



Internal Audit Consulting Report

Purchasing Cards Program Administration

March 30, 2021

City of Springfield, Missouri

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Table of Contents

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March 30, 2021

I. Report Letter	1
II. Executive Summary	2
III. Definitions of Ratings.....	4
IV. Findings, Recommendations & Observations	5
V. Scope of Services	8

Report Letter

Mr. David Holtmann, Director of Finance
City of Springfield
218 E. Central
Springfield, MO 65802

We are pleased to provide our report on the *Purchasing Cards Program Administration* performed by **BKD, LLP** (BKD). We want to thank City of Springfield's (the City) management and staff members who contributed positively to our efforts.

We have performed the procedures enumerated in the Executive Summary of this report, which were agreed to by you pursuant to our engagement letter, dated November 12, 2020, to perform an assessment of the City's Purchasing Cards Administration. This engagement was not an audit and was not designed to provide assurance over the prevention or discovery of errors, misrepresentations, fraud, or illegal acts. Inherent limitations in any internal control structure are that errors, fraud, illegal acts, or instances of noncompliance may occur and not be detected. Controls may become inadequate because of changes in conditions or deterioration in design or operation. Two or more people may also circumvent controls or management may override the system.

We were not engaged to provide an opinion with respect to the effectiveness of your controls or degree of compliance with your policies and procedures or applicable laws and/or regulations. Accordingly, we do not express such an opinion. Our procedures were performed on an interview and limited testing basis only and cannot be relied upon to detect all errors or violations of laws, regulations, or City policy. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Our report is intended for use only by management of the City, solely for reporting findings with respect to the procedures performed by us.

This report is not intended to be, and should not be, used by anyone other than the specified parties.

BKD, LLP

BKD, LLP

March 30, 2021

II. Executive Summary

We are pleased to provide our report on *Purchasing Cards Administration* performed by **BKD, LLP** (BKD) for City of Springfield (the City) commencing November 18, 2020 and ending March 30, 2021. The overall objective of this engagement is to assist the City with completing the internal audit plan for the year.

The procedures we developed, management approved and we performed are included in Section V. The results of our procedures were discussed with management at the conclusion of our engagement and are included in Section IV.

Background

The City of Springfield purchase cards (P-cards) switched from Bank of America to US Bank in March of 2019. The P-cards are Visa credit cards that employee cardholders use to pay for small-dollar purchases (most are less than \$5,000). Cards are used to pay merchants for procuring authorized goods and services that cost up to the cardholder per-transaction limit, when such procurement is used to further the business of the City (official City business only). These cards are sometimes referred to as commercial cards, procurement cards, P-cards, or travel cards. P-cards are issued based on business need, to any City of Springfield employee, including management.

The City of Springfield has issued approximately 750 P-cards to City employees, with an estimated total annual spend of approximately \$10 million a year. The City also earns a rebate in the form of a percentage of total transaction volume, and for the 12 months ended November 30, 2020, the P-card rebate earned by the City was \$137,359.

Findings & Observations

A finding is defined as a matter having a direct negative impact on internal control or indicates noncompliance with internal policy, procedure or applicable law or regulation. An observation is an opportunity to enhance efficiencies of operations and may be considered a best practice within the industry.

The risk ratings applied to findings in this report are based on our experiences performing similar procedures at other companies within this industry. These ratings are intended to assist management with prioritizing the importance of taking action on the findings identified. We believe all findings, regardless of the risk ratings assigned, if not addressed, could lead to significant issues. We recommend management track the resolution of findings identified, and any follow-up actions should be reported to the Finance and Administration Committee.

Findings	Risk Rating
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- | | |
|--|-----|
| ▲ Finding #1: The City does not have a good tracking mechanism for unauthorized charges that are to be reimbursed by the employee. | Low |
|--|-----|

II. Executive Summary

Observations

- ▲ Observation #1: Lack of formal documentation of P-card reconciliation (cash to clearing account). Low
- ▲ Observation #2: Improve efficiency of expense report approval by implementing electronic approval workflows. Low

Management's responses were not subjected to the procedures we applied and, accordingly, we express no opinion on the responses.

III. Definitions of Ratings

Ratings of Internal Audit Findings

- ▲ **High** - Indicates a significant matter requiring immediate attention by senior management. Action plan as determined by management should be started within 30 days of receipt of the draft report and completed within three months of receipt of the draft report, depending on complexity of implementation of action plan.
- ▲ **Medium** - Indicates a matter to be given priority by management and, if not immediately addressed, may significantly impair the control structure or operating effectiveness of the internal control systems. Action plan as determined by management should be started within 75 days of receipt of the draft report and completed within six months of receipt of the draft report, depending on complexity of implementation of action plan.
- ▲ **Low** - Indicates a matter to be addressed in the normal course of business, which may be of sufficient importance to be brought to management's attention. Action plan as determined by management should be explored and implemented within the agreed-upon time frame, depending on complexity of implementation of action plan.

IV. Findings, Recommendations & Observations

Finding #1: The City does not have a good tracking mechanism for unauthorized charges that are to be reimbursed by the employee.

The current process in place is for each employee's supervisor to review and approve expense reports. This process identifies instances when an employee charged through items that are not allowed, whether intentionally or not. In some instances, there are charges by a third party that should not have occurred, while in other instances, the employee attempts to push through a charge that is not allowable. Once the issue is identified by the supervisor, the employee is notified that reimbursement is needed and/or that follow-up is needed with the third-party vendor. From this point forward, the employee is responsible for insuring that the reimbursement occurs to the City or that the vendor issues a credit for the error.

Recommendation:

The City should have a designated person and tracking mechanism to track all non-authorized charges until they are reimbursed by the employee or the third-party vendor. This tracking mechanism should be monitored and updated at a standard frequency (*i.e.*, weekly) in order to contact the related employees to provide an update on the payment or discussions with the third-party vendor.

Management Response:

The Finance Department's Accounting Services Representative responsible for processing expense reports tracks non-authorized charges on an Excel spreadsheet. The spreadsheet includes the cardholder's name, expense report number, date and amount of transaction, vendor, a brief description of the violation, and the resolution. The resolution includes the employee's check number when the transaction is reimbursed or a notation that the charge was refunded to the card by the vendor. The spreadsheet is updated on a regular basis as transactions are processed.

IV. Findings, Recommendations & Observations

Observation #1: Lack of formal documentation of P-card reconciliation (cash to clearing account).

Annually, the P-card administrator reconciles the cash account and the P-card clearing account. While the reconciliation is being done, there are several documents or screen prints that must be viewed to evidence what was done.

Recommendation:

We recommend one document that shows the discrepancies, adjustments, explanations, and include a by a signoff by the preparer and reviewer to document this reconciliation. This reconciliation should be supported by the documents that are currently being retained to evidence the process.

Management Response:

The Finance Department staff will create a year-end checklist to document the steps necessary to close-out the purchasing card clearing account and cash clearing account. This checklist will include copies of the reports documenting the ending balances as well as any reconciling items and will include sign offs by the Accounting Services Representative and the Assistant Director of Finance & Comptroller.

IV. Findings, Recommendations & Observations

Observation #2: Improve efficiency of expense report approval by implementing electronic approval workflows.

Approval of expense reports related to P-cards is currently documented manually with a hard copy supervisor signature. Oracle has an approval workflow for approval of expense reports that captures an electronic approval with date/time stamp and an audit trail indicating the approval documentation. At the request of the City's finance department, we evaluated the electronic approval documentation available in Oracle.

Recommendation:

We recommend the City discontinue manual hard copy signatures and move to electronic approval of expense reports in Oracle. Based on our assessment, there is clear documentation of approval captured within the Oracle workflows to provide sufficient audit evidence of approval. Implementing electronic approvals will provide better efficiency in the process and eliminate hard copy documentation of approval currently being created, filed and stored.

Management Response:

The Finance Department staff has been actively working on the electronic reporting process for several months. We are preparing to roll out the new process at the beginning of fiscal year 2022.

V. Scope of Services

The objective of our procedures was to assist City of Springfield with an assessment of the purchasing cards program administration in order to ascertain whether the design and effectiveness of controls were in place and operating in a manner necessary to meet organizational policies and other required guidelines.

The dates utilized for our testing were July 2019 through June 2020, unless otherwise noted.

Scope of Internal Audit of Purchasing Cards Program Administration

Mr. David Holtmann, Director of Finance
City of Springfield
218 E. Central
Springfield, MO 65802

Re: Scope of Internal Audit of Purchasing Cards Program Administration

The purpose of this document is to provide a detailed scope for the internal audit of Purchasing Cards Program Administration, which will be the fourth of four internal audits that BKD will perform for 2020. The scope of procedures, as outlined below, shall be limited to the period of July 1, 2019 through June 30, 2020 (scope period) and controls as they exist at the time of our walkthroughs, unless otherwise noted.

Our procedures will include, but may not necessarily be limited to the following:

1. Conduct interviews with finance department personnel involved in the purchasing card administration process to walk through processes and controls related to the following.
 - a. Card issuance & cancellation
 - b. Training
 - c. Automated controls and restrictions in place
 - d. Roles and responsibilities (*e.g.*, segregation of duties)
 - Admin, Cardholder, Approver and Billing
 - e. Monitoring and approval of transactions
 - f. Credit/risk program management
 - g. Record keeping, including supporting documentation
 - h. Dispute and issue resolution
2. Obtain and analyze any written policies or procedures that govern purchasing cards
3. Select five purchasing cards to assess supporting documentation for the scope period and test the operational effectiveness of controls.
4. Select five new card issuances, replacements and cancellations to test the operational effectiveness of controls.

V. Scope of Services

5. Evaluate the design of controls and document gaps or opportunities for improvement noted during walkthroughs.
6. Provide management with a written report, which will include, but may not necessarily be limited to:
 - a. Results of our procedures
 - b. Observations and recommendations resulting from our work
 - c. Management responses