



**PURCHASING CARD  
RISK REVIEW**

**December 2014**





April 13, 2015

Finance and Administration Committee  
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Re: Purchasing Card Risk Review

Dear Committee Members:

In conjunction with our overall engagement to provide internal audit services to the City of Springfield (the "City"), we have completed our risk review of the purchasing card ("P-card") program and the associated internal controls. Our services were performed in accordance with the International Standards for the Professional Practice of Internal Auditing, as promulgated by the Institute of Internal Auditors (IIA).

The accompanying report includes an Executive Summary, our Observations and Recommendations, Process Improvement Opportunities, and one supporting Appendix. Because the procedures performed in conjunction with the review are more limited than would be necessary to provide an opinion on the system of internal accounting controls taken as a whole, such an opinion is not expressed. In addition, the engagement did not include a detailed audit of transactions that would be required to discover fraud, defalcations or other irregularities.

This report is intended solely for the information and use of management and City Council and is not intended to be, and should not be, used by anyone other than the specified parties. The City of Springfield's external auditors may be provided with a copy of this report in connection with fulfilling their responsibilities.

We would like to express our gratitude to all employees involved with this project. Each person involved was accessible and responsive to our requests for information.

Sincerely,

RUBINBROWN LLP

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**Executive Summary**

**Background**

The City's P-card program consists of 593 unique user credit cards, as of the date of our fieldwork. The P-card program encompasses the entire process from card set up, to the utilization of the P-cards on a daily basis, to reconciliation and review, and finally deactivation of the P-card upon termination. On an annual basis, approximately \$8 to \$9 million of City purchases is charged by City employees on their respective P-cards. The City's purchasing cards program is administered by Visa and the City is part of a cooperative program, managed by the issuing financial institution. The City receives an annual rebate based on the dollar amount of P-card purchases. The rebate for 2014 was approximately \$140,000.

**Project Overview and Scope**

We completed our review of the City's Purchasing Card (P-card) program and the associated internal controls. The objectives of our review were to:

1. Ensure adequate internal controls exist over the P-card program and are operating effectively
2. Identify and evaluate existing P-card policies and practices for effectiveness
3. Evaluate the P-card program for operating efficiencies and applicability of best practices

For the purposes of this risk review, we considered the following processes:

- Procedures established and executed for initiation of a P-card;
- Procedures established and executed for the use of the P-card; and
- Procedures established and executed for the monitoring and reconciliation of all P-card activity

Our risk review included transactions between January 1, 2013 and October 17, 2014. We completed:

- In person interviews with City personnel to gain an understanding of the P-card program;
- Documentation of the current procedures in place for P-cards;
- Documentation of the approval and review procedures to ensure that the P-card program is efficient;
- Data analysis on the purchasing card activity in an effort to identify errors or irregularities including potentially duplicate, unauthorized, or improper transactions;\*
- Testing of termination procedures of P-card holders;\*
- Review of reasonableness of delegation of authority in place for proper approval procedures;
- Testing of individual P-card transactions to obtain reasonable assurance that established procedures and guidelines are being followed by P-card holders;\*
- Testing of employee set up to ensure cardholders have proper documentation and P-cards were set up correctly; and

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- Testing of the training program to ensure training was properly delivered to P-card holders.

Tests noted above marked with an asterisk (\*) can potentially identify fraudulent activities within the P-card program. During the course of this review, we did not note any fraudulent activity. However, as stated in the cover letter at the beginning of this report, tests completed did not include a detailed audit of transactions that would be required to discover all fraud, defalcations or other irregularities.

**P-card Program Best Practices**

The P-card program has several internal controls in place and operation. Based on our review, the following internal controls are in place and, in our opinion, represent a best practice:

- Proper internal records are maintained to support P-card expenditures;
- Proper segregation of duties between the administrator of the P-card program and P-card holders; and
- Transactions that do not comply with P-card policy are tracked and reported by the P-card Administrator.

**Observations and Recommendations**

We determined that there are internal control procedures in place over the processes listed above; however, our risk review noted the following procedures that are internal control weaknesses.

- While all employee P-Card expenses must be sent to an approver, there are not pre-designated approvers assigned in the Oracle system. Additionally, there are no established approval limits or approval hierarchy based on the dollar value of P-card charges. As a result, P-card purchases may be approved by individuals with appropriate authority, but not necessarily the appropriate business knowledge and adequate supervisory level to know the business purpose of the transactions they are approving.
- There is not a formal process by which to notify the P-card Administrator upon termination of an employee. Therefore, if the terminated employee possesses a P-card, then it may remain active until the P-card Administrator becomes aware of the employee's status change.
- P-card expense approvers are not required to attend P-card training, unless they also possess a P-card for their own use. If an approver does not possess a P-card, then they may not have adequate training on the types of transactions that require additional documentation necessary to support the business purpose of the expense (e.g., outside of the P-card policy).

All findings and recommendations were discussed with management. Details are noted in the report attached immediately hereafter.

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OBSERVATIONS AND RECOMMENDATIONS**

	Process/Procedure	Observation and Risk	Recommendation	Management Response
<b>Delegation of Authority/Approval Thresholds (1-3)</b>				
1	<p>Approval thresholds within Oracle are set up by the P-card Administrator; however, there are no established thresholds for manually submitted expense reports.</p> <p>P-card expenses can be sent to any listed approver in the same department at the discretion of the submitter of the expense.</p>	<p><b>Observation:</b> Approvers have a \$25,000 approval limit within Oracle and no established limits via the manual method.</p> <p>One of 40 expenses reviewed had approval from an employee of equal authority level to the employee submitting the P-card expense.</p> <p><b>Risk:</b> Inappropriate approval of expenses and misappropriation of assets.</p>	<p>Create a Delegation of Authority for approvals to ensure all expenditures are approved by the appropriate levels of management.</p>	<p><b>Accounting Manager</b></p> <p>In Oracle, the Purchasing Card module does not allow an approval hierarchy based on position. All P-Card expense reports are reviewed by Finance Department staff to insure proper supervisor approval. To establish a review hierarchy for larger dollar expenses, the Purchasing Card Administrator (PCA) and the Accounting Manager will work with all departments to develop and implement a secondary dollar threshold for larger dollar expense reports. The secondary dollar threshold will be implemented by June 30, 2015.</p>

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	<b>Process/Procedure</b>	<b>Observation and Risk</b>	<b>Recommendation</b>	<b>Management Response</b>
2	There is currently no process for secondary approvals.	<p><b>Observation:</b> Employees within the same department can approve P-card expenses without regard to amount and without secondary approval. For example, 8 out of 10 departments reviewed allowed non-supervisory employees access to approve transactions.</p> <p><b>Risk:</b> Inappropriate approval of expenses and misappropriation of assets.</p>	Implement secondary approval if the P-card expense is over an established threshold as determined by management. (See Appendix A)	<p><b>Accounting Manager</b></p> <p>We agree. The Purchasing Card Administrator (PCA) and the Accounting Manager will work with all departments to develop and implement a secondary dollar threshold for larger dollar expense reports. The secondary dollar threshold will be implemented by June 30, 2015.</p>

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3	<p>Approvers may delegate their approval to an individual of their choice in Oracle.</p>	<p><b>Observation:</b> The approval routing can go to the employee who submitted the P-card expense and the submitter can approve their own expense. It is noted the manual approval should provide appropriate review.</p> <p><b>Risk:</b> Inappropriate transaction approvals.</p>	<p>Investigate the ability to have Oracle disallow the submitter and approver to be the same employee when the routing of approval occurs.</p> <p>Investigate the ability to have Oracle print an exception report when the submitter and approver is the same employee.</p>	<p><b>Accounting Manager</b></p> <p>The City is not able to customize the work-flow process in Oracle to prevent the submitter from approving their own transaction when the routing rules are enabled. The Accounting Manager and the Oracle System Administrator will attempt to create an exception report to highlight instances when the submitter and the approver is the same employee. The PCA manual review of the supervisor's approval does provide a mitigating control for this situation.</p>



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	<b>Process/Procedure</b>	<b>Observation and Risk</b>	<b>Recommendation</b>	<b>Management Response</b>
<b>Employee Exit Process (4-5)</b>				
4	There is no formal process to notify the P-card Administrator that an employee has been terminated.	<p><b>Observation:</b> We noted 3 employees that were terminated that were still active in the bank's system. We also noted that one employee's P-card was deactivated 26 days after their termination date.</p> <p><b>Risks:</b> Misappropriation of assets.</p>	<p>Implement a process to ensure the P-card Administrator is notified when an employee is terminated from the City of Springfield.</p> <p>Quarterly, require an employee independent of the P-card administration process to compare the bank listing of card holders to the HR listing of current employees.</p>	<p><b>Accounting Manager</b> We agree. The City is in the process of implementing a new employee form on CityShare that alerts the PCA of all terminations. In addition, the PCA will request and review a quarterly report from Human Resources to ensure all terminations have been identified.</p>
5	P-card transactions are approved via expense reports. There are approximately 170 expense report approvers in Oracle.	<p><b>Observation:</b> We compared the listing of expense report approvers to the active employee listing and found that 18 were no longer active employees. The 18 employees noted did not have access to Oracle and did not have purchasing cards.</p> <p><b>Risk:</b> Inappropriate system access and inappropriate approvals of P-card transactions.</p>	<p>Implement a process to remove Oracle access once an employee is no longer employed by the City.</p>	<p><b>Accounting Manager</b> This condition will be resolved with the new termination form and quarterly review of terminations noted in item #4.</p>

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	<b>Process/Procedure</b>	<b>Observation and Risk</b>	<b>Recommendation</b>	<b>Management Response</b>
<b>Cardholder Set Up (6)</b>				
6	Cardholder limits are authorized by the supervisor's P-card set up form. Annually, limits are examined by the supervisor and may be increased or decreased.	<p><b>Observation:</b> For 1 of 15 cardholders the limit per the initial set up form (\$500) was less than the limit in the system (\$1,000). No evidence of supervisory approval of this change existed.</p> <p><b>Risk:</b> An employee could have an inappropriate P-card limit for their position which increases the risk of improper usage.</p>	Ensure current cardholder transaction limits are authorized. Retain documentation of the authorization.	<p><b>Accounting Manager</b></p> <p>The PCA is currently comparing the card limits to the authorization forms. No changes will be made without the appropriate supervisory documentation. In addition, the Director of Finance and Accounting Manager will provide a review of credit limits annually.</p>

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	<b>Process/Procedure</b>	<b>Observation and Risk</b>	<b>Recommendation</b>	<b>Management Response</b>
<b>Training (7)</b>				
7	<p>Small Purchases 101 training is required per the "Purchasing Card Manual" for any cardholder with a credit limit over \$2,000.</p> <p>Employees with P-card expense approval rights in Oracle may or may not be cardholders. There are 170 approvers listed in Oracle.</p>	<p><b>Observation:</b> Two of 15 cardholders with a credit limit of greater than \$2,000 were not listed on the Small Purchases 101 Training Roster or did not have other evidence of training. The two cardholders were the Director of Finance and Manager of Accounting. Additionally, these employees' limits were over \$5,000. They maintain higher limits so that they may serve as temporary purchasing agents during disaster operations.</p> <p>P-card expense approvers are not required to take the initial P-card training or to take "Small Purchases 101" training. Forty-one of the approvers do not have a P-card, and therefore have not taken training.</p> <p><b>Risk:</b> Improper usage of the P-card and inappropriate approval of transactions.</p>	<p>Ensure all employees with credit limits greater than \$2,000 have appropriate training as required and the documentation of training is retained. Reduce cardholder limits to \$5,000 or document why limits are above \$5,000.</p> <p>Require P-card training for employees that approve P-card transactions.</p>	<p><b>Accounting Manager</b></p> <p>The City will require all approvers to take the purchasing card training and Small Purchases 101 training. The PCA will provide purchasing card training for all approvers that have yet to receive the training by June 30, 2015. The Accounting Manager will work with the remaining approvers to take the Small Purchases 101 (on-line class) by June 30, 2015.</p> <p>The Director of Finance and the Accounting Manager took Small Purchases Training several years ago. Both have recently re-taken the Small Purchases 101 training to provide record of the training. In addition, the higher credit limits, which are authorized in section 13-3.301 of the Purchasing Manual, have been documented and approved by the City Manager's office.</p>

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PROCESS IMPROVEMENT OPPORTUNITIES**

We noted the following process improvement opportunities during our review. Process improvement opportunities do not represent internal control weaknesses, but rather, ways that the process could be more efficient and/or industry best practices. These observations do not require a management response; however, we do recommend management consider each observation and take action where appropriate.

	<b>Observation</b>	<b>Recommendation</b>	<b>Management Response</b>
1	<p>P-card expenses are currently submitted and approved both manually and electronically. Since it is possible to submit and approve expense reports in Oracle electronically, the manual process is unnecessary. Furthermore, the manual approval process does not have the same internal controls embedded in the process, and is, therefore, not as well controlled.</p> <p>Additionally, all P-card expense supporting documentation is retained in paper copy by Finance.</p>	<p>Change the current policy to require P-card expenses and supporting documentation to be submitted and retained electronically. Eliminate the manual approval process for each department.</p>	<p><b>Accounting Manager</b></p> <p>We agree that it would be ideal to have the entire expense report, including supporting documentation, submitted and retained electronically. The City will continue to explore submitting and retaining expense reports and supporting documentation electronically. However, there are many issues to resolve before moving to a full electronic process. These include electronic storage capacity and scanning capability. Our current process, while cumbersome in some respects, does provide a secondary review of the approver's authorization.</p>
2	<p>P-card refresher training is not required to be taken by cardholders or cardholder transaction approvers.</p>	<p>Require periodic refresher training for cardholders and P-card transaction approvers.</p>	<p><b>Accounting Manager</b></p> <p>The City does require cardholders to take refresher training for purchasing violations and or concerns.</p>

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**APPENDIX A – DELEGATION OF AUTHORITY EXAMPLE**

The diagram below is an illustration of a potential delegation of authority for the City's P-card program using three City departments. This would increase the P-card expense approval level required based on an increasing dollar thresholds hierarchy.

