on the list of BPO vendors, the City does not have a well-defined policy for vetting vendor choices. Instead, in addition to proximity of vendors, employees are able to suggest vendors and supervisors must approve the anticipated usage of the vendor. Moreover, Purchasing Division staff does not have adequate information about employees to perform ongoing monitoring of potential conflict of interest issues.

The City's current practices do not ensure the review of past performance by vendors. While the City's purchasing policies state that the quality of the vendor's performance on prior purchases by the City should be a consideration, purchasing procedures do not account for this requirement. For example, when requesting POs, there is no routine method in place to consider past purchases prior to the renewal of a contract or establishment of a new PO.

Additionally, certain types of agreements, such as co-operative agreements, are not routinely re-bid. Without periodic re-bidding of all types of agreements, the City may not be fairly considering all vendors or ensuring that it is obtaining the most advantageous pricing for goods and services. We acknowledge that the City's Purchasing Division has been understaffed and activities, such as reviewing and re-bidding, may have suffered as a result of a lack of resources.

| | RECOMMENDATION | Revise policies to provide comprehensive guidance related to vendor selection and increase compliance through training and monitoring. |

In conjunction its current review of its purchasing and procurement practices, the City should increase its efforts to ensure the integrity of the vendor selection process. In particular, the City should consider how conflicts of interests will be disclosed and addressed in the vendor selection process for all purchasing methods and spending amounts.

The City should consider updating its Purchasing Policy to clarify its bid requirements and the developing a routine process for evaluating past performance prior to granting any future contracts or extensions of existing contracts.

| **10** | FINDING | Not all P-Card applications included up-to-date information, spending limit authorizations, or complete signatures. |

To test the appropriateness of P-Card applications, we compared P-Card applications to the P-Card report containing holder limits, spending restrictions, and approving individuals.

Test results revealed the following discrepancies between the P-Card applications and the P-Card report:

- 30-Day Purchase Limit: two discrepancies, since resolved
- Travel and Entertainment Restriction: one discrepancies
- P-Card Administrator: seven missing signatures, since resolved

The City does not have a process in place to periodically review and update card applications to ensure that all changes are captured, including changes to spending limits, restrictions, and approvers.

Additionally, we found that the City's card application form has changed over time and, as a result, not all prior versions contained all the same information. For example, we found that previous versions did not contain primary and secondary approvers. Over time, as these changes in documentation evolve, discrepancies will exist between applications and the City's list containing authorized limits, approvers, and associated restrictions. The City has recently revised the application form to improve documentation going forward.

| | RECOMMENDATION | Develop and implement a periodic process for verifying P-Card account information. |

In coordination with the Purchasing Division's ongoing efforts to improve the P-Card program including a revised application form, the Division require the completion of all new P-Card applications and develop a new P-Card account report.

11	FINDING	**Not all monthly transaction logs were appropriately approved.**

According to the City's P-Card Manual, all reconciled monthly P-Card transaction logs must be signed by cardholders as well as an approver (either the primary or secondary approver). Of the 24 transaction logs tested, we identified one discrepancy related to the approver's signatures. In particular, we found that no signature was present, just the typewritten name of the approver. Upon inquiry, we learned that the approver had left the City's employ, but no signature was obtained from the secondary approver either.

	RECOMMENDATION	**Re-emphasize the importance of appropriate approvers signing monthly transaction logs.**

Approving officials should be reminded of the requirement to sign monthly transaction logs. Additionally, the AP Division should continue to review all transaction logs to ensure that logs are signed. Any failure to sign transaction logs should continue to be included in the City's compliance program.

12	FINDING	**Some issues were identified relating to the timeliness of reconciled monthly transactions logs.**

According to the City's P-Card Manual, reconciled monthly transaction logs must be submitted to AP by the 10th of every month. We were not able to assess the timeliness of all receipts, because three transaction logs were not stamped with the AP receiving date.

Of the monthly transaction logs reviewed, we found that three transaction logs were received late. In one instance, we found that the log was prepared and submitted one day late. Upon further review, it appears that this log was prepared 11 days before the deadline but that the approval and submission did not occur on time. Additionally, we found that two transaction logs were received after the 10th of the month despite having been prepared and signed prior to the 10th of the month.

	RECOMMENDATION	**Improve timeliness of P-Card submissions and AP documentation.**

The Purchasing Division should reiterate the importance of timely P-Card submissions and ensure ongoing monitoring is part of the enforcement program. Additionally, AP staff should improve the consistency with which it stamps all documents as received.

13	FINDING	**Some transactions and monthly spending exceeded established limits.**

Spending limits for both single transactions and monthly spending are established as controls over possible inappropriate spending. However, our testing revealed some discrepancies. Of the 25 transactions tested, we identified two instances in which the single

transaction limit was exceeded. Of the 24 transaction logs we tested, we identified one instance in which the total monthly spending limit was exceeded. It is important to note these controls were lacking due to shortcomings of the prior P-Card vendor, but that future instances of exceeding limits can no longer occur with the City's new P-Card vendor.

RECOMMENDATION   Work with the P-Card vendor to review spending limits.

Since the selected transactions occurred, the City has successfully implemented the use of a new P-Card vendor. The City should continue to improve its recordkeeping related to cardholder limits including the periodic review of applications and comparison to vendor reports of spending limits.

14   FINDING   Some purchases were made for restricted items.

According to the City's P-Card Manual, certain types of P-Card purchases are prohibited, including personal purchases, services and repairs, capital equipment or furniture, leases, maintenance agreements or contracts, and cash advances. Of the 25 transactions tested, we found three transactions involving furniture, which are restricted purchases. Upon further inquiry, we learned that these items were not available through the City's office furniture vendor and, therefore, were not considered inappropriate.

RECOMMENDATION   Improve compliance with allowable purchases.

The Purchasing Division should clarify restrictions regarding certain types of purchases, as well as the importance for approvers to detect restricted purchases. Additionally, the Purchasing Division should increase monitoring to ensure the identification of restricted purchases. As part of its upcoming revision to the P-Card Manual, the Purchasing Division should outline the process for obtaining approval to these restricted items.

15   FINDING   Not all instances of non-compliance were tracked or enforced.

When the tested transactions occurred, between January and March, 2016, a robust enforcement system for P-Card purchases was not in place. Although the City's Purchasing Division cited instances of non-compliance, staff were not enforcing these violations due to limited staffing levels.

We reviewed the City's P-Card violation tracking spreadsheet and found various instances in which repeated instances of non-compliance should have resulted in P-Card revocation. Specifically, of the 21 cardholders we tested, we found that 13 cardholders had been cited for three or more violations prior to the transaction cycle we selected.

As of October 2016, the City implemented a new P-Card vendor, Cal Card. This vendor includes certain functionality and additional internal controls that make the administration of the P-Card program more efficient and effective. As of October 2017, the Purchasing Division was continuing to track instances of non-compliance, but no enforcement program, including notification, was in place. Starting March 2018, the Purchasing Division anticipates that it will have the capacity to begin enforcement actions and notifications.

RECOMMENDATION

Implement a robust review process and effective enforcement program.

The Purchasing Division should continue its plans to implement its enforcement program by March 2018. In developing this program, the Purchasing Division should explore all of the reporting options available through its P-Card vendor and utilize the technology as much as possible to aid its monitoring efforts.

The City should consider incorporating the following elements into its reviews:

Examine all transactions for certain elements	
Travel Expenses	Search for "registration," "conference," "training," "parking," "airline," "hotel," "taxi," "UBER," and "Lyft." Verify that individuals are authorized for use.
On-site Services or Labor	Search for "labor," "installation," "on-site," and "repair"
Vendors with BPOs or Annual Agreements	Compare vendors to City's list of BPOs and annual agreements
Split Transactions	Analyze transactions for repeated transactions with same vendor totaling common single transaction limit amounts
Examine individual statements for certain elements	
Shipping Address	Verify that shipping or delivery address is a City address or that explanation provided is reasonable for alternate address
Business Purpose	Review explanation if business purpose not self-evident or if there is high-risk of potential personal use
Signature	Verify that cardholder statements are signed by cardholders and appropriate approver

To increase detection and deterrent efforts for potential instances of fraud or abuse through P-Card usage, the Purchasing Division may want to consider implementing additional targeted reviews as resources allow.

The following indicators should be considered when targeting additional review efforts:

Indicators associated with increased likelihood of fraud or inappropriate usage
• Late or missing monthly reconciliations (especially if pattern) • Pattern of missing receipts • Cardholder on probation for performance issues • Cardholder presented several reconciliations at a time or stated that the reconciliations needed to be signed quickly due to a deadline • Receipts with a long list of purchase items • Monthly reconciliations with long list of transactions • After business hours purchases from restaurants, gas stations, or other merchants • Minimal review time of monthly reconciliations by approving official • High number of cardholders assigned to same approving official • Unusually high number of credits or returns • High number of transactions via alternate payment platforms (i.e., PayPal or Square) or individual vendors (i.e., eBay)

In accordance with best practices, the City should consider incorporating some of the following elements into its P-Card program:

- Utilize a form for all communications of violations (See Figure 1 – Example of P-Card Violation Notification Form)
- Establish a point system for cardholder violations:
    o Assign point values to different types of infractions
    o Establish maximum amount of points (i.e., 4 points) at which time the card will be revoked
    o Determine timeframe for violations (i.e., points will be removed from "record" 24 months after occurrence)
    o Determine timeframe for revocation (i.e., 24 months)
- Consider applying a point system to approving official violations
- Consider other types of enforcement action:
    o Mandatory additional training with test upon completion
    o Card privileges temporarily suspended (i.e., 2-6 months) particularly after repeat offense.

16	FINDING	**Approver reviews were not always effective in detecting instances of non-compliance.**

We observed various instances in which cardholders did not comply with the City's P-Card Manual and approvers failed to identify these instances of non-compliance. We observed instances in which certain types of non-compliance were not detected by approvers, such as missing detailed documentation or restricted purchases.

The failure to detect instances of non-compliance may be caused by a number of factors including insufficient written guidance. For example, while the P-Card Manual assigns responsibilities to approvers, more detailed guidance may be required to increase the robustness of these reviews. Also, we found that some approving officials are assigned to perform reviews for numerous cardholders, which may hamper their ability to perform meaningful reviews within the deadlines. For example, we found that six approvers were assigned to review six or more cardholders, including one approver official who was assigned to review the statements of 16 cardholders. Overall, we found that in 16 of 30 instances, the approving official submitted their approval on the same day they received it.

RECOMMENDATION — **Increase guidance to approvers and modify training.**

The Purchasing Division should revise its P-Card training materials for approvers and provide specific guidance about expectations and requirements of the approval process. Additionally, the Purchasing Division should consider establishing guidelines for the maximum number of cardholders per approving official. Once established, the Purchasing Division should work with departments to help reassign cardholders to other approving officials as appropriate.

IV. ADDITIONAL OBSERVATIONS AND RECOMMENDATIONS

In addition to the findings described in the section above, during the course of our testing we made additional observations about the transactions we examined and the City's current processes. While these observations are not considered exceptions based on the current written criteria, we have included these observations because they represent additional opportunities for improvement.

1	OBSERVATION	It was not possible to determine if all BPO purchases were not obtainable through Central Stores.
		According to the City's Purchasing Manual, individuals cannot buy items on a BPO that are obtainable through Central Stores unless authorized. However, given current practices, it was difficult for us to evaluate compliance with this requirement. In particular, certain categories of goods are listed as available for purchase within the Central Stores such as batteries. However, when evaluating purchases made through BPOs, insufficient information was provided in the written descriptions to accurately compare them to the Central Stores inventory.
	RECOMMENDATION	Implement a consistent process for considering whether items are available through Central Stores.
		The Purchasing Division should explore options to ensure that items available through Central Stores are consistently considered. These options could include annual reminder and distribution of the City's Blanket Vendor List, adding an attestation to the BPO delivery tag affirming that the item purchased is not available through Central Stores, as well as periodic auditing to ensure compliance. Alternately, as the City shifts its procurement strategies, if this requirement is no longer applicable, the City should revise its Purchasing Manual to eliminate the comparison with Central Stores inventory.

2	OBSERVATION	Not all expenditures were approved by the appropriate party.
		Of the 18 AFP transactions tested, we found one instance in which it does not appear that the appropriate department head or designee approved the payment for service. Upon inquiry, we were advised that the utility bill was always paid upon receipt without review of the bill by departments receiving service. Since this transaction occurred, some departments now review invoices themselves, but other departments have formally delegated the responsibility to approve invoices to the ASD.

	RECOMMENDATION	Implement alternate review process to ensure that all AFPs are appropriately approved.
		The AP Division, in conjunction with other departments, should develop a process by which utility invoices can be efficiently approved but also are consistently reviewed by user departments.

3	OBSERVATION	Payment approval authority levels are not well-defined.
		The City Manager's authority to sign contracts and other internal financial documents has been delegated in a memorandum to the Deputy City Managers. However, a comprehensive delegation of authority memorandum has not been prepared by the City to define spending authority for other personnel within the City. The City does not currently have defined payment approval authority levels. At present, payment approval authority is assigned by position but can be delegated to other positions. Absent well-defined spending limits and payment approvals across all positions, we were not able to assess whether all purchase approval levels were consistent with the list of delegated purchasing authority.
	RECOMMENDATION	Establish robust payment approval authority levels.
		In preparation for the City's ERP implementation and to improve overall controls, the City should develop a comprehensive delegation of authority memorandum. When the ERP is implemented, the assignment of payment approvals should be well-defined and the delegation of authority should not violate the approval authority afforded to positions.

4	OBSERVATION	The City's P-Card Manual does not provide comprehensive guidance about all types of purchases.
		While the City's P-Card Manual restricted P-Card use for the purchase of services or management agreements or contracts, the manual does not provide adequate description of what constitutes a service. For example, we observed three instances in which P-Cards appear to have been used to purchase services or contracts. However, without greater clarification of what a service is, it is difficult to determine whether these purchases complied with the City's P-Card Manual.
	RECOMMENDATION	Clarify language related to restriction on services, maintenance agreements, or contracts.
		As part of its recent revision of the P-Card Manual, the Purchasing Division specified the type of P-Card transactions that are prohibited. The Purchasing Division should continue its implementation process for this new manual including providing training.

5	OBSERVATION	The City does not provide guidance about some types of expenditures to ensure prudent use of public funds.

The City's P-Card Manual does not provide clear and comprehensive guidance for certain types of purchases. For example, the current policy does not provide guidance about the purchase of food and beverages. In particular, there is no guidance regarding when food purchases are considered appropriate and necessary nor is there guidance as to the allowable amount to spend per person. Similarly, the policy does not address purchases related to staff celebrations such as flowers, cake, balloons, or decorations. Moreover, the P-Card policy does not expressly prohibit using P-Cards at certain types of businesses, such as casinos. Instead, the policy states that P-Cards should not be misused.

RECOMMENDATION — Update the P-Card Manual to provide more comprehensive guidance about other types of purchases including food and employee recognition events.

In collaboration with the City Manager's Office, the Purchasing Division should update the P-Card Manual and other purchasing policies to address the allowability of certain types of purchases such as employee recognition events. For example, some cities do not allow City funds to be used for these types of events and instead require departments to establish their own funds for these types of activities. Additionally, the Purchasing Division should provide guidance regarding spending amounts for food that is not related to travel. For example, some cities establish a maximum spending amount per person for various types of events.

The City should include language in the P-Card Manual to reiterate the cardholders' ethical obligations and responsibility to be stewards of public resources. For example, the City could incorporate the following type of language:

- City employees have access to City resources that members of the general public do not. The public has the right to expect that these resources—which they fund—are used only for legitimate City purposes. City employees and officers, therefore, are prohibited from using City resources for non-City purposes.
- The City's policies and procedures evolve over time and may not expressly address all types of situations or potential purchases. The absence of an explicit prohibition does not equate to allowability or permission.
- Cardholders are encouraged to consider how comfortable they would be if details of their purchases were published in the local newspaper or they had to justify their actions to members of the public.

6	OBSERVATION	Payment documentation requirements for P-Card transactions do not provide maximum controls.

In accordance with best practices, P-Card receipts or other supporting documentation should show payment via credit card as well as the last four digits of the card used. Receipts submitted for reimbursement without this information can more easily be used inappropriately. Currently the City's P-Card Manual does not require receipts or other documentation to show the payment method and the last four digits of the card used for the purchase.

Also, the P-Card Manual does not specify the exact type of documentation required. For example, we found one instance in which a credit card authorization form was included and a subsequent email from the company stating that the card was charged. However, an actual receipt showing that the credit card transaction was processed as authorized and the date and transaction number were not provided. Without requirements for this type of receipt documentation, there are more opportunities for credit card misuse.

Additionally, in accordance with best practices, some cities prohibit transactions with certain vendors or via certain payment platforms. In particular, some cities emphasize the importance of the legitimacy of all vendors with whom the City does business as well as acknowledge the increased fraud potential through certain payment platforms. As such, some cities do not allow P-Card transactions through PayPal or Square or purchases through eBay. The City's P-Card Manual does not currently prohibit such transactions or require additional justification for purchases through these payment platforms or vendors.

The City's P-Card Manual does not contain the same explicit requirement for documentation to support the receipt of goods or services. Instead, there is currently an implicit understanding that the person signing off on the cardholders' statement is in receipt of the goods or service.

RECOMMENDATION	Clarify existing documentation requirements and consider increasing the payment documentation requirements for P-Card transactions.
	The Purchasing Division should revise the P-Card Manual to include the following: • Specify the required elements of itemized receipts including a date, description of goods, quantity, amount, tax and shipping charges (if applicable), total, and payment method and date. • Specify the required elements of credit card receipt including transaction date and transaction number as well as the last four digits of the card used whenever possible. • Prohibit payments via PayPal or Square, or purchases on eBay without appropriate justification and demonstration of business's legitimacy. In coordination with updates to the City's P-Card Manual, the Purchasing Division should remind all cardholders and approvers about the importance of documenting all aspects of transactions. Also, the City should consider requiring documentation showing the receipt of goods or services. Alternately, the City could add to the transaction log form a certification by the cardholder of complete receipt of goods and services.

Figure 1 Example of P-Card Violation Notification Form

CITY OF STOCKTON

PURCHASING CARD VIOLATION NOTIFICATION FORM

This form will be used to document and report any action that violates the Purchasing Card Policies and Procedures which are listed in the City's P-Card Program Manual. These forms will be kept on file in the Finance Department in accordance with the City's record retention policy.

- An accumulation of 4 points or more in a 24 month period will result in the immediate revocation of the card.
- Points will be removed from the Cardholder's account 24 months after receiving the violation(s).
- Additional actions, including suspension of the card, may be taken if necessary.

Department/Division:		Last 4 Digits of Card:		Date:
Cardholder Name:				
Division Liaison Name:				
Transaction Date:		Transaction Amount: $		
Violation Notification Issued to (circle one):	Cardholder		Approving Official	
Merchant Name:				
Details of Violation (if associated with a purchase):				
Description of Purchase:				

	Violation	Violation
	Submitting paperwork after the established deadline	2
	Failure to include proper documentation or information	2
	Routine purchases that should be paid against a blanket purchase order	1
	Inappropriate account number provided	1
	Travel or entertainment purchase without authorization	2
	Splitting a purchase to intentionally circumvent the limitations of the Purchasing Card	4/Revoke
	Purchase of services	4/Revoke
	Purchase of restricted item that violates policies, laws, etc.	Suspend/Revoke
	Allowing the card or card number to be used by another individual	4/Revoke
	Personal purchase associated with non-City business and not reimbursed by employee	Revoke
	Withdrawal of cash, travelers checks or money orders	Revoke
	Accepting cash in lieu of a credit against the Purchasing Card account	Revoke
	Card abuse/employee fraud	Revoke
	Other:	
	Additional Actions	
	Suspension of this Cardholder's card for a minimum of 2 month(s).	
	Revocation of this Cardholder's card.	

Description	Points	Points Expiration Date
Total points this period:		
Points from previous period(s):		
Total points to date:		

Cardholder Signature   Date   Department Director Signature   Date

Approving Official Signature   Date   City's Purchasing Card Administrator Signature   Date

January 16, 2018

Moss Adams
P.O. Box 101822
Pasadena, CA 91189-1822

Below is the City of Stockton's management responses to the findings in the internal controls testing of purchasing, procurement, and accounts payable auditor's final report dated November 29, 2017:

Finding 1: Appropriate segregation of duties were not in place for all purchases, and adequate documentation was not always in place to assess segregation of duties.

Recommendation: Strengthen policies and procedures related to segregation of duties.

> The City of Stockton's Management Response:
>
> The City of Stockton will review the procurement policies and procedures specific to segregation of duties. Although it will not always be possible to separate purchase requester, purchase receiver and payment approver due to limited resources, the policies/procedures will encourage such separations and provide for mitigating controls such as using a pre-inked stamp for date and signatures of requester, receiver and approver (roles) until such time that these separations are documented systematically.

Finding 2: Due to lack of documentation, we could not confirm that all payments were made after the receipt of goods or services by departments.

Recommendation: Update policies and procedures to require payment approvals to be made after the documented received date.

> The City of Stockton's Management Response:
>
> The City of Stockton will review the policies and procedures specific to the timing of payment authorizations. Until such time that the City's document authorizations are systematically processed, the policies/procedures will recommend supporting documentation to include the date of receipt or services

rendered and date of approval so that verification can be made that the receipt/service occurred before the payment was approved. ASD will also remind departments to include waybills, when appropriate, with payment documentation maintained in their records.

Finding 3: Not all evidence of goods and services being received was complete.

Recommendation: Revise policies to increase documentation requirements related to the receipt of goods and services.

> The City of Stockton's Management Response:
>
> The City will review its policies and procedures regarding receipt of goods and services and ensure that training of department to include retention of documentation. The City will continue its new practice of requiring all departments to review and approve utility bills for payment, including the three departments that were not approving their billing at the time of the sample.

Finding 4: Not all required elements of the delivery tag were consistently provided.

Recommendation: Improve completeness of delivery tags.

> The City of Stockton's Management Response:
>
> The Administrative Services staff will remind departments to maintain delivery tags in their documentation, if appropriate, for proof of delivery. The policies and procedures regarding the requirements of the delivery tags will be reviewed and potentially revised to include the data elements necessary for best practices.

Finding 5: Not all BPO's are closed out at the end of each fiscal year.

Recommendation: Strengthen processes related to BPO closeout.

> The City of Stockton's Management Response:
>
> The City issues BPO's for a period of up to one year for service or supplies to be provided. Procurement staff will close out BPOs after 15 months to allow an additional three month period to complete the processing of outstanding invoices.

Stockton
All-America City
2004
1999

Finding 6: Record Keeping may not be complete or provide sufficient support.

Recommendation: Increase compliance with recordkeeping requirements.

The City of Stockton's Management Response:

The City's PO has two authorizing lines; one noted as "Department Head Approval" and the other states "Received By". Until such time, as the City's document authorizations are systematically processed, the City believes these are sufficient verbiage to indicate accountability. In addition, ASD is currently evaluating the AFP process and purchase categories as part of Contracts 25.1.F and will consider modifications to address changes and provide a single form for departments.

Finding 7: Not all purchases were made using the appropriate purchasing method.

Recommendation: Update purchasing policies to reflect approved practices.

The City of Stockton's Management Response:

The City is currently revising the procurement manual to make updates consistent with best practices. These revisions will include updated methods and categories. Specific to the use of AFP's for purchases over $1,000, the City complies with current policies/procedures that allow for exceptions when reviewed and approved by Procurement staff (Contracts 25.1.F).

Finding 8: Not all transactions complied with the City's procurement requirements.

Recommendation: Strengthen monitoring efforts to ensure compliance with City's procurement requirements.

The City of Stockton's Management Response:

The City was aware that a PO was submitted without the requirement of obtaining three quotes. The PO was continued as confirming since the service was complete. No further service was allowed on this PO. ASD continues to educate City staff regarding procurement policies, procedures and best practices. Training of staff will include compliance monitoring of procurement requirements.

Finding 9: The City's purchasing practices do not include robust processes to ensure the integrity of all vendor selections.

Recommendation: Revise policies to provide comprehensive guidance related to vendor selection and increase compliance through training and monitoring.

> The City of Stockton's Management Response:
>
> The City is currently evaluating procedures and practices related to vendor compliance. As an example, the City is evaluating a Conflict of Interest form for RFP participants and staff. The vendor list for BPOs used for citywide operations will sunset in July 2018 and will no longer be in use. Instead, PO's will be created by departments responsible for the operations area. The only remaining BPOs that will be in use will be under contract.

Finding 10: Not all P-Card applications included up-to-date information, spending limit authorizations, or complete signatures.

Recommendation: Develop and implement a periodic process for verifying P-Card account information.

> The City of Stockton's Management Response:
>
> All P-Card changes are now listed on a combined form as a historical record. This form is submitted to ASD where Procurement reviews and maintains the form.

Finding 11: Not all monthly transaction logs were appropriately approved.

Recommendation: Re-emphasize the importance of appropriate approvers signing monthly transaction logs.

> The City of Stockton's Management Response:
>
> The monthly P-Card transaction logs are received by Accounts Payable and reviewed for completeness before payments are made. Department training on P-Cards includes the responsibilities of approver and secondary approver including review and signature on P-Card transaction logs in compliance with City policy and procedures.

Stockton
★★★★★
All-America City
2004
1999

Finding 12: Some issues were identified relating to the timeliness of reconciled monthly transaction logs.

Recommendation: Improve timeliness of P-Card submissions and AP documentation.

The City of Stockton's Management Response:

Timeliness of reconciled monthly P-Card transaction logs is being addressed through monitoring and follow-up by ASD. In addition, the P-Card manual is being revised to add back progressive control measures and is expected to be finalized by March 2018. Department training includes enforcement of compliance measures.

Finding 13: Some transactions and monthly spending exceeded established limits.

Recommendation: Work with P-Card vendor to review spending limits.

The City of Stockton's Management Response:

The current P-Card provider has restrictions in place to adhere to spending limits on a per transaction and monthly basis.

Finding 14: Some purchases were made for restricted items.

Recommendation: Improve compliance with allowable purchases.

The City of Stockton's Management Response:

Per the City's P-Card manual, exceptions such as furniture purchases are allowed with review and authorization by procurement supervisors and manager. ASD includes discussion of restricted items in training with departments.

Finding 15: Not all instances of non-compliance were tracked or enforced.

Recommendation: Implement a robust review process and effective enforcement program.

The City of Stockton's Management Response:

The P-Card manual is being revised to reinstate progressive control measures and is expected to be finalized by June 2018. Department training includes enforcement of compliance measures.

Stockton
All-America City
2004
1999

Finding 16: Approver reviews were not always effective in detecting instances of non-compliance.

Recommendation: Increase guidance to approvers and modify training.

    The City of Stockton's Management Response:

    ASD includes compliance with the P-Card manual in its training of P-Card users and approvers. The City will continue to assign cardholders to approvers who are responsible for the specific and related operations in accordance with organizational and fiscal authority.

MATT PAULIN
CHIEF FINANCIAL OFFICER

MP:CT:jl

Stockton
★ ★ ★ ★ ★
All-America City
2004
1999