



Office of the City Auditor

Audit of Citywide Procurement Cards

Report Date: September 1, 2011



Office of the City Auditor

"Promoting Accountability and Integrity in City Operations"

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Office of the City Auditor Transmittal Letter



Date: September 1, 2011
To: James K. Spore, City Manager
Subject: Audit of Citywide Procurement Cards

I am pleased to present the report of our audit of the Citywide Procurement Cards Review. The results of this audit will be distributed to City Council through the City's Audit Committee.

The objective of our review was to determine whether each Department or Office Director has established documented internal control procedures for his/her department/office; whether the procedures address the approval function, the accounting/reconciling function and any proposed card custody functions; whether proper review and approval is performed before payment of Procurement Card (ProCard) transactions; and whether transactions made with the ProCard are made in accordance with the *Small Purchase/Travel Card Procedures Manual*.

The results of our review are provided in this report. Findings considered to be of insignificant risk have been discussed with management. We completed our fieldwork on June 30, 2011.

The Office of the City Auditor reports to City Council through the City's Audit Committee and is organizationally independent of all City departments. This report is intended solely for the information and use of the Audit Committee, City Council, City Manager, and appropriate City management. It is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to commend the staff of the Department of Finance and the ProCard Program Managers of the various Departments and offices of the City for the courtesy and cooperation extended to us during the review.

If you have any questions about this report or any audit-related issue, I can be reached at 385-5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor

cc: City Council Members
Audit Committee Members
David Hansen, Deputy City Manager, City Manager's Office
Patricia Phillips, Director, Department of Finance



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Purpose

To determine whether internal controls are in place and operating as intended to ensure procurement card (ProCard) expenditures are proper. This audit was requested by City Council resolution on September 28, 2010.

Scope and Objectives

The objectives of our audit were to determine whether: (1) each Department or Office Director has established documented internal control procedures for his/her department/office; (2) the procedures address the approval function, the accounting/reconciling function and any proposed card custody functions; (3) proper review and approval is performed before payment of ProCard transactions; and (4) transactions made with the ProCard were made in accordance with the *Small Purchase/Travel Card Procedures Manual*.

The audit covered the thirty (30) month period of January 1, 2009 to June 30, 2011. However, the scope of our review of individual transactions varied based on the timing of our departmental reviews. Please see Appendix I for timing details by department.

We reviewed policies and procedures related to the administration and processing of ProCards that were in place at the time of our fieldwork. We also reviewed other documentation, such as the Travel Reimbursement Vouchers, as needed. Our fieldwork concluded on June 30, 2011.

Methodology

To accomplish our objectives, we performed the following procedures:

- Met with appropriate staff to discuss existing internal control procedures.
- Obtained an extract of ProCard transactions for the period under review.
- Examined cardholders' transactions logs, receipts, and credit card statements.
- Examined additional documentation (i.e., travel reimbursement vouchers, etc) as needed.
- Assessed cardholder compliance with ProCard policy and procedures.
- Determined existence of duplicate cards or active cards of terminated employees.
- Performed analysis to identify usage trends and searches meeting our high-risk criteria.
- Performed appropriate follow up activities, as needed, for previous recommendations made by the Office of the City Auditor.
- Made recommendations as appropriate to improve processes, increase efficiency and reduce risk to the City.

Standards

Our audit was conducted in accordance with generally accepted government auditing standards. The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City's Audit Committee, City Council, City Manager, and appropriate management within the City. This report will also be made available to the public.



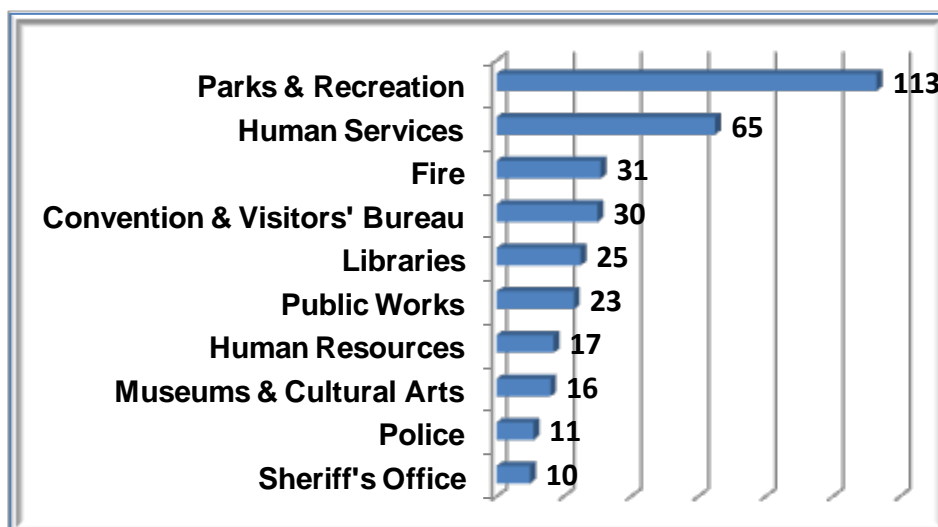
Background

The City established a credit card (ProCard) program in 2002 designed to streamline the acquisition and payment process for low-dollar-value goods and for employees' city business travel costs, in order to reduce paperwork and administrative costs. The ProCard provides an alternative payment vehicle for purchasers and designated employees to use at authorized vendors/suppliers. Those employees who have been issued a ProCard may initiate transactions in person or by telephone, fax or via approved e-procurement sites, within specified limits. It is important to acknowledge that one of the main purposes of the program is to facilitate out of town travel instead of requesting cash advances. In addition, many vendors offer more attractive pricing, delivery and payment terms for on-line orders in this electronic age.

The Comptroller and Purchasing Divisions of the Finance Department jointly administer the ProCard program. All ProCards are imprinted with the City of Virginia Beach name and seal with the cardholder's name imprinted on his/her card. Each ProCard is associated in the Bank of America's database, with a City budget unit for billing purposes. The ProCard may be used to make any authorized purchase up to the delegated procurement authority and must follow the purchasing manual established by the Purchasing Agent. Initially each card is limited to \$5,000 in charges per billing cycle and \$2,500 per transaction unless approval is requested through the Comptroller and Purchasing Divisions in the Finance Department. ProCard(s) shall not be used for cash advances, convenience checks, capital outlay or personal purchases. Designated members of the Finance Department routinely review all City departments concerning ProCard usage and controls, taking corrective actions as required. In addition, other steps have been developed to provide independent information to department directors so that they may see the transactions directly from the Finance Department.

At June 30, 2011, there were 409 active cards. The ten City departments with the most cardholders were:

Exhibit 1. Departments with the Most Active Cardholders at June 30, 2011.





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Audit of Citywide Procurement Card Program

Please see Appendices II through V for additional information related to City ProCard usage.

City Council requested the Office of the City Auditor to conduct an audit of the City's ProCard program on September 28, 2010 (Ordinances/Resolutions Item #60308).



1. General Findings and Recommendations

In our review of the City’s ProCard transactions, we noted a limited number of exceptions that varied in nature. Similar exceptions are identified and corrected during the Finance Department’s annual reviews. Please see Exhibit 2 for information related to the magnitude of our review.

Exhibit 2. Audit Scope

	Number
Total Departments/Divisions Reviewed:	42
Total Transactions Reviewed:	20,267
Total Cardholders Reviewed:	451
Total Dollar Amount of Transactions Reviewed:	\$3,643,915.31

After conducting our review of each department and applicable divisions, our findings and recommendation(s) were summarized in a memorandum to the Department/Office Director with a copy to the Comptroller’s Division, ProCard Program Manager(s) and City Manager or Deputy City Manager. Generally, about 2% of the transactions lacked complete documentation or did not follow administrative policies. These issues include:

1. Not explaining fully the purpose of the transaction
2. Not signing the billing statement and/or transaction log
3. Not ensuring that the transaction log matched the supporting documentation
4. Missing transaction logs
5. Not fully following administrative procedures.

While no audit can guarantee finding fraud, no fraudulent transactions were discovered during this audit. Exhibit 3 below provides a summary of the audit exception type and frequency found during our review of ProCard transactions.

Exhibit 3. Summary of Audit Exceptions

Condition	Number of Transactions	Number of Cardholders	Number of Departments	Net Amount of Transactions
Non compliance with Pro Card Procedures:				
Billing statement and/or transaction log not signed by cardholder or program manager	N/A	75	11	N/A
Transaction missing receipt or required details	162	62	16	\$28,790.24
Business purpose not fully explained on transaction log	136	46	12	\$34,562.97
Transactions not recorded in the transaction logs	9	6	4	\$690.77
Transaction Log and statement did not match	1	1	1	\$229.82



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Condition	Number of Transactions	Number of Cardholders	Number of Departments	Net Amount of Transactions
Transaction amount did not match supporting documentation	8	2	2	\$819.17
Monthly Cardholder Transaction Log missing	N/A	12	5	N/A
Internal Control Procedures document not completed as required by the ProCard manual	N/A	N/A	2	N/A
Non compliance with City Policy:				
Sales taxes paid on exempt items	40	16	8	\$124.31
Hotel nightly rate deemed excessive for Metropolitan area	2	1	1	*\$3,610.75
ProCard transactions fragmented to override established single transaction limit	2	1	1	\$2,790.47
Software purchase not approved by ComIT	1	1	1	\$535.00
City contracted vendors not used for office supplies, batteries, etc	11	6	1	\$1,965.50
Cardholder did not obtain the required three quotes for purchase made over \$1,000	1	1	1	\$1,492.27
Fuel purchases for city vehicle at local commercial gas stations in lieu of City-owned gas pumps	6	3	1	\$245.13
*Transaction amount reflects multiple number of lodging nights				

Note: During our review, we identified several instances where the Pro Card was utilized for personal transactions. However, in those instances, we were able to determine that the transactions were inadvertent and detected by the cardholder and/or Finance. In addition, the amounts were repaid to the City prior to our audit.

Recommendation

1.1 Ensure audit recommendations specified in the Department memorandum issued to Department Directors are fully implemented.¹

Management Response:

The Finance department reviews 100% of all ProCard transactions and regularly discovers a number of departmental administrative and operational errors. Letters of reprimand are sent to those that are discovered to have misused the card. During the last fiscal year of the audit, Finance conducted over 350 audits of cardholders, suspended or revoked 3 cards, and issued 14 letters of reprimand. Findings included in the audit were reviewed and many solutions were implemented prior to the conclusion of this audit.

Many of the findings of this report regarding lack of documentation illustrate the need for more training as opposed to misuse of the card. Finance will be providing additional training and guidance to Departments to strengthen documentation compliance issues including explaining the business purpose, and requiring additional details on transactions.

¹ At the conclusion of each Departmental audit, an audit memorandum was issued to the Department Director detailing their respective findings and recommendations.



2. Systemic Findings and Recommendations

Departmental ProCard Program Manager

Program Managers are assigned the responsibility to review and approve ProCard transactions prior to payment. However, the Program Managers may not necessarily know if ProCard transactions are legitimate or reasonable. The Program Manager may not be in same physical location as the cardholder(s) or may not be in a position to evaluate the appropriateness of purchases.

Recommendation

2.1 Require the immediate supervisor of the cardholder(s) to review and sign off on transactions logs and billing statements. The Department or Office's Internal Control Procedures document should be updated to reflect department-specific arrangements.

Management Response:

Agreed. The City agrees that the supervisor should sign off on transactions logs and billing statements, so has already implemented a change in the ProCard manual and will be posting the new requirement on the shared Procurement Card Site. All program managers and cardholders have been notified. Each department currently maintains their own Internal Control Procedures. Finance has requested that all department procedures be updated to reflect the new requirements. Finance will be reviewing these Procedures and will recommend improvements and updates during regular site visits. Please note also that beginning in late 2010, the Finance Department provides detailed transactions by employee to department directors to enable them to independently review them.

ProCard versus Travel Reimbursement Voucher Expenses

We noted four instances where purchases for meals or lodging made with a ProCard were also claimed and paid on a Travel Reimbursement Voucher ("double-dipping"). This occurs because there are two different lines of responsibilities overseeing the two different types of payments. Thus, the "double-dipping" of expenses is not always detected. All cases of duplication that were detected were repaid to the City by the cardholder upon notification to the Department.

Recommendation

2.2 Develop a process to ensure expenses paid utilizing the ProCard are not also claimed on the Travel Reimbursement Voucher.

Management Response:

Agreed. The implementation of the Supervisor review and sign off on transaction logs and billing statements will be used as the process to ensure expenses are not claimed both on ProCard and also on Travel Reimbursement Vouchers. The supervisor will be responsible for ensuring that the ProCard charges are not duplicated on the Travel Reimbursement Voucher.



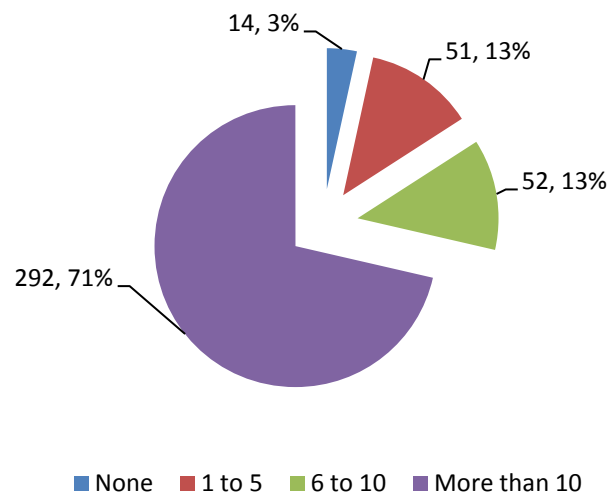
Supervisors will be provided with additional guidance through the ProCard Manual on expectations for monitoring expenses claimed. In addition, Finance has added language to the Travel Reimbursement voucher form for attestation that the expenses claimed were not also paid via the ProCard.

3. Other Issues

Frequency of ProCard Usage

Approximately 29% of the active ProCards had ten or less transactions. There were fourteen (14) ProCards with no transactions during FY11. Please see Exhibit 4.

Exhibit 4. FY11 Transactions per Card



Recommendation

3.1 Review all active ProCards with minimal usage and determine if there is a need for the ProCard to remain active.

Management Response:

Agreed. The City has various business processes for emergency management, FEMA, weather events and other non-routine processes that require intermittent or infrequent ProCard use.

The Finance Department will work with the Department Directors to annually review all active ProCards with minimal usage to determine if there is a need for the ProCard to remain active. The possibility of reducing the number of cards through centralization will also be considered. Finance regularly places cards in an inactive status or reduces the purchasing threshold to \$1 for cases of long-term illness, family medical leave, or other leave or employee status change that requires minimizing ProCard Risk. This is already controlled.



Timely Cancellation of ProCard of Former Employees

As of June 30, 2011, there were four active cards issued to former City employees in the Bank of America's ProCard database. These employees left City employment from two years to six months ago. Departmental policies and procedures for exiting employee(s) may not incorporate the submittal of their ProCard to the Program Manager to then submit to the Office of Accountability and Procurement in Finance.

Recommendation

3.2 Ensure a process is developed for accountability and control of ProCard deactivation of employees and former employees.

Management Response:

Agreed. The Finance Department is receiving employee terminations from InSITE. Employees on this listing will be terminated from ProCard participation.

Bank of America Works Data Fields

The Bank of America Works' (City's ProCard issuer) database of City cardholder information has data fields that are not consistent and contain inaccurate Department/Division data. For example, the name field may list an employee with their last name and then first name. Other times the name field may list an employee with their first name and then last name. Most of these errors are due to the transition from the prior Eagles platform to Works.

Recommendation

3.3 Ensure all data fields in the Bank of America Works database are consistently entered and the data entered is correct.

Management Response:

Agreed. The City is in the process of terminating our existing contract with the ProCard provider and using the Commonwealth of Virginia state contract for ProCard services. Part of the implementation of this conversion will be to ensure all data is current and correct as well as evaluate the need for the card. The City will be evaluating additional on-line tools available to the Cardholder, Supervisor and Program Managers with the new contract.



Conclusion

In our opinion, except as noted, internal controls are in place and operating as intended to ensure ProCard expenditures are proper. However, we did note that internal controls could be enhanced through the implementation of our audit recommendations.

Acknowledgements

We would like to thank the Department of Finance and all ProCard Program Managers and others for their responsiveness to our requests during the review and their receptiveness to questions and comments. We offer our assistance should concerns regarding implementation of these recommendations or other audit issues arise.



APPENDIX I

Schedule of Departments/Divisions and Timeframes Reviewed

	Department/Division/Office	Time Period of Review	Number of Transactions	Transaction Total
1	Agriculture	January 2010 to January 2011	44	\$2,931.46
2	City Attorney	January 2010 to January 2011	57	\$17,073.90
3	City Clerk	January 2010 to January 2011	30	\$5,933.74
4	City Manager's Office	January 2010 to January 2011	232	\$26,817.45
5	City Treasurer	January 2010 to January 2011	77	\$11,322.36
6	Clerk of Circuit Court	January 2010 to January 2011	21	\$1,040.58
7	Comit	January 2010 to January 2011	345	\$94,789.01
8	Commissioner of Revenue	January 2010 to January 2011	86	\$8,748.17
9	Commonwealth Attorney	January 2010 to January 2011	54	\$7,194.09
10	Convention and Visitor Bureau	July 2010 to March 2011	3,258	\$478,185.21
11	ECCS	January 2010 to January 2011	58	\$14,759.12
12	Economic Development	January 2010 to January 2011	712	\$119,172.00
13	Emergency Medical Services	January 2010 to January 2011	330	\$61,413.69
14	Finance	January 2010 to January 2011	142	\$25,826.82
15	Fire Department	January 2010 to January 2011	992	\$212,975.02
16	General Registrar	January 2010 to January 2011	14	\$2,429.47
17	Housing	January 2010 to January 2011	142	\$29,078.68
18	Human Resources	January 2010 to January 2011	191	\$50,618.89
19	Human Services- Mental Health	January 2010 to January 2011	1,357	\$133,734.94
20	Human Services- Developmental Services	January 2010 to March 2011	2,243	\$395,848.98
21	Human Services- Foster Child/ CPS	January 2010 to March 2011	444	\$45,037.26
22	Juvenile and Domestic Relations	January 2010 to January 2011	72	\$13,173.92
23	Juvenile Probation	January 2010 to January 2011	43	\$9,592.13
24	Libraries	January 2010 to January 2011	1,008	\$209,821.29
25	Management Services	January 2010 to January 2011	7	\$1,262.00
26	Museums- Aquarium	January 2010 to January 2011	436	\$76,400.31
27	Museums- Francis Land House	January 2010 to January 2011	49	\$5,458.28
28	Office of Cultural Affairs	January 2010 to January 2011	41	\$3,908.94
29	Parks and Recreation	January 2010 to June 2010 and January 2011 to March 2011	5,668	\$1,135,145.50
30	Planning	January 2010 to January 2011	171	\$20,537.11
31	Police	January 2010 to January 2011	652	\$97,239.34
32	Public Utilities	January 2010 to January 2011	196	\$60,784.24
33	Public Works- Automotive Services	January 2010 to January 2011	16	\$5,939.00
34	Public Works- Contracts	January 2010 to January 2011	21	\$3,332.75
35	Public Works- Director's Office	January 2010 to January 2011	128	\$24,328.57
36	Public Works- Engineering	January 2010 to January 2011	115	\$31,123.77
37	Public Works- Office of Real Estate	January 2010 to January 2011	46	\$13,662.12
38	Public Works- Operations	January 2010 to January 2011	418	\$114,118.85
39	Public Works- Waste Management	January 2010 to January 2011	36	\$12,124.52
40	Real Estate Assesor	January 2010 to January 2011	53	\$9,829.23
41	Sheriff's Office	January 2010 to January 2011	218	\$43,003.20
42	Statagic Growth Office	January 2010 to January 2011	44	\$8,199.40



APPENDIX II Comparison of ProCard Spending and Transaction Levels

The following charts and graphs depict general information related to the City's overall use of ProCards during FY11².

Figure 1: ProCard Spending Per Fiscal Year

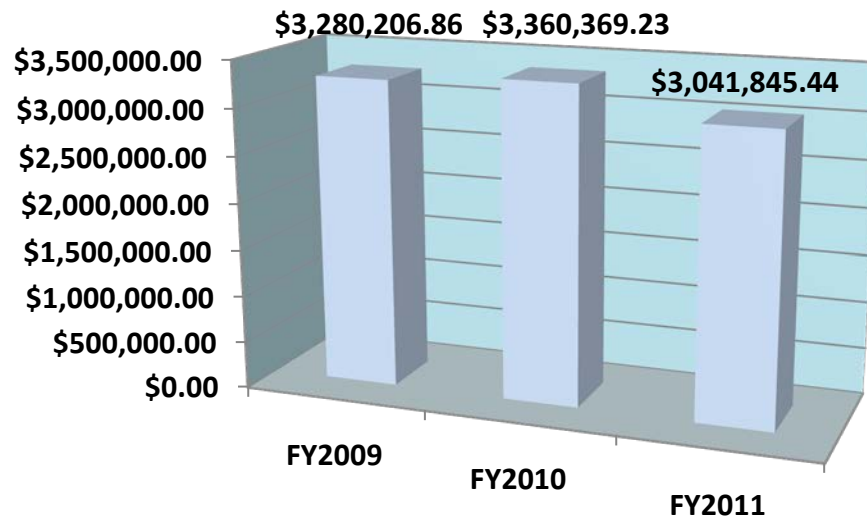
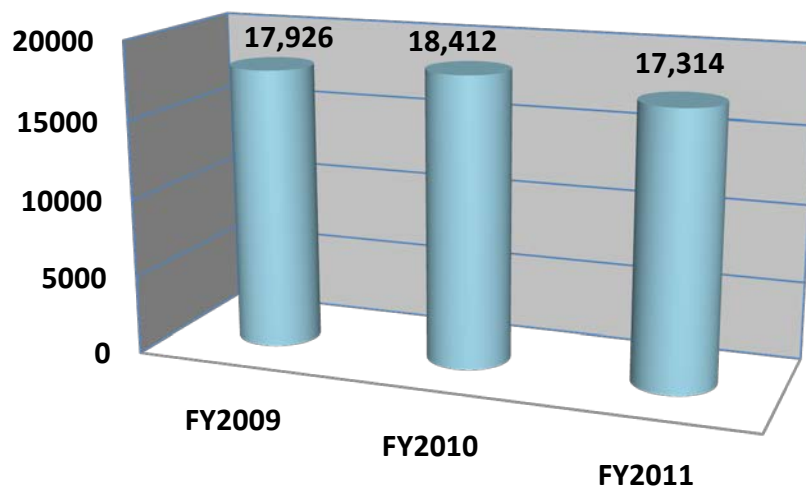


Figure 2: Number of ProCard Transactions per Fiscal Year



² FY11 data based on billing periods beginning on June 28, 2010 and ending on June 27, 2011.



Appendix III
Top 10 Procard Vendors for FY11

Ranking	Vendor	Total Amount Spent	Number of Transactions
1	WALMART	\$146,783.69	1,155
2	BJS WHOLESALE	\$73,125.46	415
3	MARRIOTT	\$71,237.91	224
4	US AIRWAYS	\$50,330.54	177
5	HILTON HOTELS	\$42,605.44	134
6	SOUTHWEST AIR	\$42,200.10	207
7	HYATT HOTELS	\$41,508.35	101
8	TURF & GARDEN	\$40,621.24	88
9	AMAZON.COM	\$40,297.22	435
10	WORLD CLASS MARKETING INC	\$38,075.18	59

For informational purposes, we have identified the top vendors used by cardholders during FY11. Some vendor's dollar amounts were combined to give clearer picture of total spending (i.e., the various WalMart stores, WM Super Centers, etc were combined under WalMart).

Appendix IV
Top 5 Spending by Merchant Category (MCC) in FY11

	MCC Description	AMOUNT	TRANSACTIONS
1	LODGING-HOTELS, MOTELS AND RESORTS (ALL MCC CODES)	\$365,746.32	1,123
2	EATING PLACES AND RESTAURANTS (ALL MCC CODES)	\$215,721.22	2,057
3	GROCERY STORES AND SUPERMARKETS	\$205,178.88	2,012
4	AIRLINES (ALL MCC CODES)	\$152,763.42	728
5	MEMBERSHIP ORGANIZATIONS-NOT ELSEWHERE CLASSIFIED	\$117,147.60	420

A Merchant Category Code (MCC) is a four-digit number assigned to a business by MasterCard or VISA when the business first starts accepting one of these cards as a form of payment. The MCC is used to classify a business by the type of goods or services it provides. The above figure shows the top spending by MCC during FY11. The top five categories represent approximately 35% of the City's FY11 purchases via ProCard and 37% of the total transactions.



Appendix V
Top 10 ProCard Users for FY11

Amount	Department	Title and Class Code
\$88,545.73	Libraries/Book and Periodical Acquisition	Account Clerk III (0015)
\$64,861.43	Economic Development	Director (5070)
\$47,342.69	Economic Development	Business Development Coordinator (2678)
\$40,055.57	Fire Department and FEMA Emergency Response	Master Firefighter (1605)
\$34,366.53	Convention and Visitor's Bureau	Convention And Tourism Representative II (2021)
\$33,804.05	Public Utilities	Administrative Assistant (0195)
\$33,321.39	Human Services	Administrative Assistant (0195)
\$33,264.96	Parks and Recreation	Account Clerk III (0015)
\$33,121.94	Human Services	Account Clerk II (0010)
\$32,631.07	Parks and Recreation	Storekeeper II (0215)

A number of the City's procurement cardholders are heavy users of the City's procurement card due to their job responsibilities and departmental needs.

Attachment A



City of Virginia Beach

VBgov.com

FINANCE DEPARTMENT
757-385-4681
FAX (757) 385-4302

MUNICIPAL CENTER
BUILDING NUMBER ONE
2401 COURTHOUSE DRIVE
VIRGINIA BEACH, VA 23456

INTER-OFFICE MEMORANDUM

DATE: September 1, 2011
TO: Mr. Lyndon Remias, City Auditor
FROM: Ms. Patricia A. Phillips, Director of Finance
SUBJECT: Audit of Citywide Procurement Cards

Lyndon,

I am forwarding this letter to provide you with additional Procurement Card program information and background. I was pleased to note that audit reflected that internal controls are in place and operating as intended. The City shares the desire to continue to enhance internal controls and promote sound financial practices in day-to-day program activities across the City. I wish to thank you and your staff for discussing and reviewing detailed Procurement Card findings with Finance for response and planning purposes.

Introduction and Background

The City of Virginia Beach has had an active Procurement Card Program (ProCard) since 2002. The City's provider bank administers the issuance of the cards, dispute procedures, vendor payments, fraud detection and prevention programs, and data capture. The bank provides an electronic application that is used to facilitate the management of the card program. The City identifies the transaction limits for individual, daily and monthly purchases, and identifies certain vendor categories prohibited from ProCard purchases.

The program provides the City with the following benefits:

- reducing administrative costs and time of the average purchase and payment process
- eliminating costly cash advances and distributing cash estimates for travel
- assisting with business continuity during disaster or other emergency situation
- improving employee productivity and streamline employee processes
- increasing data captured and spending analytics

Each cardholder and program manager is required to have an individual training prior to receiving authority to oversee departmental controls or receive a ProCard. A SharePoint website, managed by Finance, is used to keep cardholders and managers current on policies, procedures and expectations. Refresher and department specific refresher training is provided on a regular basis. In the last year, 86 staff attended refresher training, two courses were offered by Finance on Improving Internal Controls and Accounts Payable Staff had additional Procurement Card training.

Monthly, both Purchasing and Comptroller staff review the ProCard bills and question numerous individual purchases made by employees. All purchases that do not appear appropriate or appear to be in compliance with procurement policy are researched monthly. Cardholders are required to respond to all questions.

Quarterly, all department directors and deputy city managers receive a detailed list of all their cardholder transactions directly from Finance for their review and follow-up actions if necessary.

Annually, the Finance department performs site visits and reviews 100% of all ProCard transactions, logs and bills looking for fraud, administrative and procedural issues. Findings are then corrected immediately. In cases where personal purchases were made, employees are required to pay back amounts. When taxes are incorrectly assessed, employees are required to reconcile with the vendors, and when documentation is insufficient, employees are required to elaborate and justify the purchase. In most cases, the issues are administrative errors, and corrections are quickly accomplished.

In the cases where the findings are more serious, Finance has issued a number of reprimands, suspensions or revocations of cards since the program's inception.

Control Actions	July. 2009- June 2010	July 2010- June 2011
Violation Memos Issued	13	14
Cards Suspended (30 days)	1	0
Cards Suspended (12 mths)	0	1
Cards Permanently Revoked	0	2*

*cards revoked in cooperation with the City Auditor's Office.

In addition, Finance has changed procurement authority limits and implemented changes to card authority to reduce potential risk or eliminate opportunities for fraud. Lost or stolen cards are immediately cancelled, and the provider bank has extensive fraud detection processes that help identify potential risk and possible fraudulent purchases. All of these possible fraudulent transactions reported by the bank are immediately investigated by Finance staff.

The ProCard is used as a tool to help the City respond quickly and appropriately during emergency weather events and other unplanned incidences. Some ProCard holders maintain cards for these events. These cards are generally not used in day-to-day activities, so they are either inactivated or given a \$1.00 purchasing threshold. When they are needed for a response, the city-wide card administrator activates or increases the procurement limits appropriately. For example, the FEMA response team has cards kept in a safe. When they are called to service like when they were called to Haiti, the city-wide card administrator increases their purchasing limits.

In the last year, significant attention has been given to improving existing controls throughout the organization, an effort started by department directors and administered by program managers, participants and Finance. Trainings, additional website information, an updated ProCard Procedures Manual and additional compliance reviews within departments have been added to help strengthen the program controls.

As you know, Finance and the Office of the City Auditor regularly collaborate on resolving ProCard control issues. We value the cooperation and assistance provided by the City Auditor when addressing control and compliance issues.

General Audit Findings

The auditor's report specifies that for the most part internal controls are in place and operating as intended to ensure ProCard expenditures are proper. The report did not find evidence of intentional fraud, but did document exceptions where procedures and policies were not followed appropriately.

Of the 20,267 transactions reviewed, approximately 379 (less than 1.9% of the transactions tested) were found to have procedural or policy exceptions. As stated, most of these were remediated prior to the end of the audit. In non audit years, these types of exceptions are identified and corrected during the Finance Department's monthly transaction or annual site visit reviews.

Close to 78% of the 379 exceptions involved transactions requiring greater attention to details, better business purposes, and better documentation. Finance will be working with the Auditor to gain a better understanding of their expectations for documenting purchases and to develop examples of appropriate, acceptable documentation to train all procurement card holders, supervisors and managers. Additionally, departments have developed action plans in response to audit exceptions and have provided these plans to the Auditor. Most exceptions identified during audit were corrected immediately, and remaining exceptions are being addressed by individual Departments.

Finance will continue to provide more opportunities for training and sharing expectations for following program policies and procedures.

Audit Recommendations and Actions

Based on the audit, Finance has already instituted the requirement mandating supervisors to review and sign transaction logs and billing statements attesting that supervisors evaluated the appropriateness and legitimacy of the purchase. Additional training will be provided to supervisors to ensure that they are monitoring and comparing travel reimbursement requests to ProCard purchases to eliminate duplicate claims. The Travel Voucher Reimbursement Request form has added language for the employee to attest that expenses submitted for travel were not paid via the ProCard.

Finance has also already implemented a daily notification of employee terminations processed in the city's Human Resources system so that ProCards issued to terminated employees may be immediately cancelled by Finance.

Finance will continue to provide individual training, refresher training, monthly transaction review and the annual 100% transaction and policy review. Internal control procedures developed by departments will be reviewed during site visits and recommendations for improvements and updates will be provided to departments for implementation. The ProCard SharePoint site will be used to communicate important ProCard policy and procedural information to directors, cardholders and managers.

ProCards that are used by employees for intermittent, emergency response or business continuity practices will be reviewed annually by both department directors and the city-wide card administrator to determine the need for a change in status or procurement limits.

Over the last calendar quarter, Finance has been analyzing the benefits of transitioning to the Commonwealth of Virginia's state contract for procurement card services. The benefits of transferring to the state contract will include improving program reporting and processing timeframes. With the conversion to the State Contract, the Finance Department will issue all new ProCards and provide refresher training to all cardholders. This will involve a review of all cards to determine need as well as cleansing of the cardholder database. Additional on-line tools will be evaluated for use by the cardholder, supervisor or program managers.

Finance is pleased that internal controls are strong, are in place and are operating as intended. Although the current audit had very few and mostly procedural findings, we understand that the potential to abuse the program is present, and the risk is as volatile as one cardholder's ethics. The flexibility and autonomy of this program make it both a benefit to the city and a potential risk. Currently, the program benefits outweigh the risks and Finance will continue to work with the Departments, Cardholders and City Auditor to ensure that this continues.