



MOSSADAMS

PROPRIETARY AND CONFIDENTIAL

FINAL REPORT

FOR

CITY OF SANTA MONICA

**PURCHASE CARD (P-CARD) INTERNAL
CONTROLS TESTING**

August 14, 2018

Moss Adams LLP
999 Third Avenue, Suite 2800
Seattle, WA 98104
(206) 302-6500



Table of Contents

I. Overview	1
A. Background	1
B. Scope and Methodology	1
C. Summary of Results	1
II. Scope and Methodology	3
A. Scope and Methodology	3
B. Results	3
III. Findings and Recommendations	8
IV. Additional Observation and Recommendation	9



I. OVERVIEW

A. BACKGROUND

Moss Adams LLP was contracted by the City of Santa Monica (the City) to review the internal controls related to the Purchase Card (P-Card) program and identify opportunities for improvement. Our review took place between April and July 2018.

The testing of internal controls for operating effectiveness was completed under the consultancy standards of the American Institute of Certified Public Accountants (AICPA). As such, this work was not an audit of internal controls that resulted in a formal opinion or other form of assurance. The specific methods used for testing controls over the P-Card program are presented in the *Scope and Methodology* section below.

B. SCOPE AND METHODOLOGY

The scope of our review focused on P-Card program activities and transactions between July 1, 2017, and February 28, 2018. Our procedures included the following:

- Performed inquiries with key personnel within the Procurement and the Accounts Payable Unit.
- Inspected policies and procedures related to the P-Card program and procurement cycle.
- Identified key controls relevant to the P-Card program.
- Performed tests of internal controls that included the following elements:
 - Made inquiries of appropriate personnel responsible for the performance of the control activity.
 - Followed the performance of the procedural steps for a specific control activity from beginning to end.
 - Inspected documented evidence indicating the performance of the control activity/process.
 - Observed the application of a specific control activity. Where possible, documented evidence of our observation through pictures, screenshots, etc.
- Inspected the Wells Fargo SOC 1, Type 2 report applicable to the period under review.

C. SUMMARY OF RESULTS

The results of our testing revealed the following opportunities for the City and its departments to improve practices related to the P-Card program.

FINDINGS AND RECOMMENDATIONS		
1	Finding	Library computers and associated equipment were divided into multiple purchases rather than procured in accordance with the City's requirements for purchases that exceed \$10,000.
	Recommendation	Provide P-Card refresher training on procurement requirements.



The City should correct the aforementioned findings within the next six months and continue to implement the other controls that were tested without exception.

Additional opportunities for improvement are noted in the observation and recommendation presented below.

OBSERVATION AND RECOMMENDATION		
1	Observation	A review of the P-Card cardholder inventory is not performed with a standard frequency.
	Recommendation	Revise the Purchase Card Policy to conduct and document the results of an annual review of P-Card cardholder inventory.
2	Observation	Inconsistent reporting procedures increases the risk of questionable P-Card activity from being reported to Procurement for further investigation and monitoring.
	Recommendation	Ensure identified questionable P-Card activity is documented and communicated to Procurement staff in a consistent manner.
3	Finding	The City does not utilize a standard form for modifying credit limits.
	Recommendation	Develop and implement the use of a standardized request form for modifying P-Card credit limits.

Moss Adams would like to thank the staff of the City of Santa Monica for their cooperation and assistance during our review.



II. SCOPE AND METHODOLOGY

A. SCOPE AND METHODOLOGY

The scope of our review focused on Purchase Card (P-Card) program activities and transactions between July 1, 2017 and February 28, 2018, which consisted of 8,753 P-Card transactions. During this time, the City managed an inventory of 181 issued P-Cards, which were issued to various City employees and business units. P-cards are issued to permanent employees with the approval of their division manager and department director.

Our sample methodology reflected the selection of a random sample set for each control activity based on control frequency and assessed control risk. In order to identify the P-Card program’s control objectives and associated control activities, we inspected documented policies and procedures and performed inquiries with key personnel within the Procurement and Accounts Payable (A/P) unit. Furthermore, to assess operating effectiveness of key controls identified, our tests of operating effectiveness included the following:

- Interviewed appropriate personnel responsible for the performance of the control activity.
- Conducted walkthroughs of the procedural steps for a specific control activity from the beginning to the end.
- Inspected documented evidence indicating the performance of the control activity/process.
- Observed the application of a specific control activity and where possible, documented evidence of our observation through pictures, screenshots, etc.

Additionally, we inspected the Wells Fargo SOC 1, Type 2 report¹ applicable to the period under review to ensure:

- Wells Fargo’s service auditor did not identify any exceptions for the control objectives relevant to the IT system(s) within our scope of work.
- The City’s controls aligned with the user entity controls specified for the applicable control objectives detailed in the service auditor’s report.

B. RESULTS

WELLS FARGO SOC REPORT REVIEW

TESTING PERFORMED	RESULTS	FINDINGS
Wells Fargo’s service auditor did not identify any exceptions for the control objectives relevant to the IT system(s) within our scope of work.	No exceptions noted.	Not applicable.
The City’s controls aligned with the user entity controls specified for the applicable control objectives detailed in the service auditor’s report.	No exceptions noted.	Not applicable.

¹ Report on Wells Fargo & Company’s Description of its Treasury Management Services and the Suitability of the Design and Operating Effectiveness of its Controls.



KEY CONTROL TESTING RESULTS

The following table details the testing results for the key controls identified during our review.

Control Objective A: Cardholders adhere to card user eligibility and responsibility requirements prior to the issuance and during the possession of a P-Card.

CONTROL #	CONTROL DESCRIPTION	TESTING PERFORMED	RESULTS	FINDINGS
A1.1	Employees must complete the appropriate Purchase Card Application Form in order to obtain a P-Card. The Purchase Card Application is approved by the Department Director or appropriate member of management.	Selected a sample of seven employees who were issued P-Cards during the audit period and inspected Purchase Card Applications to ensure they were completed and approved by department management.	No exceptions noted.	See <i>Observation 3</i> for details.
A1.2	Individual card users or division members using a division card must review and sign the Card User Agreement.	Selected a sample of seven employees who were issued P-Cards during the audit period and inspected Purchase Card User Agreements to ensure they were completed and approved by the individual card user or division management.	No exceptions noted.	Not applicable.
A1.3	Department Directors or Department Liaisons are required to obtain P-Cards from issued cardholder upon termination or transfer.	Selected a sample of thirteen terminated cardholders and inspected supporting documentation that P-Cards were returned or accounts were closed in a timely manner.	No exceptions noted.	Not applicable.



Control Objective B: Card purchase limit thresholds are implemented to prevent purchases in excess of maximum card limits.

CONTROL #	CONTROL DESCRIPTION	TESTING PERFORMED	RESULTS	FINDINGS
B1.1	The Accounts Payable Unit will review transactions for compliance with P-Card guidelines, purchasing policies, and compliance with internal controls. If any questionable activity is noted, it is communicated to Procurement staff for further investigation and monitoring.	Corroborated through inquiry that the Accounts Payable staff perform a review of all P-Card transactions to ensure compliance with P-Card guidelines, purchasing policies, and internal controls. Inspected a sample of 3 email notifications to ensure noted questionable P-Card activity was communicated by A/P staff to Procurement for further investigation and monitoring.	Staff identified inconsistent reporting procedures, which increases risk of questionable P-Card activity from being communicated to Procurement for further investigation and monitoring.	See <i>Observation 2</i> for more details.
B1.2	P-Cards have a purchase limit threshold that prevents purchases in excess of the maximum monthly limit. Monthly purchase limits are set by Division Director/Manager at time of applying for P-Card.	Selected a sample of seven P-Cards and inspected Purchase Card Applications to ensure monthly limits were not in excess of amounts approved by management. Inspected a listing of P-Card transactions incurred during the audit period to ensure transactions were not in excess of monthly limits.	No exceptions noted.	Not applicable.
B1.3	The Finance Director sets a per transaction dollar limit. No individual transaction may exceed \$10,000.	Inspected 8,683 P-Card transactions incurred during the audit period to ensure no individual transaction exceeded \$10,000. Inspected a listing of P-Card transactions incurred during the audit period to ensure transactions were not divided into multiple purchases.	We identified one instance of a purchase being divided into multiple transactions. No other exceptions were noted.	See <i>Finding 1</i> for details.
B1.4	The Finance Director periodically reviews the City's inventory of card users and card limits for appropriateness.	Corroborated through inquiry that the Finance Director periodically reviews the City's inventory of card users and card limits for appropriateness.	No exceptions noted.	See <i>Observation 1</i> for details.



Control Objective C: Refunds are performed in accordance with established policies and procedures.

CONTROL #	CONTROL DESCRIPTION	TESTING PERFORMED	RESULTS	FINDINGS
C1.1	Credit card refunds are reviewed for appropriateness by managers.	Selected a sample of 30 refund transactions and inspected supporting documentation to ensure refunds were reviewed and approved by management.	No exceptions noted.	Not applicable.

Control Objective D: P-Card users abide by City policies related to spending City funds.

CONTROL #	CONTROL DESCRIPTION	TESTING PERFORMED	RESULTS	FINDINGS
D1.1	The City's documented Purchase Card Policy defines the allowable cost principles for P-Card use.	Inspected the City's Purchase Card Policy to ensure the document defined allowable costs for P-Card use.	No exceptions noted.	Not applicable.
D1.2	The Purchasing Card Administrator reconciles department/division purchase submissions with cardholder records.	Selected a sample of 60 P-Card transactions and inspected supporting documentation to ensure P-Card submissions were reviewed and approved by the P-Card Administrator.	No exceptions noted.	Not applicable.
D1.3	Division Managers/Department Directors perform a review of all transactions for reasonableness and appropriateness on a monthly basis. All monthly transactions are approved by the end of the billing period.	Selected a sample of 60 P-Card transactions and inspected P-Card submission documentation to ensure purchases were supported by receipts. Selected a sample of 60 P-Card transactions and inspected P-Card submissions to ensure Division Managers/Department Directors performed a review of all transactions for reasonableness and appropriateness on a monthly basis.	No exceptions noted.	Not applicable.



Control Objective E: The Purchasing Card Manager issues and monitors card user violations.

CONTROL #	CONTROL DESCRIPTION	TESTING PERFORMED	RESULTS	FINDINGS
E1.1	Upon observation, the Purchasing Card Manager issues a Violation Form and monitors card user violations. The violation form contains a list of recommended disciplinary action for violations; however, depending on the violation, the City may pursue additional action as permitted by the City's personnel policies.	<p>Selected a sample of violation forms issued during the audit period to ensure Notice of Violation forms were being used to notify P-Card users of instances of non-compliance with the Purchase Card Policy.</p> <p>Inspected the P-Card Violation Tracking spreadsheet to ensure issued violations are tracked and monitored.</p>	No violation notifications were issued during the audit period, therefore, no samples could be selected for testing.	Not applicable.



III. FINDINGS AND RECOMMENDATIONS

1	FINDING	<p>Library computers and associated equipment were divided into multiple purchases rather than procured in accordance with the City’s requirements for purchases that exceed \$10,000.</p> <p>During our review, we noted the City library made purchases to replace aging computers that totaled \$9,636 for new computer hardware. Additionally, separate purchases were made for associated peripheral equipment, totaling \$1,187.</p> <p>The City’s Procurement Policy states, “purchases of like goods and/or services from the same vendor by one or more departments are considered on a cumulative basis for exempt, informal, and formal thresholds.”</p> <p>As the purchases are associated with the same project and the cumulative purchase amount exceeded \$10,000, the computers and associated peripheral equipment should have been procured under the City’s informal bid/proposal process requirements² rather than treated as exempt from the competitive bid process.</p>
	RECOMMENDATION	<p>Provide P-Card refresher training on procurement requirements.</p> <p>To mitigate the risk of non-compliance with established policies and procedures, the City should provide refresher training on the appropriate use of P-Cards for City purchases. Additional emphasis should be placed on requirements and restrictions specific to the various purchasing thresholds detailed in the City’s procurement policy.</p>

² The City’s Informal Bid/Proposal Process: Informal procurements require an attempt to get at least three quotes from vendors in accordance with the requirements of SMMC 2.24.090, *Administrative Instruction – Procurement* (2017).



IV. ADDITIONAL OBSERVATIONS AND RECOMMENDATIONS

During the course of our testing, we made additional observations about the transactions we examined and the City's current processes. While these observations are not considered exception based on the current written criteria, we have included them because they represent additional opportunities for improvement.

1	OBSERVATION	<p>A review of the P-Card cardholder inventory is not performed with a standard frequency.</p> <p>The Finance Director periodically reviews the City's inventory of card users and card limits for appropriateness. However, during our testing, we noted the review of the P-Card cardholder inventory is not performed with a standard frequency (e.g., semi-annually, annually, etc.). In addition, the current process consists of an informal review, which is not documented. As a best practice, the City's cardholder inventory review should be performed at least annually and evidence of the review performed should be maintained for audit purposes.</p>
	RECOMMENDATION	<p>Revise the Purchase Card Policy to conduct and document the results of an annual review of P-Card cardholder inventory.</p> <p>The City should revise the Purchase Card Policy to specify that the cardholder inventory should be reviewed at least annually for appropriateness and accuracy.</p> <p>Additionally, procedures should be established that require department heads (or appropriate department liaisons) to review and approve a cardholder listing of all department-issued P-Cards. The approved listing should be submitted to the Purchasing Card Manager for review and recordkeeping purposes.</p> <p>Any revised or newly established procedures should be communicated to City employees and training should be provided as necessary.</p>
2	OBSERVATION	<p>Inconsistent reporting procedures increase the risk of questionable P-Card activity from being reported to Procurement for further investigation and monitoring.</p> <p>At the conclusion of Accounts Payable's review of P-Card transactions, accounts payable staff will pull questionable items and present them to procurement staff for further research. Examples of questionable items include, but are not limited to:</p> <ul style="list-style-type: none">• Missing receipts and other supporting documentation• Purchases for unallowable items (i.e. alcohol, illegal substances, personal items, etc.)



- Purchases for items that appear unreasonably overpriced or inconsistent with regular purchases

Concurrent with this review, Finance Department management identified inconsistencies between individual A/P staff members' approaches to documenting and communicating questionable P-Card activity to Procurement for further investigation and monitoring. Management determined these inconsistencies increased risk of questionable P-Card activity from being communicated to Procurement in a timely manner and addressed the control deficiency as of July 1st.

RECOMMENDATION

Ensure identified questionable P-Card activity is documented and communicated to Procurement staff in a consistent manner.

As of July 1, 2018, the City has addressed this risk by revising A/P's reporting procedures to ensure A/P staff report P-Card activity in a consistent and timely manner. The revised process introduces the use of a tracking spreadsheet, maintained and updated by A/P staff on a monthly basis. This spreadsheet is provided to Procurement staff for their review and monitoring purposes. The combination of revised procedures and the use of a tracking spreadsheet reduces the risk of questionable P-Card activity from being reported by A/P staff in an inconsistent manner.

Furthermore, the use of this tracking spreadsheet increases management's monitoring efficiency over the P-Card program by providing a centralized source of information for audit purposes.



3	OBSERVATION	<p>The City does not utilize a standard form for modifying credit limits.</p> <p>Documented evidence of P-Card purchasing limit approvals is maintained. However, the City does not use a standard form to collect and approve this information.</p>
	RECOMMENDATION	<p>Develop and implement a standardized request form for modifying P-Card credit limits.</p> <p>The City should develop and implement a standardized request form for all requests pertaining to P-Card credit limit increases. At a minimum, the form should detail the following:</p> <ul style="list-style-type: none">• Date of request• Card name and last four digits of the card• Indicate if the credit increase is temporary or permanent• Current monthly credit limit• Amount of credit increase being requested• Signature of manager approving request <p>All City cardholders should be required to use this form for any credit increase requests and training should be provided as necessary.</p> <p>Furthermore, this form should be included as an attachment to the current Purchase Card Policy and made available to cardholders on the City's intranet or upon request.</p>

//

