

PURCHASE CARD PROGRAM AUDIT

PROGRAM EVALUATION AND AUDIT

DRAFT



METROPOLITAN
C O U N C I L

February 5, 2020

INTRODUCTION

Background

The Metropolitan Council established the purchasing card (P-Card) program to provide a more cost-efficient, alternative method for managing low-dollar purchases. The Council P-Card is issued by Bank of America to authorized Council staff for the purpose of making official Council purchases. The P-Card may be used to make authorized purchases in person at the vendor site, over the telephone, via fax and mail orders, and over the Internet.

The P-Card program is administered by Regional Administration Finance staff and the same rules and regulations set by Procurement apply when making a purchase with a P-Card. In order to receive a purchase card, staff must attend a training with P-Card staff and sign a user agreement. Cardholders are required to verify transactions and upload their receipts/invoices to PeopleSoft at least once a month. PeopleSoft must also be reconciled with manager approval once a month. The P-Card administrator and team review transactions and receipts at the end of each billing cycle.

Objective

The objective of this audit was to assess the system of internal controls of the Council's P-Card program and to assess cardholders' compliance with the Purchasing Card Program Cardholder Manual (the Manual) and applicable federal provisions for micro purchases. This audit reflects the Council's Thrive MSP 2040 principle of accountability and outcome of stewardship. Thrive MSP 2040 principle of accountability includes a commitment to evaluate the effectiveness of policies and practices, and the outcome of stewardship addresses the responsible management of the region's financial resources.

Scope

The scope of this audit were the 53,026 transactions that occurred between December 15, 2017 and August 14, 2019 and the 325 employees in the cardholder master list as of July 26, 2019.

Methodology

To address the objectives of the audit, Council policies and procedures were reviewed to understand the P-Card program at the Council including the Manual and the Council's Procurement procedure. In addition, interviews were conducted with finance staff, various testing was done of the cardholder list as well as the transaction report.

OBSERVATIONS

Several processes and procedures were reviewed including the process for issuing cards, guidelines for purchasing, reconciling purchases and closing accounts. Most processes and procedures were found to be functioning without issue. Below is a summary of the reviewed areas and the results.

Controls in place for issuing cards and reviewing card usage

To receive a P-Card, you must be an employee, you must have manager or other approval, attend a training session and sign a cardholder agreement. Audit randomly chose 10 cardholders from the cardholder master list and found documentation was retained except for one cardholder who was issued their card three years ago. We also found that the P-Card Manager contacts cardholders who haven't used their card in over a year to ensure the Council's risk and exposure to fraudulent activity is minimized by confirming they still need their card. Audit confirmed this is done bi-yearly.

Monitoring Over Cardholder Spending Limits

The Manual states that splitting a purchase to circumvent the established limitations of a P-Card is a Council policy violation. The Manual further states that single spending limits may be adjusted by submitting an approved change request to the P-Card Manager. Audit reviewed P-Card transactions within the scope of this audit to determine compliance to spending controls:

- Audit identified purchases made by current cardholders during 2018 calendar year and cross referenced these transactions with the purchaser's maximum limit for a single transaction. Audit noted that 165 transactions made within said period exceeded the purchaser's maximum limit for a single transaction. Audit judgmentally selected and reviewed the documentation supporting 11 of the 165 above maximum-limit purchases. Cardholders and the P-Card Manager had an approved change request on file for all 11 purchases.
- To facilitate oversight of split transactions, the P-Card Manager reviews monthly potential split transaction reports from the Bank of America. Audit verified the P-Card Manager's oversight by reviewing the potential split transaction report for April 2018. Audit did not find a split purchase within this period. The P-Card Manager maintains adequate oversight to ensure that Cardholders do not exceed spending limits or split purchases to circumvent single transaction or cycle limits.

Verification and documentation for purchases left to cardholder

Of the 85 purchases reviewed, 27 did not include documentation other than a receipt in PeopleSoft. The purchases reviewed were judgmentally sampled based on the following criteria – purchases made on weekends and holidays, consumables, anything that might be a gift, random selection and transactions of cardholders who's transactions were often reviewed late as well as reviewers who had multiple cardholders to review. Cardholders are not required to provide documentation beyond a detailed receipt for ordinary purchases. The Council's procurement procedures states that P-Cards will only be used for Metropolitan Council official purposes. While the Manual states cardholders must use the purchasing card for legitimate business purposes only. Leaving verification and documentation for purchases (apart from a receipt) to the discretion of the cardholder presents a control weakness for the Council and does not provide reasonable assurance that its resources are not being wasted.

Recommendation:

1. **(Essential)** P-Card users should be required to provide documentation that purchases are for business purposes, for example writing a sentence or two in the fields available in PeopleSoft.

Management Response: Management acknowledges the need for a formal P-Card Policy and Procedure to be written that incorporates this recommendation by providing defined requirements for demonstrating a clear business purpose for all P-Card purchases.

Timetable: This will be complete by end of Q4 2020.

Staff Responsible: P-Card Manager and P-Card Administrators

Thrive 2040 Principle and Outcome: Accountability and stewardship.

AmazonSmile used for at least one purchase

One purchaser in our sample of 85 was found to have used AmazonSmile, which donates 0.5% of the price of the purchase to a charity of the purchaser's choice. The Manual states never accept free gifts, gift cards, rewards points, or any other incentives from vendors. AmazonSmile is not provided as an example to employees during training or in the Manual as an example of benefits cardholders are not able to accept. Using AmazonSmile is a benefit to cardholders and their chosen nonprofit organization and represents a violation of P-Card policy.

Recommendation:

2. **(Essential)** The Manual should be updated to include AmazonSmile as an example of benefits cardholders are not allowed to accept.

Management Response: Management agrees that AmazonSmile should be provided as a specific example of benefits that Cardholders are not authorized to accept. An email reminding users that they are not allowed to accept benefits when using the P-Card will be sent to all Cardholders and Approvers. The email will explain that AmazonSmile is considered a benefit to the Cardholder. The new user training materials will be updated to include AmazonSmile as a benefit Cardholders must avoid.

Timetable: This will be complete by January 31, 2020.

Staff Responsible: P-Card Manager and P-Card Administrators

Thrive 2040 Principle: Accountability.

Insufficient documentation for federally funded purchases

Cardholders are required to document a fair and reasonable price assessment for every federally funded purchase¹. During this review, Audit judgmentally selected 9 transactions to determine

¹ Metropolitan Council Procurement Procedure - 2.1.1.18 Micro Purchases: Rev #16; Dec. 2018

whether cardholders are complying with the Council procurement procedure for micro purchases. Eight out of nine P-Card holders did not make a fair and reasonable price determination for their purchase. This constitutes noncompliance with the Council and the Federal Transit Administration (FTA)'s procurement requirements.

Recommendation:

- 3. (Essential)** All Cardholders and approving officials must be notified immediately about the FTA and the Council's requirement to make a fair and reasonable price determination for every federally funded micro – purchase. The P- Card Manual should also be updated to reemphasize the Council and the FTA's procurement requirement of documenting fair/reasonable price determination for federally funded purchases.

Management Response: The Cardholder Responsibilities section of the P-Card manual will be updated to stipulate that federally funded purchases require a fair and reasonable price assessment in addition to the standard documentation requirements. An email will be sent to all existing Cardholders and Approvers to notify them of the requirement and will be covered in new user training going forward.

Timetable: This will be complete by end of Q1 2020.

Staff Responsible: P-Card Manager and P-Card Administrators

Thrive 2040 Principle: Accountability.

Account Usage Could be Improved

Audit found examples of P-Card users assigning incorrect accounts for different purchases. Examples include accounting auditing/external for computer equipment, construction contract for printing and attendance fee for a workshop to the consultant account. During the cardholder reconciliation process, purchasers are responsible for adjusting their default accounting code in PeopleSoft should it need to be changed for an individual transaction. Cardholders are not provided guidance for which purchases should be assigned to which accounts. Not providing direction to staff on which accounts to use leads to somewhat inaccurate expense tracking.

Recommendation:

- 4. (Consideration)** P-Card users should be provided a list of accounts and what they might be used for.

Management Response: A list of commonly used Account codes with their description will be emailed to all existing Cardholders. The list will also be maintained and accessible on the P-Card MetNet page. Going forward, the list of Account codes will be included in the training materials and reviewed with Cardholders during new user training.

Timetable: This will be complete by end of Q1 2020.

Staff Responsible: P-Card Manager and P-Card Administrators

Thrive 2040 Principle: Accountability.

CONCLUSIONS

The P-Card program at the Council has several controls and documented processes, including issuing P- Cards to eligible Council employees only; maintaining adequate oversight over spending controls and proactively monitoring and reviewing card usage to minimize exposure to fraudulent activities. However, controls around federally funded micro purchases and documentation requirements for P-Card transactions could be improved to ensure that government funds are used appropriately.

DRAFT

Appendix

Program Evaluation and Audit recommendations are categorized according to the level of risk they pose for the Council. The categories are:

- **Essential** — Steps must be taken to avoid the emergence of critical risks to the Council or to add great value to the Council and its programs. Essential recommendations are tracked through the Audit Database and status is reported twice annually to the Council's Audit Committee.
- **Significant** — Adds value to programs or initiatives of the Council but is not necessary to avoid major control risks or other critical risk exposures. Significant recommendations are also tracked with status reports to the Council's Audit Committee.
- **Considerations** — Recommendation would be beneficial but may be subject to being set aside in favor of higher priority activities for the Council or may require collaboration with another program area or division. Considerations are not tracked or reported. Their implementation is solely at the hands of management.
- **Verbal Recommendation** — An issue was found that bears mentioning but is insufficient to constitute a control risk or other repercussions to warrant inclusion in the written report. Verbal recommendations are documented in the file but are not tracked or reported regularly.

DRAFT



METROPOLITAN
C O U N C I L

390 Robert Street North
Saint Paul, MN 55101-1805

651.602.1000
TTY 651.291.0904
public.info@metc.state.mn.us
metro council.org