



# CITY OF LONG BEACH

## OFFICE OF THE CITY AUDITOR

333 W. OCEAN BOULEVARD, 8<sup>TH</sup> FLOOR LONG BEACH, CA 90802 PHONE: 562.570.6751 FAX: 562.570.6167

March 27, 2007

Phil T. Hester, Director  
Department of Parks, Recreation and Marine

We have performed an audit of purchasing card transactions for the period October 5, 2006 through January 31, 2007. The purpose of our review was to determine whether the purchases for the given period were made in accordance with the policies and procedures outlined in the City of Long Beach Purchasing Card (P-Card) Program User's Guide and the City's Administrative Regulations, specifically AR 23-4 and AR 4-1.

Our testwork included a review of P-Card transactions for the Department of Parks, Recreation and Marine (Department), including its Business Operations, Community Recreation Services, and Maintenance Operations Bureaus. In Fiscal Year 2006, the Department generated 5,211 P-Card transactions totaling \$851,385. The Department's P-Card purchases represent approximately 60% of the total P-Card purchases citywide.

Our review procedures included the following:

We selected a sample of P-Card transactions during the period October 2006 through January 2007 and reviewed available supporting documentation in order to determine the following:

- o supporting records, such as vendor sales receipts and itemized packing slips, were adequate and properly maintained;
- o purchases were made in accordance with policies set forth in AR 4-1 and AR 23-4 and other applicable Administrative Regulations;
- o purchases were documented on a monthly transaction log that reconciled to supporting documentation;
- o monthly P-card statements were generated, reviewed and signed by the cardholder and the authorized manager.

Our review of the P-Card transactions for the Department for the period October 5, 2006 through January 31, 2007 to determine compliance with the policies and procedures reveals significant weaknesses in several important areas of internal quality control. Details of the findings and recommendations related to this review are discussed in the body of the report.

We would like to make note that of the P-Card transactions selected for the Maintenance Operations Bureau, there were no findings related to these transactions. We found the related records reviewed to be in exceptional order.

We appreciate the professional cooperation of your staff and the free access we were afforded to files and information to complete our engagement.

Sincerely,

A handwritten signature in cursive script that reads "Laura L. Doud".

Laura Doud, CPA  
CITY AUDITOR

cc: Gerald R. Miller, City Manager  
Mike Killebrew, Director of Financial Management

### **P-Card Program Background Information**

Purchasing Cards (P-Cards) are a type of credit card issued to individual City employees for use in making small purchases. P-Cards provide a more convenient and efficient means for employees to make small business related purchases without a purchase order. A "P-Card program" was initiated in the City of Long Beach with a pilot program that began in January 2002 and included three departments: Technology Services, Financial Management and Library Services. The initial roll out of this program was successful, and the opportunity to apply for P-cards was extended to other City Departments. In January 2003, the Department of Parks, Recreation and Marine joined the P-Card program. The Department is now the most prolific user of P-cards citywide, currently with 72 P-Card holders. In Fiscal Year 2006, the Department generated 5,211 P-Card transactions totaling \$851,385. This total represented approximately 60% of the P-card purchases citywide.

The P-Card program policies and procedures are prescribed in the "Purchasing Card Program User Guide" and administered by the Department of Financial Management. The purpose of these procedures is to ensure that P-Card purchases are appropriate, properly documented, reviewed and authorized. Individuals issued purchasing cards sign an Employee Purchasing Card Agreement and agree to practice prescribed record-keeping procedures as follows:

- charge only those purchases consistent with the types of purchases that comply with City Purchasing Card Program guidelines, policies and procedures;
- maintain a transaction log for each purchase to the level of detail required including freight charges and out-of-state taxes, if applicable;
- obtain a cash register receipt, invoice and/or packing slip and keep it with the transaction log;
- reconcile charges once per week by comparing the weekly Statement of Account with the related transaction log;
- submit the transaction to their respective online approver once per week;
- sign the monthly printed Statement of Account; and,
- ensure that their manager reviews and approves (signs) all required documentation in accordance with City and Departmental guidelines, policies and procedures.

The "On-line Approver" is a Department employee who is responsible for verifying that P-Card transactions in the PVS Net credit card system reconcile to the transaction log and supporting receipts. At the end of the monthly billing cycle, the On-line Approver has three days to: (1) review and accept transactions online; (2) print the month's Statement of Account, and (3) ensure the cardholder signs and dates the Statement of Account.

Within five days of the billing cycle close date, the cardholder's Manager must sign the Statement of Account. The Manager's signature provides evidence that the employee's transactions were reviewed and approved.

### Findings and Recommendations

			ERRORS				
	Sample Size	Sample Amount	Excluded from Transaction Log	Trans Log Not Reconciled	Insufficient Back-Up	Mo. Stmts. Not Approved by Mgmt.	Expenditure Not Allowable
Number	56	\$43,657	4	9	8	20	8
%			7%	16%	14%	36%	14%

**Finding 1: Transactions Excluded from Transaction Log:**

The "Purchasing Card Program Users Guide" requires P-Card holders to maintain a Transaction Log for each purchase and retain a receipt. Transactions were excluded from the Transaction Log in 7% of the sample pulled. For one transaction selected, there were no receipts, Statement of Account or other required P-card back-up. The purpose of the Transaction Log is to give the Cardholder and On-line Approver a method of tracking the transactions made with the P-Card. The Transaction Log provides detailed information related to the purchase including its purpose as well as evidence that the purchase was appropriate and reviewed by the Cardholder and the On-line Approver.

**Finding 2: Transaction Logs Were Not Reconciled Weekly:**

The "Purchasing Card Program Users Guide" requires cardholders to reconcile charges once per week by comparing the weekly Statement of Account with the related Transaction Log. Transaction Logs were not reconciled to the "Statement of Account" in 16% of the sample pulled. Weekly reconciliation of Transaction Logs and receipts to the "Statement of Account" is a critical control to ensure that only authorized purchases are approved, unauthorized charges are corrected, all charges made are recorded on the Transaction Log, and corresponding receipts are retained with the log. This reconciliation process is mandatory and is the program's principal control.

**Finding 3: Insufficient Back-Up:**

The "Purchasing Card Program Users Guide" requires cardholders to retain the vendor sales receipt/charge slip and packing slip with the Transaction Log. Administrative Regulation 23-4 requires all purchases to be supported by accurate documentation, such as cash register receipts or a paid copy of an invoice. Insufficient back-up was discovered in 14% of the sample tested. Back-up was deemed insufficient when receipts were missing and/or a list of attendees was not provided for event-related purchases. Appropriate back-up ensures that expenditures are incurred for the benefit of the City and in support of City programs.

**Finding 4: Monthly Statements of Account Not Approved by Management:**

The "Purchasing Card Program Users Guide" requires P-Card holders to ensure that their manager reviews and approves all required documentation in accordance with City and Departmental guidelines, policies and procedures. Monthly statements were not approved by management in 36% of the sample reviewed. Consistent and regular management approval is critical to ensure that purchases are appropriate and authorized.

**Finding 5: Expenditures Not Allowable:**

The "Purchasing Card Program Users Guide" requires P-Card holders to retain vendor sales receipts/charge slips and packing slips with the Transaction Logs and to ensure their manager reviews and approves all required documentation. Expenditures were deemed not allowable in approximately 14% of the sample for transactions with both insufficient supporting documentation and lack of management approval.

**Recommendations:**

- Review the P-Card Program User's Guide with management, P-Card holders and On-line Approvers.

**PRM Response:**

We have begun the re-training of on-line approvers in all areas of P-Card administration. However, with the City's pending change to a new P-card provider, we will hold our training for the managers and cardholders until the new cards have been issued. We anticipate the new cards to arrive in July and expect to complete the training shortly thereafter.

- Provide follow-up training as needed for all employees involved in these transactions.

**PRM Response:**

As stated above, all managers and staff connected to the P-Card program will be run through re-training. An annual training program will be considered.

- Implement controls to ensure compliance with the policies and procedures and to ensure that errors are corrected timely.
  - Proper controls should establish the following:
    1. All transactions are recorded on the Transaction Logs and reconciled weekly;

2. Appropriate receipts and back-up are maintained with the Transaction Logs; and
3. Monthly Statement of Accounts are approved, signed and dated by management.

**PRM Response:**

Accounting staff responsible for these missing controls have been counseled on their importance and are following these controls. Further, staff has been instructed to notify a manager when receipts and monthly approvals are missing.