



CITY MANAGER'S OFFICE – INTERNAL AUDIT

DATE: June 10, 2015

TO: MICHAEL LIMA, Finance Director/City Controller
GARY WATAHIRA, Purchasing Manager

THROUGH: RENENA SMITH, Assistant City Manager *RS*

FROM: BOB KOURY, Principal Internal Auditor *Bob Koury*
Budget and Management Studies - Internal Audit

SUBJECT: FINAL FOLLOW-UP REVIEW REPORT - COMPLIANCE AND INTERNAL CONTROL LIMITED SCOPE AUDIT – CITY'S CAL-CARD PURCHASE PROGRAM

Attached is the Final Follow-Up Review Report of the Compliance and Internal Control Limited Scope Audit of the City's CAL-Card Purchase Program. The original audit report was issued on November 10, 2014. This follow-up review was performed in accordance with AO 1-10 and Government Auditing Standards.

The Finance Department's formal response Memorandum dated June 1, 2015, related to the original internal audit recommendations is attached to this review report in its entirety. Of the five original audit recommendations, four were fully implemented and one was partially implemented.

We wish to thank the Finance Department – Purchasing Division staff for your assistance and cooperation during the course of this follow-up review. If you have any questions or need any further assistance from internal audit, please do not hesitate to contact Bob Koury, Principal Internal Auditor, at 621-7072.

Attachments

cc: Ashley Swearingin, Mayor
City Council
Bruce Rudd, City Manager
Georgianne White, Chief of Staff, Mayor's Office
Douglas T. Sloan, City Attorney
Mary Vera, Senior Secretary, Purchasing Division

Introduction and Background Information

In 1989, the State of California implemented a purchasing card program called the CAL-Card Program. In 2007, the City of Fresno, through a State of California Master Service Agreement with US Bank Government Services, made the purchasing card program available to all City Departments. The current State of California Master Agreement was extended from October 18, 2013 to April 18, 2015.

Administrative Order 3-9 “Purchasing Card (CAL-CARD) Use Policy” was established for the issuance, accounting, monitoring, retrieval and general oversight of the purchasing card (CAL-Card) for the City of Fresno. The most recent revision date for this AO was 7/30/10. In addition to AO 3-9, the more detailed “CAL-Card Purchasing Card Program Policies and Procedures” were developed and implemented in September 2007 to govern its use and to also define the key players in the Program, explains their roles, and outlines the spending controls to manage purchases under this voluntary Program.

As of September 29, 2014, there were a total of **180 citywide CAL-Cards** issued to City employees. The number of CAL-Cards in each City Department is as follows: Fire - 60; DPW - 26; Parks - 28; DPU - 16; FYI – 14; Transportation - 12; Finance – 5; DARM – 6; ISD – 6; Police – 2; Personnel – 3; City Clerk – 1; and Mayor – 1. For the fifteen month period July 2013 through September 2014, the City of Fresno paid US Bank Government Services a total of \$1,848,982 related to CAL-Card purchases/transactions made by City of Fresno employees with CAL-Cards.

Audit Scope and Objectives

This audit was performed by the Principal Internal Auditor during September and October 2014. The primary audit objective was to determine reasonable compliance by all appropriate City employees with AO 3-9 and related CAL-Card policies and procedures, and a) to determine if internal controls for the Purchasing Card Program are adequate and appropriate; b) to determine if internal controls are in place and functioning as intended to reasonably prevent purchase card misuse and/or abuse; and c) to identify and document audit findings of non-compliance with AO 3-9 and any and all misuse or abuse of the City’s CAL-Card by City employees.

Tests of citywide CAL-Card transactions were performed on a sample basis for the period January through August 2014.

Audit Conclusion

The Purchasing Manager and his staff should be commended for their efforts in the administration, oversight and recordkeeping related to the City’s CAL-Card Purchase Program. There are a few areas noted during the course of this audit that need to be addressed by both the Finance Department – Purchasing Division and Department Directors for improved internal controls and related usage of the City issued CAL-Card. These areas are addressed in this audit report.

Audit Findings and Recommendations

I. Administrative Order (AO) 3-9, CAL-Card Purchasing Card Program Policy and Procedures, and CAL-Card Power Point Training Document

AO 3-9 “Purchasing Card (CAL_CARD) Use Policy” (copy attached) was revised on July 30, 2010 (**four years old**). The purpose of this AO is *“To establish the issuance, accounting, monitoring, retrieval and general oversight of the purchasing card (CAL-Card) use policy for the City of Fresno.”* Per AO 3-9, *“The purchasing card may be used only by those authorized and only for the purchase of goods for the official business of the City of Fresno.”*

The “CAL-Card Purchasing Card Program Policy and Procedures” document (copy attached) was developed and implemented in September 2007 (**seven years old**) as a supplemental and more detailed policy and procedures document for the City’s CAL-Card Program.

The “State of California Purchase Card “CAL-Card” Power Point Training document was developed a few years ago by the Purchasing Division and is now used for “on-line” training purposes versus “face-to-face” training for all CAL-Card Users.

Internal Audit reviewed all three documents and noted the following:

- ▶ AO 3-9 references an “Acknowledgement and Responsibility Form” under Procedures 2. c. of the AO; however, the actual form that is completed and signed by all appropriate parties is entitled “CAL-Card Purchasing Card Agreement” (copy attached).
- ▶ AO 3-9 only includes “items that cannot be purchased with the credit card”; however, both the “CAL-Card Purchasing Card Program Policy and Procedures” and the CAL-Card Power Point Training document included both “prohibited and permitted” purchases but all three documents are inconsistent to some degree or another.
- ▶ The “Access Online Training” web site link included in the CAL-Card Power Point Training document does not function correctly.
- ▶ CAL-Card training is referenced in all three documents; however, they are all inconsistent as to how the training is provided, i.e. it is through an “on-line” training workshop document, not “face-to-face”.

Audit Recommendations

1. Procedure 2. c. of AO 3-9 should be revised to reference the “CAL-Card Purchasing Card Agreement” in place of the “Acknowledgement and Responsibility Form”. A sample of the “CAL-Card Purchasing Card Agreement” should also be attached to AO 3-9 as Exhibit A and referenced accordingly within Procedure 2. c. of the AO.

2. The Purchasing Manager and the Senior Secretary should immediately review and compare all CAL-Card Program related documents (AO 3-9, Purchasing Card Program Policy and Procedures, Power Point Training Document, and the CAL-Card Purchasing Card Agreement). Any and all inconsistencies in these four CAL-Card documents should be addressed, updated and then formally communicated to all CAL-Card users in the City.

Management's Original Response to Recommendations 1 & 2

Edits to AO 3-9 completed. Website hyperlink is functional. Cal-Card documents consistently reference the Cal-Card Power Point training.

Internal Audit's Original Comment

The revised and updated AO 3-9 should now be submitted by the Purchasing Division to the Personnel Department, Administrative Orders Review Committee. The new AO would then be submitted to the Labor Management Task Force (LMTF) for their approval for citywide implementation purposes.

Current Status – Recommendation 1 Fully Implemented and Recommendation 2 Partially Implemented (Finance Department's June 1, 2015 Memorandum attached)

II. Issuance of CAL-Cards and Documentation of Training Being Completed

It was noted during the audit, and was also confirmed by the Purchasing Division Senior Secretary, that CAL-Cards were being issued/picked up by City employees **prior** to Purchasing Division receiving the employee's fully executed "CAL-Card Purchasing Card Agreement". There are significant "acknowledgements" made by the City employee receiving the CAL-Card included in this Agreement, in addition to the Cardholder, Approver and Department Director's signatures on this Agreement as well.

As for CAL-Card training being completed by the employees and documentation thereof, internal audit was informed by the Purchasing Division Senior Secretary that she receives an "email" from the employee stating they completed the training. However, during my review of all 180 CAL-Card holders/employees' files in the Purchasing Division, there was no documentation of such emails in their files. They may have completed the training but the documentation (email) should be retained in their respective CAL-Card files in the Purchasing Division for audit trail purposes.

Audit Recommendations

3. No City CAL-Cards should be issued or picked up by an employee until all CAL-Card training has been completed and documented, and the CAL-Card Purchasing Card Agreement has been fully executed, signed and returned to the Purchasing Division.

4. All CAL-Card training should be adequately documented and placed in each CAL-Card user's file in the Purchasing Division for audit trail purposes.

Management's Original Response to Recommendations 3 & 4

Prior to card pick up:

Completed Cal-Card agreement, which acknowledges completion of the Power Point training, will be required before issuance of card.

Current Status – Recommendations 3 & 4 Fully Implemented (Finance Department's June 1, 2015 Memorandum attached)

III. Prohibited CAL-Card Purchases

During this audit, a sample of city-wide CAL-Card transactions were reviewed for the period January through August 2014. The purpose of this specific review was to determine if any "prohibited purchases" (per AO 3-9 and CAL-Card Policies and Procedures) were made by any City employees during the audit period. A few exceptions were noted where the City issued CAL-Card was used for "*Travel or Travel Related Expenses*" (Conference Registration & Motel Charges) and "*Cash advances*" (Gift Cards).

Audit Recommendation

5. The Purchasing Manager and/or his designee should continue to monitor city-wide CAL-Card purchases to ensure that no "Prohibited Purchases" are made with City issued CAL-Cards in violation of AO 3-9 and CAL-Card Policies and Procedures, specifically related to "travel related" or "gift card" type purchases. Any noted violations of AO 3-9 by a CAL-Card User should immediately be communicated to the Department Director by the Purchasing Manager.

Management's Original Response to Recommendation 5

Purchasing will monitor purchases and notify Departments when prohibited purchases occur. Purchasing will also coordinate customer outreach to educate the purpose and proper usage of Cal-Cards.


Current Status – Recommendation 5 Fully Implemented (Finance Department's June 1, 2015 Memorandum attached)




FINANCE DEPARTMENT

DATE: June 1, 2015

TO: BOB KOURY, Principal Auditor

THROUGH: MICHAEL LIMA, Finance Director 

FROM: GARY WATAHIRA, Purchasing Manager
Finance Department/Purchasing Division 

SUBJECT: FOLLOW-UP REVIEW – COMPLIANCE & INTERNAL CONTROL,
LIMITED SCOPE AUDIT – CITY'S CAL-CARD PURCHASE PROGRAM

In response to your memo dated May 12, 2015, the following are updated responses to audit findings.

I. **Administrative Order (AO) 3-9, CAL-Card Purchasing Card Program Policy and Procedures, and CAL-Card Power Point Training Document**

1. Fully Implemented 11/14/2014
Procedure 2. c. of AO 3-9 should be revised to reference the "CAL-Card Purchasing Card Agreement" in place of the "Acknowledgement and Responsibility Form". A sample of the "CAL-Card Purchasing Card Agreement" should also be attached to AO 3-9 as Exhibit A and referenced accordingly within Procedure 2. c. of the AO.
2. Partially Implemented in Process
All recommended edits completed, submitted for approval. Pending approval from the Administrative Order Committee/Labor Management Task Force and the City Manager's Office

The Purchasing Manager and the Senior Secretary should immediately review and compare all CAL-Card Program related documents (AO 3-9, Purchasing Card Program Policy and Procedures, Power Point Training Document, and the CAL-Card Purchasing Card Agreement). Any and all inconsistencies in these four CAL-Card documents should be addressed, updated and then formally communicated to all CAL-Card users in the City.

II. **Issuance of CAL-Cards and Documentation of Training Being Completed**

3. Fully Implemented 11/14/2014
No City CAL-Cards should be issued or picked up by an employee until all CAL-Card training has been completed and documented, and the CAL-Card Purchasing Card Agreement has been fully executed, signed and returned to the Purchasing Division.
4. Fully Implemented 11/14/2014
All CAL-Card training should be adequately documented and placed in each CAL-Card user's file in the Purchasing Division for audit trail purposes.

III. **Prohibited CAL-Card Purchase**

5. Fully Implemented 11/14/2014
The Purchasing Manager and/or his designee should continue to monitor city-wide CAL-Card purchases to ensure that no "Prohibited Purchases" are made with City issued CAL-Cards in violation of AO 3-9 and CAL-Card Policies and Procedures, specifically related to "travel related" or "gift card" type purchases. Any noted violations of AO 3-9 by a CAL-Card User should immediately be communicated to the Department Director by the Purchasing Manager.