



Purchasing Card Risk Review

Why OCA did this project:

OCA's data analytics include a component that shows trends in financial risks. The analysis compares each financial module's risk relative to the other financial modules. This provides information to help choose which financial module to focus on for a deeper analysis of risk indicators.

Project Scope

We chose the quarter ended 9/30/2021 for this project. There were two reasons why this period was selected. First, we wanted to focus on transactions occurring after the cyber-attack on City Hall in May 2021. Second, we reviewed risk indicators and observed Purchasing Card transactions had the highest relative risk.

How OCA did this project

The audit team analyzed all 15 purchasing card risk flags based on impact and likelihood of risk events. Eleven indicators were selected for transaction analysis. The attached Risk Wall exhibit provides more detail on the risk analysis.

Key observations

- Purchasing card duties are not properly segregated.
- Purchasing card transactions were completed before a blanket purchase order was in place.

Audit Report

Purchasing Card Risk Review

Audit objective

Review high risk transactions in the purchasing card (p-card) module.

Procedures

Project procedures included a review of the following business processes:

- Annual spend – Ensure spending over \$24,999 complied with ordinance requirements.
- Blank vendor field - Ensure all transactions had a vendor associated with the transaction.
- No supervisor approval - Ensure transactions were properly approved.
- Split transactions – Ensure transactions were not split into smaller amounts under ordinance limits.
- Weekend payments - Ensure all payments occurring on the weekend were business related.
- Duplicate transactions - Ensure duplicate payments were not made.
- Keywords - Ensure all transactions that were flagged on a keyword were appropriate and business related.
- Transactions over \$2,499 - Ensure transactions over \$2,499 complied with ordinance requirements.
- Employee creates and approves transaction - Ensure transactions were properly approved.
- Purchase order created after transaction - Ensure transactions complied with policy and ordinance requirements.
- Transaction after termination - Ensure all transactions were conducted by approved personnel.

Observations

Observation 1 - Separation of Duties

P-card workflow involves several steps with a series of assigned approvers. Typically, employees at a lower-level approve a transaction and send it up to their supervisor for review and approval. This upward flow moves approvals up the chain of command to the highest approval level defined by policy. In some departments, workflow goes in the opposite direction: a lower-level employee approves transactions made by a higher-level employee. This creates risk that the higher-level employee can pressure the lower-level employee to approve transactions that are not proper City business.

Recommendations

- Purchasing staff should review workflow in each department to remove or rearrange p-card approvers so that at least one step in the approval process has an approver at a higher-level than all the other approvers in the workflow.
- Purchasing staff should periodically review p-card purchases made by higher-level employees to ensure approval is at the appropriate level.

Observation 2 Purchases were made before a blanket purchase order (BPO) was in place

P-card policy 500.A.1 requires cardholders to ensure adequate budget appropriations exist before making any p-card transaction. Checking the BPO balance helps ensure transactions are with approved vendors and do not exceed set spending limits. Audit data analytics flagged 91 p-card transactions that had a transaction date before the related BPO was completed. The audit team confirmed this policy violation through examining a sample of the flagged transactions.

Recommendations

- Purchasing staff should improve communication of the p-card policies and provide training to cardholders.
- Purchasing staff should address specific policy violations with department heads. Audit data analytics can be used to determine policy violations in each department.

Response

Task items for Finance to address:

1. Finance acknowledges that the pcard policy needs review and policy updates made with how the purchasing world is now conducting business after the pandemic.
2. Finance will also be developing reporting for internal purposes for oversight of pcard program.
3. Review of workflow approvals
4. Conduct Pcard training on policy & procedures

Risk Wall Exhibit

The gold boxes on the risk wall are all the modules in OCA's P-card data analytics. The upper right quadrant of the risk wall indicates high impact and high probability of risk events. The eleven modules inside the blue arc were chosen for deeper analysis.

