

COUNCIL AGENDA: 09-28-10
ITEM: 3.4

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Lee Price, MMC
City Clerk

**SUBJECT: AUDIT REPORT OF THE CITY'S
PROCUREMENT CARD
TRANSACTIONS**

DATE: 09-20-10

RECOMMENDATION

As recommended by the Public Safety, Finance and Strategic Support Committee on September 16, 2010 and outlined in the attached memo previously submitted to the Public Safety, Finance and Strategic Support Committee, accept the Audit Report of the City's Procurement Card Transactions.



Office of the City Auditor

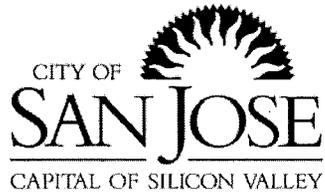
**Report to the City Council
City of San José**

CITY PROCUREMENT CARDS: POLICIES CAN BE IMPROVED

**Even Though Three Departments
Generally Complied with the Existing
P-Card Policy, Policies Can Be Improved**

**Opportunities Exist for Departments and
the City to Identify High Volume
Merchants and Where Possible
Formalize Agreements with Them**

**Report 10-09
September 2010**



Office of the City Auditor

**Report to the City Council
City of San José**

**CITY PROCUREMENT
CARDS: POLICIES CAN
BE IMPROVED**



Office of the City Auditor
Sharon W. Erickson, City Auditor

September 8, 2010

Honorable Mayor and Members
of the City Council
200 East Santa Clara Street
San Jose, CA 95113

City Procurement Cards: Policies Can Be Improved

The City of San José's Procurement Card Program was established to streamline small dollar purchases. Procurement cards – commonly known as p-cards – are a means of expediently purchasing supplies, materials, and equipment. The objective of this audit was to review p-card transactions from three departments – Environmental Services Department (ESD), San José Police Department (SJPD), and Parks, Recreation and Neighborhood Services Department (PRNS). We reviewed these transactions for compliance with the City's p-card policy and other applicable policies.

Even though the three departments generally complied with the existing p-card policy, we found:

Many purchases from all three departments we reviewed were not well described in the documentation accompanying the purchases. The documentation accompanying many of the transactions lacked basic information about the purchases. We recommend that Finance revise the p-card policy to require simple descriptive annotations on receipts or statements that describe the intended use of the purchases and number of people served.

Additional guidance is needed on handling food and beverage purchases in SJPD. City policy limits food and beverage purchases. Because of unique needs in SJPD, we recommend that SJPD develop its own parameters for purchasing food and beverages including how much can be spent per participant, and the circumstances under which food and beverages can be purchased for employees' meals while performing their job duties locally.

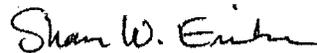
PRNS should develop policies on its practice of using gift cards to reward volunteers. While reviewing PRNS' transactions, we found that cardholders purchased gift cards for program participants and community volunteers. However, nothing in the City's policy authorizes use of City funds for such purposes. We recommend that PRNS either immediately discontinue its practice of purchasing gift cards to reward members of the public or work with the Administration to develop a policy regarding when and for what dollar amounts gift cards can be purchased and distributed.

P-card transaction review showed some policy violations. While most of the concerns we found could be addressed by revising or clarifying City policies to provide clearer direction to cardholders, our review of the p-card transactions also revealed a few violations of the City's p-card policy. These included purchases that were solely for employee use, allowing other employees to use their p-cards, exceeding the \$1,000 p-card limit on service purchases, omitting receipts altogether, not providing itemized receipts, splitting transactions to circumvent spending limits, making purchases at retail stores when the items were available at the City Warehouse or when items could have been purchased through open purchase orders, personal purchases with City p-cards, and renting equipment that required signatures and agreement to terms and conditions. As such, we recommend that OER provide clear guidance on purchases that are solely for employees' personal use. We also recommend that Finance update its cardholder training, and require annual certification by p-card holders and approving officials that they have received and agree to comply with the City's p-card policy.

Opportunities exist for departments and the City to identify high volume merchants and, where possible, formalize agreements with them. Our review found that departments often exceed the \$10,000 threshold that should trigger formal procurement. We recommend that Finance and department staff annually review citywide p-card transaction reports to determine whether the total volume of the transactions would trigger an open purchase order and potential volume/bulk discounts. We also found inter-departmental opportunities to consolidate open purchase order pricing citywide by taking advantage of existing purchase orders or preferred purchasing agreements in other departments. We recommend that Finance coordinate such efforts.

The City Administration generally agrees with our recommendations and their response is shown on the yellow pages. I will present this report at the September 16, 2010 meeting of the Public Safety, Finance, and Strategic Support Committee. If you need any additional information, please let me know.

Respectfully submitted,



Sharon W. Erickson
City Auditor

finaltr
SE:bh

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Introduction

In accordance with the City Auditor's 2010-11 Audit Workplan, we have completed an audit of the City's Procurement Card Program. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the Audit Objective, Scope and Methodology section of this report.

The Office of the City Auditor thanks the management and staff from Finance Department (Finance), Environmental Services Department (ESD), San José Police Department (SJPD), Department of Parks, Recreation and Neighborhood Services (PRNS), and Office of Employee Relations (OER).

Background

The City of San José's (City) Procurement Card Program (P-Card Program) was established to streamline small dollar purchases and reduce the acquisition period. The City's p-card program is part of the State of California's (State) CAL-Card Program. The State entered into a Master Services Agreement with US Bank for VISA procurement card services as part of the State of California's CAL-Card Program. The resulting [VISA Card] contract is available to government/tax funded agencies and can be used to acquire goods and services. As a participant of the CAL-Card Program, the City receives VISA procurement cards from US Bank. The procurement cards – commonly known as “p-cards” – are a means of expediently purchasing supplies, materials, and equipment.

Through the CAL-Card Program, the City maintains specific controls over p-cards. The controls include several spending controls, such as restrictions on the types of merchants where the cards can be used. Some of the restricted merchants include massage parlors, casinos, financial institutions, dating and escort services and bail and bond establishments. In addition to the types of transactions blocked by US Bank, participating agencies can disqualify additional merchant categories and place stricter limits on cardholders than the CAL-Card Program's default limits.¹ For instance, the State places a \$100,000 monthly

¹ When necessary, the City's Procurement Card Administrator can temporarily “lift” blocked merchant types and increase spending limits with US Bank on a temporary basis.

City Procurement Cards: Policies Can Be Improved

spending limit on CAL-Card Program accounts; the City of San José places a much lower limit of \$10,000.²

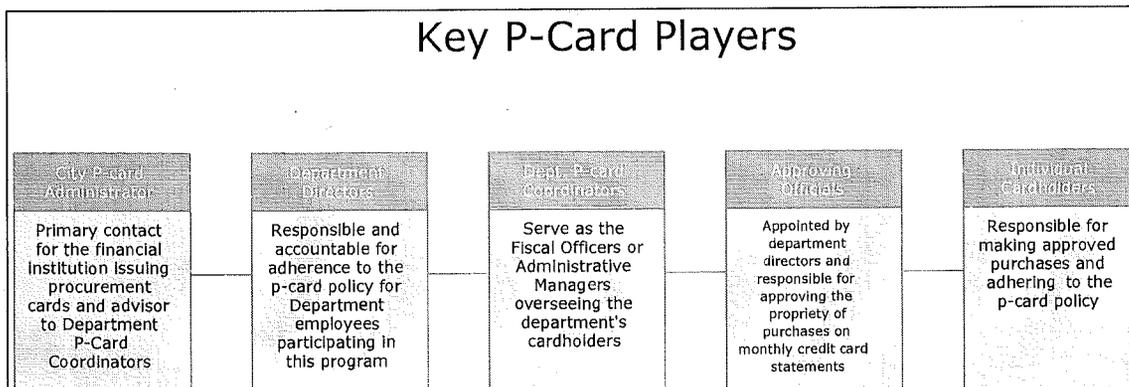
The City has designated that p-cards **shall** be used as a first purchase option unless the goods and services to be purchased are subject to the City's competitive solicitation requirements or the goods and services are available in a City Warehouse or through established contracts such as citywide or departmental open purchase orders.

The City's P-Card Program Has Changed

In June 2009, Finance determined that it would no longer process requisitions for materials, equipment or supplies with an estimated annual value of \$10,000 or less and for services with an annual value of \$1,000 or less. In essence, it meant that processing purchase orders for goods and services below the new annual thresholds would be a low priority for Finance.

Each City department has a designated p-card coordinator who is responsible for reviewing p-card statements and the accompanying documentation in order to ensure that cardholders have complied with all aspects of the p-card policy. In addition, cardholders are required to take and pass an online quiz prior to getting their p-cards to confirm their understanding of the p-card policy. Because of the uniqueness of the purchasing needs of some of the departments, the individual departments are frequently in the best position to determine the validity of some of their p-card purchases. Finally, Finance provides each department with an annual p-card usage report which provides individual employee p-card usage statistics. Department directors use this information and are required to submit an annual report which certifies compliance with the p-card policy and that their respective departments have adequate controls to ensure the proper use of p-cards.

Exhibit I: Key P-Card Program Players Are Spread Across the City



Source: Auditor summary

² City of San José Procurement Card Program has several "power users" who have larger single and monthly transactions limits. The P-Card Administrator adjusts these limits upon the request of department p-card coordinators.

These key players are tasked with unique and intentionally duplicative roles and responsibilities. Exhibit 2 summarizes how the key players outlined above; perform key functions in the program.

Exhibit 2: Key Players Are Assigned Intentionally Duplicative Roles and Responsibilities

Roles and Responsibilities	Key Players (Location of Key Player)					
	Cardholder	Approving Official	P-Card Coordinator	Department Director	Citywide P-Card Administrator	Accounts Payable
	(Department)	(Department)	(Department)	(Department)	(Finance)	(Finance)
Assesses need and approves the issuance of procurement cards for authorized City business		X	X	X	X	
Establishes cardholders' credit line, transaction limits, and customized terms			X	X	X	
Confirms that transactions are necessary, appropriate, and compliant	X	X	X	X		
Ensures cardholders are responsibly managing cards	X	X	X	X		
Monitors card activity and the changing purchasing needs			X	X	X	
Change Approving Officials			X	X	X	
Ensures billing statements are accurate	X	X	X	X		
Ensures City submits card payments to bank	X	X	X	X		X
Identifies and initiates investigation of statement discrepancies	X					
Works with banks and/or merchants to resolve statement discrepancies	X					
Revises and amends the Procurement Card Program, policy, and related documents as needed					X	
Ensures cardholders know their obligations	X	X	X		X	
Informs cardholders of problems with the management of cards			X		X	
Reports noncompliance, abuse and fraud		X	X		X	
Revokes privileges of noncompliant, abusive and fraudulent cardholders			X	X		

Source: Auditor Summary based on City Procurement Card Policy

City Policy Manual Outlines Guidelines and Restrictions

City Policy 5.1.2 (p-card policy) establishes a framework for the citywide P-Card Program including participation in the program and the appropriate use of p-cards. The P-Card Program does not replace effective procurement planning which allows for volume/bulk discounts. The p-card policy specifies a number of prohibitions on the use of City p-cards including:

- Use of p-cards for non-City purposes;
- Use of the p-card by any other person than the cardholder (except as authorized during an emergency);
- Cash advances;
- Purchases from merchants when the cardholder or approving official has a conflict of interest as defined by City policies; and
- Purchases of flowers, shower gifts, birthday gifts, etc., for fellow employees.

Finance and Individual Departments Administer the P-Card Program

The Finance Department is ultimately responsible for administering the citywide P-Card Program and making payments to US Bank. Individual departments are responsible for ensuring p-card purchases do not violate City policies.

Every month, US Bank mails billing statements to cardholders that reflect the cardholders' monthly p-card activity. Within department-imposed deadlines, cardholders review their statements for accuracy and completion, sign them, and forward them to their approving officials for review and approval. Typically, cardholders submit their statements to their approving officials in packets that include monthly statements on top, along with original itemized receipts that correspond to the transactions summarized on the statements, and any other supporting documentation that details the purpose of the purchases. In cases when receipts are not provided, cardholders complete a Procurement Card Program Missing Receipt Form on which they provide narrative details of transactions. Approving officials review the cardholders' statement packets, and forward them to the department coordinators who give a final review and follow-up on potential violations of City policy. Finally, the department coordinators request payment for the p-card activity, and send statement packets to Finance Accounts Payable before the Finance-imposed deadline. Finance approves payments to US Bank, and performs limited compliance testing on some of the packets. Finance files the statement bundles by cardholder, then by department, and then by statement date, in its filing cabinets.

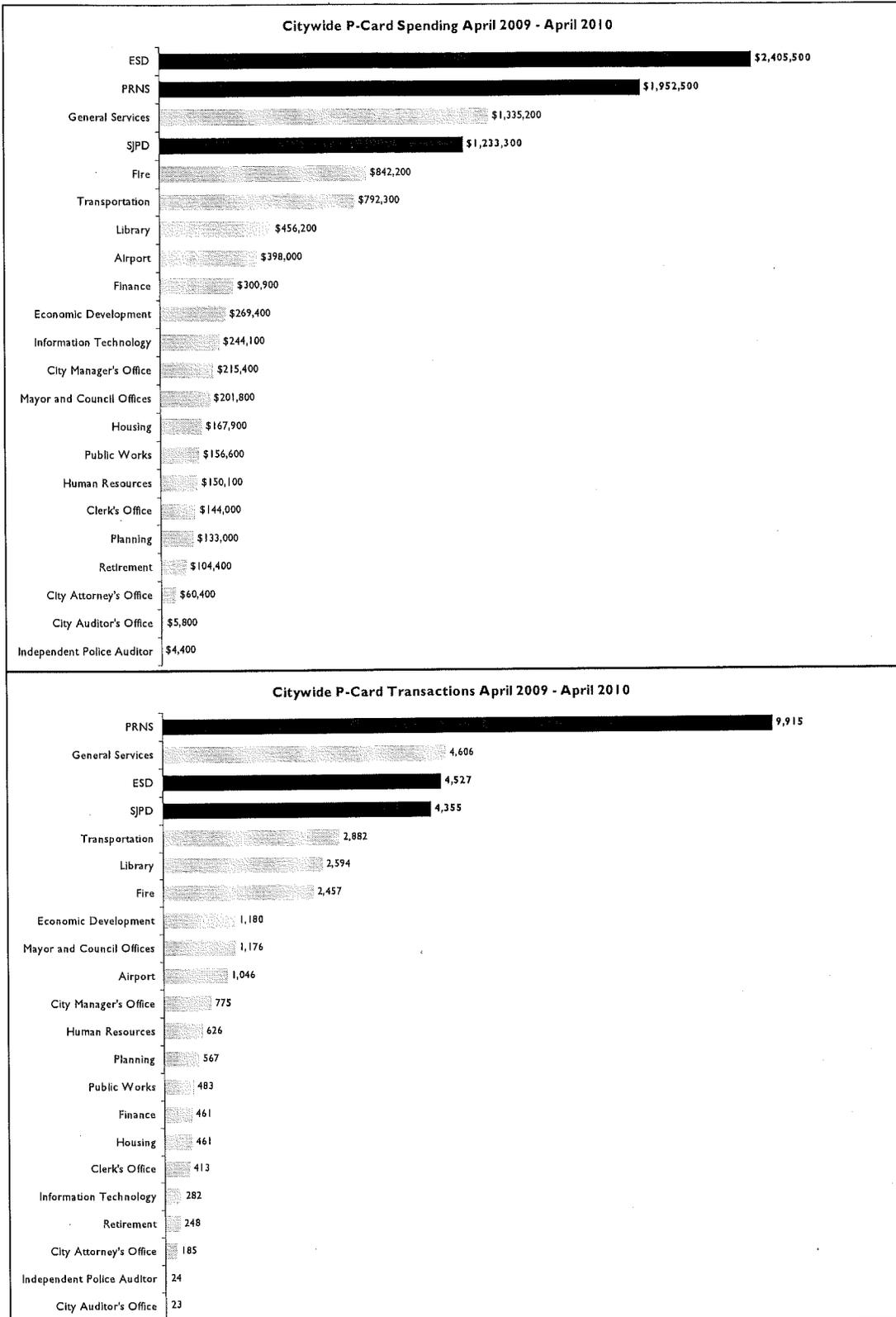
The City's P-Card Program Has Grown

As mentioned above, the City has designated that p-cards shall be used as a first purchase option for products below \$10,000 and services under \$1,000. According to the City Auditor's first p-card audit³, p-card expenditures between July 2004 and November 2005 totaled about \$9.5 million. However, our review of transactions from April 2009 to April 2010 showed that the total expenditures had increased to almost \$11.6 million. According to our review of citywide p-card transactions between April 2009 and April 2010, all City departments hold at least one p-card. However, there is significant variance among departments in the frequency with which p-cards are used, and in the dollar amount of the p-card transactions.

From April 2009 to April 2010, four departments accounted for most of the City's p-card transactions and spending. These were Environmental Services Department (ESD), General Services Department, San José Police Department (SJPD) and the Department of Parks, Recreation, and Neighborhood Services (PRNS). Exhibit 3 shows the total dollars spent and the number of transactions carried out through City p-cards.

³ <http://www.sanjoseca.gov/auditor/AuditReports/0603/0603report.pdf>

Exhibit 3: The Three Selected Departments Accounted for Almost Half of the City's \$11.6 Million in P-Card Spending and 39,286 P-Card Transactions



Source: Auditor summary of US Bank Online Data. P-card spending rounded to the nearest hundred dollars.

Prior Audits

In September 2006⁴, the City Auditor's Office issued a report assessing the operational threats facing the City's P-Card Program and the administrative controls in place to prevent, eliminate, or minimize those threats. Additionally, the City Auditor's Office reviewed transaction information to identify potentially improper transactions. The audit revealed weaknesses concerning the use, processing, and monitoring of p-card transactions. The audit uncovered numerous examples of cardholders violating City policies.

In January 2008⁵ the City Auditor's Office issued a second report to establish a baseline against which to track Program improvement over time. Through a statistical sample of 2006 transactions, the audit found transactions did not adhere to City policies in 45 percent of the sample.

Recommendations from the 2006 and 2008 reports have all been implemented. Most notably, in response to one recommendation, Finance has prescribed a more manageable span of control for approving officials, and implemented an approving official exception process for designating approving officials to ensure a consistent chain of responsibility when approving officials change. In addition, City employees who are involved in p-card transactions have access to the procurement policy, relevant forms, a training video, and other informational items on Finance's intranet site.

Audit Objective, Scope, and Methodology

This audit is the third in a series of audits of the City's P-Card Program. The purpose of this audit was to test departmental compliance with the City's procurement card policy, focusing on p-card purchases in three high volume departments - ESD, PRNS, and SJPD. We reviewed transactions in each of these three departments based on 1) the total number and dollar amount of transactions, and 2) input from Finance. We reviewed two months of transactions from each of these three departments—a total of 3,463 transactions totaling about \$1 million. We selected the months to be tested based on transaction volume, preliminary observations of potentially high-risk transactions, and/or key milestones in the departments' p-card programs. Exhibit 4 shows the total number of transactions reviewed and the months we reviewed for each department.

⁴ <http://www.sanjoseca.gov/auditor/AuditReports/0603/0603report.pdf>

⁵ <http://www.sanjoseca.gov/auditor/AuditMemos/0631/0631M.pdf>

Exhibit 4: Summary of Transactions Reviewed

Department	Total Transactions Reviewed	Statement dates
ESD	808	August 2009 and September 2009
PRNS	1,780	February 2010 and April 2010
SJPD	875	April 2009 and October 2009
3-Department Total	3,463	

Source: Auditor review of US Bank online data

We downloaded transaction data from US Bank's online database, and compared them to the actual p-card statements to ensure that the data were valid and reliable. We reviewed each of the statement charges to ensure that the appropriate documentation was provided, the statements had been adequately reviewed by approving officials and coordinators, and that they complied with the City's p-card policy and various other City policies. We also compared US Bank's cardholder list with the list of terminated employees from the City's PeopleSoft database to check whether cardholders were eligible employees.

The City's p-card policy requires users to comply with all relevant City policies. We reviewed transactions for compliance with:

- Procurement Card Policy (City Policy Manual 5.1.2) ;
- Food and Beverage Policy (City Policy Manual 5.1.5) ;
- Procurement of Supplies Materials and Equipment (City Policy Manual 5.1.7);
- Procurement of Non-Professional Services and Supplies (City Policy Manual 5.1.8);
- Procurement of Informational Technology (City Policy Manual 5.1.9);
- Bottled Water Purchases (City Policy Manual 5.1.11);
- Ethics Policy (City Policy Manual 1.2.1); and
- Various department-specific policies for enforcing the p-card policy.

We reviewed and analyzed US Bank data on spending by individual cardholders and departments, as well as merchant spending. We checked internal controls for blocking employees from using p-cards at prohibited merchants. We reviewed the State's contract with US Bank, the City's agreements with OfficeMax, and open purchase orders with various merchants. We also reviewed the procurement policies from other CAL-Card jurisdictions to identify best practices. Finally, we interviewed staff from Finance, ESD, PRNS, SJPD, and OER.

Finding I Even Though the Three Departments Generally Complied with the Existing P-Card Policy, Policies Can Be Improved

Policies affecting cardholders could be tighter to better enable approving officials to ensure that p-cards are used for appropriate purchases, and improve transparency and accountability to the public. During our review, we determined that the three departments generally complied with the existing p-card policy although a few p-card transactions violated city and department policy. However, the following improvements can be made,

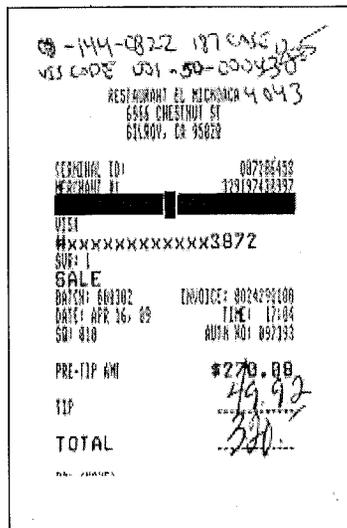
- Descriptive annotations of p-card transactions could enable approving officials and department coordinators to better understand the purpose of each transaction and thereby facilitate their approval of the transaction and
- Clarification in policy is needed for SJPD's purchases of food and beverages, cardholders' use of p-cards for purchases that are solely for employee use and PRNS' use of gift cards.

As such, we recommend that Finance revise the p-card policy to require simple descriptive annotations on receipts or statements that describe the intended use of the purchases, as well as the intended location, and if applicable, the number of people intended to use the purchased item or services. In addition, we believe Finance should continue to emphasize restrictions prescribed in the p-card policy in its online training, and annually distribute the p-card policy and restrictions and require annual certification by p-card holders and approving officials that they have received and agree to comply with the City's p-card policy. Finally, we also recommend that SJPD develop parameters for its food and beverage transactions, and PRNS discontinue or develop parameters on the use of gift cards to reward members of the public at community events.

Descriptive Annotations Would Improve Reviews, Approvals, and Transparency

Many purchases from all three departments we reviewed were not well described in the documentation accompanying the statements. For example, most of the approximately \$17,500 of PRNS' grocery store transactions we reviewed lacked even simple explanations for why the food was necessary, where it was to be used, and who would be using it. Much of the \$3,100 ESD cardholders spent at home improvement/warehouse retailers during the months we reviewed, either lacked descriptions or was accompanied by vague descriptions. Finally, most of the \$11,000 in SJPD food and beverage transactions showed only case numbers, had only limited annotations, and in several cases did not even include itemized receipts. The exhibit below illustrates an example of a SJPD cardholder's non-itemized receipt for a restaurant meal.

Exhibit 5: Absent Itemization, Receipts Do Not Shed Light on P-card Transactions



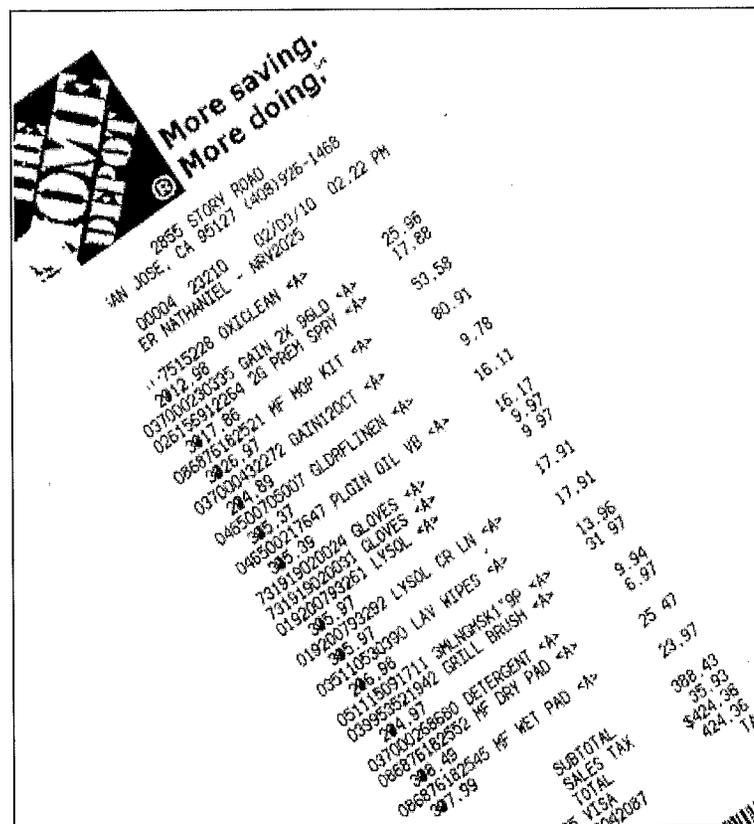
Source: Finance p-card files. Auditor snapshot of a SJPD cardholder's April 2009 p-card supporting documentation.

From the restaurant receipt shown in Exhibit 5, it is impossible to determine what was purchased, for how many people, and whether any unallowable items were purchased.

In many of these transactions, even though itemized receipts were provided, the files did not document the purpose of the transactions. Exhibit 6 illustrates the difficulty.

Exhibit 6: Statements and Itemized Receipts Are Not Always Sufficient in Describing Purchases

NEW ACCOUNT ACTIVITY					
POST DATE	TRAN DATE	TRANSACTION DESCRIPTION	REFERENCE NUMBER	MCC	AMOUNT
01-25	01-22	PROMOTION XPRESS 510-357-0238 CA PUR ID: 0000014031 TAX: 0.00	24493980022200329300039	2741	162.43
01-25	01-23	MOUNTAIN MIKES PIZZA 408-2514000 CA PUR ID: 1 TAX: 0.00	24736930024014493164420	5812	79.74
01-27	01-25	RISO INC 978-7777377 MA PUR ID: CREDIT CARD TAX: 0.00	24418000026026134154203	5969	604.46
01-27	01-26	OFFICEMAX CT*IN#923533 NAPERVILLE IL PUR ID: 0000000000000000 TAX: 7.46	24445000027118780488724	5943	87.98
02-05	02-03	THE HOME DEPOT #6672 SAN JOSE CA PUR ID: 132 TAX: 35.03	24610430035010179847810	5200	424.38
02-17	02-17	COMCAST CALIFORNIA 800-COMCAST CA PUR ID: 6155100013994326BA0216 TAX: 0.00	24692160048000766450851	4899	39.79
02-22	02-19	TARGET 00019844 SAN JOSE CA PUR ID: 132 TAX: 14.76	24164070050091007768768	5310	174.31
02-22	02-18	THE HOME DEPOT #6672 SAN JOSE CA PUR ID: 132 TAX: 6.01	24610430050010179891915	5200	70.94



Most of the transactions we reviewed, while accompanied by receipts, lacked basic information about the purchases, such as the purpose of the purchase, and the number of people for whom the items or services were purchased. The P-Card Program intentionally contains redundant review and approving responsibilities for people other than cardholders and approving officials⁶ to

⁶ The p-card policy requires approving officials to be cardholders' direct supervisors, because other than the cardholders themselves, direct supervisors are the ones likely to have knowledge about the purpose of purchases.

City Procurement Cards: Policies Can Be Improved

diminish the chance of p-cards being used to make inappropriate purchases. In our opinion, providing simple explanations on the purpose and intended use of purchases would ensure approving officials and other reviewers know what they are approving.

Other Agencies Require Descriptive Annotations Along with Purchases

We found that other CAL-Card-participating agencies such as the City of Grass Valley, the Santa Ana Unified School District, and the City of Richmond require descriptive annotations along with itemized receipts. For example, the City of Richmond requires its cardholders to log descriptions of purchases, and comments that could shed light on the business use of the purchases, and the locations where purchased items or services will be used.

Even within the City of San José, some department divisions already require descriptive documentation along with the p-card purchases. For example, ESD's Water Pollution Control Plant (WPCP), requires cardholders to disclose information about their purchases as a supplement to monthly billing statements and itemized receipts. Furthermore, we found several cardholders in all three departments and across the City, individually adopted the practice of annotating their p-card statements and receipts, which provided additional context for department coordinators and outside reviewers, and lent more transparency to purchases. Exhibit 7 shows a snapshot of actual supplemental annotations we encountered during our review. Brief and to the point, the annotations provide enough detail to ensure approving officials, department coordinators, and outside reviewers are aware of what they are approving.

Exhibit 7: Some Cardholders Provide Supplemental Descriptive Annotations with their Statements and Itemized Receipts

NEW ACCOUNT ACTIVITY					
POST DATE	TRAN DATE	TRANSACTION DESCRIPTION	REFERENCE NUMBER	MCC	AMOUNT
03-30	03-28	TOGOS EATERY 1100 SAN JOSE CA PUR ID: 1 TAX: 0.00	24013399088005916682380	5814	521.15 ①
03-30	03-28	RITE AID STORE 5987 SAN JOSE CA PUR ID: 50826886 TAX: 0.00	24792629088691508268864	5912	34.34 ②
03-30	03-28	RITE AID STORE 5987 SAN JOSE CA PUR ID: 51081662 TAX: 0.00	24792629088691510919823	5912	28.78 ③

BARRICADED SUSPECT EVENT # 09-087-0294

- 70+ OFFICERS DEPLOYED AT FIXED POSITIONS
- IMPRACTICAL TO LEAVE SCENE AND ASSIGNED POSTS
- PURCHASE OF SANDWICHES AND DRINKING WATER

530-4092

Source: Finance p-card files. Auditor snapshot of a SJPD cardholder's April 2009 p-card statement with handwritten annotations.

Recommendation #1: We recommend the Finance Department revise the p-card policy to require simple descriptive annotations on receipts or statements that describe the intended use of the purchases, as well as the intended location, and if applicable, the number of people intended to use the purchased items or services.

Additional Guidance Is Needed on Handling Unique Food and Beverage Purchases in SJPD

City policy provides limited guidance on food and beverage purchases. According to City Policy Manual 5.1.5, "*In limited circumstances [emphasis added], Departments may provide food and non-alcoholic beverages with City funds.*" We found that each of the three departments made food and beverage purchases for various reasons. For some scenarios unique to SJPD, we found the City's Food and Beverage Policy and SJPD's internal policies and procedures do not provide enough guidance.

For example, in one scenario, SJPD made food and beverage p-card purchases over two days in support of officers who had responded to an emergency event. In this case, one cardholder purchased \$450 worth of pizza, \$240 worth of coffee and drinks, and various miscellaneous items worth about \$50. SJPD's policies do not address whether and/or when it is appropriate for the City to purchase food for witnesses or provide food to staff when their presence is required for extended periods of time. Therefore,

Recommendation #2: We recommend the SJPD develop parameters for purchasing food and beverages, clarify how much can be spent per participant, and the circumstances under which food and beverages can be purchased for employees' meals while performing their job duties locally.

PRNS Should Develop Policies on Its Practice of Using Gift Cards to Reward Volunteers

While reviewing two months of PRNS' transactions, we found that cardholders purchased gift cards in denominations of \$5 to \$10 for a total of \$110. PRNS' supporting documentation indicated that these gift cards were purchased for program participants from the public or community volunteers. The City Policy Manual does not expressly prohibit the use of gift cards; however, according to OER nothing authorizes use of City funds for such purposes. Further, it would be improper to use City funds to purchase gift cards absent specific authorization.

Pending a change in policy parameters, PRNS should not use public funds to give gift cards to volunteers and should determine other means of rewarding participants and volunteers.

Recommendation #3: We recommend that PRNS either immediately discontinue its practice of purchasing gift cards to reward members of the public for various community events or work with the Administration to develop policy parameters for when, under what circumstances and for what dollar amounts the gift cards can be purchased and distributed.

P-Card Transaction Review Showed Some Policy Violations

While most of the concerns we found could be addressed by revising or clarifying City policies to provide clearer direction to cardholders, our review of p-card transactions also revealed a few violations of the City's p-card policy. Of the 3,463 p-card transactions we reviewed in total, we found fewer than 100 violations⁷. Some violations, of course, are more serious than others. Those violations, as described in more detail below, included:

- Cardholders made purchases that were solely for employee use;
- SJPD cardholders allowed other employees to use their p-cards;
- Cardholders exceeded the \$1,000 p-card limit on service purchases;
- Cardholders omitted receipts altogether, or did not provide itemized receipts;
- Cardholders split transactions to circumvent spending limits;
- Cardholders made purchases at retail stores when the items were available at the City Warehouse, or when items could have been purchased through open purchase orders;
- Cardholders rented equipment that required signatures and agreement to terms and conditions; and
- Personal purchases with City p-cards.

Cardholders Made Purchases That Were Solely for Employee Use

The p-card policy prohibits using p-cards to make purchases solely for employees' benefit. We found three instances of employees purchasing goods that were solely for employee use. Specifically, we found that two ESD cardholders had purchased a microwave oven and coffeemaker. We also found that a SJPD cardholder purchased a microwave oven for use in a SJPD bomb call-out trailer. The appliances that ESD cardholders purchased are located at the Water Pollution Control Plant and are used in the employee break room for heating their food and coffee. According to ESD, these employees must be on-site

⁷ This does not include illegible signatures, omitted descriptions and some other lesser violations of the City's p-card policy.

through the day and cannot leave the premises for food breaks. OER advised us that the purchase of appliances solely for employee use is generally prohibited by the p-card policy and should be paid for by the employees themselves, not the City. However, OER advised us that the purchase of the microwave for the SJPD bomb call-out trailer was an allowable purchase because employees are at times deployed for 18 hours or more per day. The City's policy is silent on whether and in what circumstances these types of purchases are allowable using public funds.

Recommendation #4: We recommend OER develop clear guidance on purchases for employees' personal use and exceptions (where appropriate).

SJPD Cardholders Allowed Other Employees to Use Their P-Cards

We found at least two instances of SJPD cardholders allowing other employees to use their p-cards. Both instances resulted in purchases that violated City policies. In one instance, a cardholder loaned a p-card to a direct subordinate for use during pre-approved travel. According to the cardholder, the cardholder loaned the p-card because the subordinate employee's card had reached its spending limit. However, we also found that the subordinate employee had in turn loaned the supervisor's p-card to yet another employee to make food purchases. The second employee who was loaned the p-card was not a cardholder, so likely was not trained on the p-card policy. The resulting transactions from this trip contained numerous p-card violations including over \$1,400 of meal charges that were not supported by itemized receipts. The cardholder, who loaned out the card to traveling subordinate staff, signed and submitted the p-card statement. The purpose of the cardholder signing the statement is to "certify that all purchases are in compliance with the City's Procurement Card Policy and are properly accounted for." In our opinion, cardholders cannot certify compliance without being present for the actual purchases. Further, the p-card policy specifically prohibits cardholders from loaning their p-cards to other employees. In the event that a cardholder's p-card has reached its spending limit, it is a fairly simple procedure to temporarily increase the cardholder's spending limits. According to Finance, the p-card coordinator can simply call Finance, which will route the request to US Bank which can in turn increase credit limits. Further, this whole process can be completed within one hour at the minimum and one day at the maximum.

Cardholders Exceeded the \$1,000 P-Card Limit on Service Purchases

As a way to ensure compliance with the City's insurance requirements and labor standards, the City's p-card policy restricts cardholders from making purchases for services that exceed \$1,000. Our review found five violations of this restriction. In one example, a PRNS cardholder charged two separate catering services – one for \$2,000 and another for \$1,500 – both of which exceeded the City's service limit of \$1,000. According to the department p-card coordinator,

the cardholder misunderstood the definition of a "service." In another example, an ESD cardholder renewed a software contract that exceeded the \$1,000 restriction by \$45. According to ESD's department p-card coordinator, the employee was informed of the violation and future purchases will be made through the purchase requisition process. ESD appears to have misunderstood the City's limits on service purchases as well. In our opinion, departments would benefit from clarification on the City's p-card policy and what types of services would fall under this definition. To address this misunderstanding, Finance should use its existing citywide training to emphasize the limitations on service purchases.

Cardholders Omitted Receipts Altogether or Did Not Provide Itemized Receipts

The p-card policy requires cardholders to submit with their statements for approval, itemized receipts that outline goods or services purchased, the quantities purchased, the prices per item, and amount of sales tax. We found numerous instances of cardholders either not providing receipts at all, or not providing itemized receipts. When itemized receipts have been lost and cannot be recovered, cardholders can itemize purchases and prices on a City form entitled "Procurement Card Program Missing Receipt Form." We found that on a few occasions, cardholders appropriately used this form, but in other instances, the forms were not completed sufficiently to substitute as an itemized receipt. While these violations were not prevalent, we did find several of them in SJPD.

Cardholders Split Transactions to Circumvent Spending Limits

Each cardholder has an approved spending limit. We found one instance when a SJPD cardholder split a transaction three times, making multiple payments for one hotel stay totaling \$7,262.63. These payments were broken up into two payments of \$2,500 each, one \$1,000 payment and two additional payments of \$762 and \$500, respectively. In this example, the cardholder was not present to make these purchases and had used the p-card to pay for the hotel stay for various other employees. The cardholder's single transaction limit was \$2,500.⁸ Exhibit 8 below shows the split transaction.

⁸ We should note that according to the SJPD, this transaction was an unusual occurrence because it was during the course of a large investigation which involved multiple employees and various locations in California.

Exhibit 8: Example of a Split Transaction by a SJPD Cardholder

NEW ACCOUNT ACTIVITY					
POST DATE	TRAN DATE	TRANSACTION DESCRIPTION	REFERENCE NUMBER	MCC	AMOUNT
04-06	04-03	LOCATEPLUS 978-9212727 MA PUR ID: TAX: 0.00	24088029093093138228603	7399	104.94
04-14	04-13	7-ELEVEN 18965 SAN JOSE CA PUR ID: TAX: 0.00	24423639103719615812885	5541	26.34
04-15	04-13	CAFE ROSALENA SAN JOSE CA PUR ID: 1 TAX: 0.00	24013399104005732506089	5812	80.00
04-15	04-13	CARLS JR 7128-11011707 SAN JOSE CA PUR ID: TAX: 0.00	24164079104187240548087	5814	115.06
04-15	04-13	HYATT HOTELS AT FISHERMAN SAN FRANCISCO 1894 ARRIVAL: 04-08-09	24610439104004081202128	3640	1,000.00
04-17	04-15	HYATT HOTELS AT FISHERMAN SAN FRANCISCO 1894 ARRIVAL: 04-08-09	24610439106004072201343	3640	2,500.00
04-17	04-15	HYATT HOTELS AT FISHERMAN SAN FRANCISCO 1894 ARRIVAL: 04-08-09	24610439106004072201350	3640	762.63
04-20	04-18	CAFE ROSALENA SAN JOSE CA PUR ID: 1 TAX: 0.00	24013399109005902806835	5812	111.65

NEW ACCOUNT ACTIVITY					
POST DATE	TRAN DATE	TRANSACTION DESCRIPTION	REFERENCE NUMBER	MCC	AMOUNT
04-20	04-16	HYATT HOTELS AT FISHERMAN SAN FRANCISCO PUR ID: 1894 TAX: 0.00	24610439107004071345819	3640	2,500.00
04-22	04-20	HYATT HOTELS AT FISHERMAN SAN FRANCISCO 1894 ARRIVAL: 04-20-09	24610439111004080080559	3640	500.00

Source: Finance p-card files. Snapshots from a SJPD cardholder's April 2009 SJPD cardholder statement

The process to increase the credit limit for a cardholder simply involves a phone call to Finance. In addition to the ability to temporarily request increased spending limits, each department has several "power users" – cardholders whose spending limits exceed the default limits of \$2,500 for single transactions and \$10,000 for cumulative monthly transactions.

Cardholders Did Not Use the City Warehouse or Open Purchase Orders

The City's p-card policy requires cardholders to use the City Warehouse or open purchase orders when needed items are available through these means. At all three departments, we found several examples of cardholders using their p-cards to buy from retail stores when the purchased items were available through the City Warehouse or existing purchase orders. These included items such as blank CDs and labels, arts-and-crafts supplies, and binders. In addition, we found cardholders purchased from various retail stores, items that could have been purchased from the City's Warehouse. For instance, at all three departments reviewed, we found widespread purchases of cleaning supplies and tools, disinfectants, and first aid supplies even though these items are available through the City Warehouse or existing purchase orders. According to Finance staff, the City is in the process of reorganizing the warehouse and reducing some of its

inventory which may affect the availability of items and future orders by employees. In our opinion, when the City completes its reorganization of the Warehouse, Finance should clarify what items are available there.

Cardholders Rented Equipment That Required Signing a Rental Agreement

The City p-card policy restricts cardholders from using their cards for "rentals of pieces of equipment which require signing of a rental agreement." The policy further states: "Unless delegated by a Council Appointee or the Municipal Code, City employees are not authorized to sign any agreements." Despite the restriction, we identified transactions involving equipment rentals that required signatures. In one example at PRNS, the cardholder and approving official informed us that such transactions had "always been the practice" and that they were unaware of any such restrictions.

Personal Purchases with City P-Cards

The p-card policy prohibits cardholders from using their p-cards for personal purchases. However, we found four instances of employees using City p-cards for personal purchases. Per the City's p-card policy, when the department coordinators discover such violations to the p-card policy, violating cardholders are to write formal memoranda addressed to the chain-of-command, and the departments are to forward the memos to Finance. These memos are intended to document violations and track frequent violators, or determine whether these cardholders should be formally disciplined. However, in the examples described below, SJPD did not enforce these procedures.

In one case, SJPD employees purchased alcoholic drinks worth \$51 and rented movies totaling about \$112 during a hotel stay.⁹ No memorandum was prepared because SJPD does not enforce the p-card policy if the charges are reimbursed.

In another instance, a PRNS cardholder rented a car while on a personal trip. The department coordinator documented this violation, and noted that the City would not be charged because the p-card statement would be credited with that amount the following month. The department coordinator immediately requested the City P-Card Administrator to cancel the violating cardholder's account. In this instance, PRNS followed-up and filed a memo of violation with Finance, although it was filed almost three months after the actual incident.

In our opinion, in dealing with noncompliant cardholders, the departments should enforce the City's policies. The City's policies require that employees violating the p-card policy write memoranda which are reviewed by their respective department directors, filed by the department coordinators and forwarded to Finance. Finance will then forward certain violations to OER for further action.

⁹ In all four instances the employees reimbursed the City. However, in three of the four instances, the funds were reimbursed between one to two months after the actual purchases.

Furthermore, since Finance is the custodian of the P-Card Program and has in place its own enforcement procedures, the departments should inform the City P-Card Administrator when they discover p-card transactions in which the cardholders make personal purchases.

Recommendation #5: We recommend that Finance update its cardholder training on the revised p-card policy to emphasize the following restrictions against:

- Allowing other employees to use the p-card;
- Providing itemized receipts or using the missing receipt form when needed;
- Using the p-card for purchasing services over \$1,000;
- Using the p-card for employee use;
- Splitting transactions to circumvent spending limits;
- Filing required memos of violation with the Finance department;
- Using the City Warehouse or Open Purchase Orders when available;
- Making personal purchases with the City's p-card; and
- Renting equipment that requires employee signatures.

Recommendation #6: We recommend that Finance annually distribute the p-card policy and restrictions and require annual certification by p-card holders, department coordinators and approving officials that they have received and agree to comply with the City's p-card policy.

During the Course of the Audit PRNS Updated and Changed Its Approving Official Policy

We found that PRNS had least two terminated employees still assigned as approving officials for current cardholders. Even though the approvals of these cardholders' purchases were being performed by the cardholders' current immediate supervisors, for adequate enforcement and accountability, it is important that department coordinators keep lists of approving officials for each cardholder up-to-date. For example, both ESD and SJPD periodically review and update their approving official assignments. As a result of our discussions with PRNS staff, PRNS revised and updated its internal policy on its approving officials. It now only includes active employees and the new policy provides for updating this list on a monthly basis.

City Departments Used OfficeMax Discount Cards for Employees' Personal Use

The City has a Citywide open purchase order with OfficeMax for its office supply needs. Through the agreement, OfficeMax established an online ordering site through which cardholders and other City employees can purchase frequently-used office supplies. Ordering through this online ordering site ensures that employees are directed to purchase previously agreed upon items that the City has a contract for. Some items available through the site are discounted as much as 60 percent from listed retail prices. During our review, it came to our attention that OfficeMax has provided the City with a box of "Retail Connect Discount" cards good for the same discounts for the contracted items at the retail stores.

During our review, we found that there was widespread confusion regarding the use of these cards. At least two departments believed the Retail Connect Discount cards were only for **personal use** and are never used for official purchases. Other departments were not even aware the card existed.

Because of concerns about potential ethics violations, when companies offer the City unsolicited discounts – which they occasionally do – the City only accepts them when **all** City employees can benefit.

During the course of the audit, Finance requested and received confirmation from OfficeMax that its intent was to provide this discount to all City employees. Finance is in the process of posting this information on the City's Employee News Network which provides all City employees with access to this discount.

Finding II Opportunities Exist for Departments and the City to Identify High Volume Merchants and Where Possible Formalize Agreements with Them

The City's procurement policy is intended to create opportunities for competition to arrive at the most economical prices while meeting operational needs when acquiring supplies, materials, and equipment. Per the policy, if purchasing requirements are infrequent, the purchase does not exceed the City's competitive solicitation requirement of \$10,000, and/or the unit cost does not exceed the single transaction limit for cardholders, the purchase can be made through the p-card. Due to the expansion of the P-Card Program, departments are encouraged to use p-cards for most purchases. However, if purchase values exceed the City's competitive requirement of \$10,000, departments are to develop specifications for such supplies, materials and equipment. Finance can then develop an open purchase order through a competitive process. We found that departments frequently exceeded the \$10,000 limit on purchases by using p-cards to make these purchases. Further, we also found that even though a department may not exceed the \$10,000 limit on purchases, other departments within the City may already have negotiated preferred pricing with the same merchants and their preferred pricing could be used by other departments to make purchases. In our opinion:

- Finance and department staff should annually review citywide p-card transactions to determine whether the total volume of the transactions would trigger an open purchase order and potential volume/bulk discounts; and
- Finance should initiate negotiations with highly-used merchants (such as those identified in this report) to secure volume/bulk discounts and/or determine if department-specific purchase orders could be used by other departments with similar purchasing needs.

Departments Often Exceed the \$10,000 Threshold That Should Trigger Formal Procurement

With certain exceptions, the p-card policy limits purchases from a single merchant to \$10,000 because purchases over \$10,000 should trigger a formal procurement process such as establishing a purchase order. The City benefits from having open purchase orders because oftentimes the open purchase orders are done through an open bidding process to ensure that the City is offered favorable prices. For example, the City's open purchase order through OfficeMax provides a 60 percent discount for some items. In other cases, merchants

provide fixed prices over multiple years. According to the City's p-card policy, the P-Card Program is not to replace effective procurement planning which allows for volume/bulk discounts.

Our review of the US Bank database that contains information about merchant spending and usage showed that from April 2009 through March 2010, ESD exceeded the \$10,000 threshold with 48 vendors, PRNS exceeded the threshold with 30 vendors, and SJPD exceeded the threshold with 14 vendors. For example, ESD made \$68,800 in purchases of industrial parts and equipment with a merchant without the benefit of a formal agreement. In another example, SJPD made \$40,700 worth of purchases from another merchant. Similarly, PRNS bought \$30,100 in sporting equipment from a sporting equipment merchant. We should note that according to ESD and SJPD they were aware of the dollar amount of the purchases at the above merchants, but their requests to establish purchase orders with these merchants were denied by Finance. Since then, the departments are working with Finance to develop open purchase orders with these merchants.

US Bank Provides Various Data Analysis Tools

As discussed above, department p-card purchases can frequently exceed the City's \$10,000 limit. In such cases, the City could benefit from a periodic (perhaps annual) review of p-card purchases to identify whether open purchase orders or agreements could be established to receive the best prices from these merchants. US Bank provides an online database that is accessible to approving officials, Finance, department coordinators, and cardholders. The database provides approving officials and others the ability to run various reports such as spending analyses at individual merchants by department, individual employee transactions by month, etc. Using these available tools would enable Finance to quickly get an overview of citywide p-card transactions to determine whether particular merchants meet the threshold for establishing purchase orders.

Recommendation #7: We recommend that Finance and department staff annually review citywide p-card transactions to determine whether the total volume of the transactions would trigger an open purchase order and potential volume/bulk discounts.

Inter-Departmental Opportunities Exist to Consolidate Open Purchase Order Pricing Citywide

In addition to individual departments using merchants where purchase orders or preferred purchasing agreements could be established, we found examples of individual departments potentially missing opportunities to take advantage of existing purchase orders or preferred purchasing agreements that other departments already have in place. For example, we found that the General

Services Department (GSD) currently has an open purchase order for lighting supplies with a lighting supplies vendor. However, Department of Transportation (DOT) made about \$1,000 of lighting purchases from the same merchant and could potentially take advantage of GSD's existing purchase order for its future purchases. Our review of GSD's open purchase order with this merchant found that it offers up to 71 percent discount on various lighting supplies. Using this pricing could potentially save DOT money.

In another example, the San José Fire Department has an open purchase order with a uniform supplier. However, both PRNS and SJPD make purchases through this merchant. Even though PRNS and SJPD used p-cards to make these purchases, this example shows that opportunities may exist for consolidating purchases when multiple departments buy from the same merchant.

In an example of an employee proactively taking advantage of an existing purchase order to get favorable pricing, we learned from ESD staff that another ESD employee used an open purchase order from the San José Redevelopment Agency to get the agreed upon price to buy paint supplies. Taking full advantage of existing purchase orders, like the ESD employee did, would mean that more departments and employees could achieve pre-negotiated pricing for some items and could improve the departments' and/or the City's positioning for negotiating favorable service terms and pricing from merchants.

Recommendation #8: We recommend that Finance initiate negotiations with highly used merchants such as those identified in this report, to secure bulk/volume discount and/or determine if department specific purchase orders could be used by other departments with similar needs.

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Conclusion

The City's P-Card Program was established to streamline small dollar purchases and reduce the acquisition period. City employees spent nearly \$11.7 million in p-card purchases between April 2009 and April 2010. Even though the three departments generally complied with the existing p-card policy, policies can be improved. Further opportunities exist for departments and the City to identify high-volume merchants and where possible formalize agreements with them.

RECOMMENDATIONS

Recommendation #1: We recommend the Finance Department revise the p-card policy to require simple descriptive annotations on receipts or statements that describe the intended use of the purchases, as well as the intended location, and if applicable, the number of people intended to use the purchased items or services.

Recommendation #2: We recommend the SJPD develop parameters for purchasing food and beverages, clarify how much can be spent per participant, and the circumstances under which food and beverages can be purchased for employees' meals while performing their job duties locally.

Recommendation #3: We recommend that PRNS either immediately discontinue its practice of purchasing gift cards to reward members of the public for various community events. OR work with the Administration to develop policy parameters for when, under what circumstances and for what dollar amounts the gift cards can be purchased and distributed.

Recommendation #4: We recommend the OER develop clear guidance on purchases for employees' personal use and exceptions (where appropriate).

Recommendation #5: We recommend that the Finance Department update its cardholder training on the revised p-card policy to emphasize the following restrictions against:

- Allowing other employees to use the p-card;
- Providing itemized receipts or using the missing receipt form when needed;
- Using the p-card for purchasing services over \$1,000;
- Using the p-card for employee use;
- Splitting transactions to circumvent spending limits;
- Filing required memos of violation with the Finance department;
- Using the City Warehouse or Open Purchase Orders when available;
- Making personal purchases with the City's p-card; and
- Renting equipment that requires employee signatures.

City Procurement Cards: Policies Can Be Improved

Recommendation #6: We recommend that the Finance Department annually distribute the p-card policy and restrictions and require annual certification by p-card holders, department coordinators and approving officials that they have received and agree to comply with the City's p-card policy.

Recommendation #7: We recommend Finance and department staff annually review citywide p-card transactions to determine whether the total volume of the transactions would trigger an open purchase order and potential volume/bulk discounts.

Recommendation #8: We recommend that the Finance Department initiate negotiations with highly used merchants such as those identified in this report, to secure bulk/volume discount and/or determine if department specific POs could be used by other departments with similar needs.



Memorandum

TO: Sharon Winslow Erickson

FROM: Scott P. Johnson

**SUBJECT: RESPONSE TO THE AUDIT of the
CITY'S PROCUREMENT CARD
PROGRAM**

DATE: September 3, 2010

Approved

Date

9/7/10

The Administration has reviewed the audit of the City's Procurement Card Program and is in general agreement with the recommendations identified in the report. We are very pleased that the controls and measures implemented since the last audit report issued in 2008 have been effective in reducing the non-compliance rate to approximately 2% out of 3,463 transactions, representing over \$1 million in expenditures, covered in the audit review.

This memorandum addresses each audit recommendation and discusses several of the measures the Administration has taken to continually improve the City's Procurement Card Program.

Recommendation # 1: The Auditor's Office recommends that the Finance Department revise the p-card policy to require simple descriptive annotations on receipts or statements that describe the intended use of the purchases, as well as the intended location, and if applicable, the number of people intended to use the purchased item or services.

Finance agrees with this recommendation and will amend the City Procurement Cards Policy (the "Policy") to require documentation sufficient to substantiate the purchase. Several challenges must be considered when implementing this recommendation: a) Over 35,000 p-card transactions are processed annually and additional transparency and other benefits gained by requiring more detailed documentation must be weighed against the administrative burden on the program that was designed to streamline and expedite simple purchases. b) Levels of documentation should increase with value of the purchase; documentation to support a \$9,000 purchase should be greater than documentation required for a \$50 purchase, teaching this subjective distinction may not be a straightforward lesson for cardholders. c) The P-card is now the required payment method for a growing number of citywide contract suppliers, such as the OfficeMax contract for office supplies, in these cases supporting documentation should not be required.

In an environment of streamlining, downsizing and minimal staffing resources, we must recognize the additional work required by staff to continually document and review these transactions creates some challenges. To simplify this process, Finance will develop documentation guidelines for non-

contract purchases that recommend a standard format, including documenting the business need, end-user and location, as recommended.

Recommendation #2: The Auditor's Office recommends the SJPD develop parameters for purchasing food and beverages, clarify how much can be spent per participant, and the circumstances under which food and beverages can be purchased for employees' meals while performing their job duties locally.

The Police Department continues to purchase food and beverages within City policy, this includes situations in which Department personnel, by the nature of the situation, cannot leave the premises or site. Situations when food and beverage are allowed are outlined in the Food and Beverage Policy and in the current Procurement Card policy under "Emergency Exceptions." These circumstances are limited and include such events as a hostage/barricade, an ongoing investigation, interrogation, or an emergency in which personnel cannot leave the premises. These purchases are annotated by a case number to indicate the nature of the situation, without further annotations as required by policy. The Police Department will develop an internal policy that clarifies the circumstances under which food and beverages can be purchased, the amount that can be spent, and documentation required for purchases that are in alignment with the City's Food and Beverage and Procurement Card policies.

Recommendation #3: The Auditor's Office recommends that PRNS either immediately discontinue its practice of purchasing gift cards to reward members of the public for various community events or work with the Administration to develop policy parameters for when, under what circumstances and for what dollar amounts the gift cards can be purchased and distributed.

PRNS agrees with this recommendation and will discontinue the practice of purchasing gift cards until such time that a Citywide policy is developed to govern the purchase and use of gift cards. In the meantime, PRNS will identify alternatively acceptable forms for recognizing and rewarding participants and volunteers in a way that conforms to existing policy and maintains program effectiveness.

Recommendation #4: The Auditor's Office recommends that OER develop clear guidance on purchases for employees' personal use and exceptions (where appropriate).

The Office of Employee Relations agrees with this finding and will work on developing clear guidance on purchases for employees' personal use and exceptions (where appropriate) for incorporation into the City Policy Manual.

Recommendation #5: The Auditor's Office recommends that the Finance Department update its cardholder training on the revised p-card policy to emphasize the following restrictions against:

- **Allowing other employees to use the p-card;**
- **Providing itemized receipts or using the missing receipt form when needed;**
- **Using the p-card for purchasing services over \$1,000;**
- **Using the p-card for employee use;**
- **Splitting transactions to circumvent spending limits;**
- **Filing required memos of violation with the Finance department;**
- **Using the City Warehouse or Open Purchase Orders when available;**
- **Making personal purchases with the City's p-card; and**
- **Renting equipment that requires employee signatures.**

Regularly scheduled classroom training was eliminated in 2009 due to staffing reductions. As an alternative to classroom training, the Finance implemented on-line training which includes an on-line cardholder quiz that must be passed before an application can be accepted from a prospective cardholder. All of the attributes listed above are addressed in the online training and covered in the quiz. Additional program changes, such as requiring notations to document a purchase transaction, will be added to the aforementioned online training program and included as part of the quiz.

Recommendation #6: The Auditor's Office recommends that the Finance Department annually distribute the p-card policy and restrictions and require annual certification by p-card holders, department coordinators and approving officials that they have received and agree to comply with the City's p-card policy.

Finance requires that each cardholder sign a new Cardholder Agreement (the "Agreement") on an ongoing basis, as cards are renewed. The Agreement includes language that the cardholder has read and understands the Policy in effect at the time of the renewal. Typically, the renewal process takes place every three years. In addition, Department Heads are required to certify annually that p-cards in their respective Departments are being used in accordance with the Policy. The annual process recommended in the audit report appears to be redundant with the processes that are in place, and would involve a very manual and ongoing process of distributing and tracking over 1,500 pieces of correspondence (the process would be ongoing because tracking responses and follow-up will be constant). Staffing limitations in the Finance Department do not permit this additional measure of control. Alternatively, Finance will work with US Bank to explore options for targeted mailings to cardholders explaining any p-card program updates. In addition, Finance will continue to work closely with P-Card coordinators and approving officials to ensure the P-Card Policy continues to be administered. Finally, Finance will work with the Human Resources Department and Office of Employee Relations to include, as applicable the City's Procurement Cards Policy in the "*Acknowledgement of Receipt and Understanding of Key Policies*" which is signed by employees as part of their annual performance review.

Recommendation #7: The Auditor's Office recommends that the Finance Department staff annually review citywide p-card transactions to determine whether the total volume of the transactions would trigger an open purchase order and potential volume/bulk discounts.

Recommendation #8: The Auditor's Office recommends that the Finance Department initiate negotiations with highly used merchants such as those identified in this report, to secure bulk/volume discount and/or determine if department specific POs could be used by other departments with similar needs.

Given the similarity in recommendations #7 and #8, Finance has combined the response. Finance agrees with these recommendations and will conduct a periodic review of P-Card spending trends to determine if there is sufficient activity with a specific supplier and/or a specific commodity that would warrant a solicitation (such as a Request for Bid). The purpose of a solicitation would be to consolidate the City's spending to leverage the volume of the City's purchases and obtain better pricing.

For questions regarding this memorandum, please contact Mark Giovannetti, Division Manager at 408-535-7052.


SCOTT P. JOHNSON
Director, Finance