Finance Department

Purchasing Card Data Analytics Project Report

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Project Introduction & Authorization

During the 2020 Annual Risk Assessment conducted by the Internal Audit Department (IAD), the City Commission prioritized a data analytics project evaluating P-Card transactions for compliance to City P-Card Policy. The resulting project utilized the IDEA audit software to perform data analytics on ~3,200 transactions (FY20). **The IAD sought to determine whether P-Card policy and procedures are followed, and the appropriateness of these and other internal controls to safeguard the City from fraud and misuse of the purchasing card program.**

The management and staff of the Finance Department (and the IT Department) were found to be willing partners, striving to attain a clear path forward, towards the achievement of the project's objectives. The IAD appreciates the assistance and support provided to the Internal Audit Department (IAD). The IAD has maintained objectivity and independence throughout the project.

Methodology & Audit Criteria

The Internal Audit Department (IAD) reviewed the City's P-Card Policy and found the policy to have the following purpose: increase process efficiency, ensure compliance, reduce liability, enhance accountability, and improve effectiveness. Specifically, the **purpose** of the City's Policy and Procedures[1] is to accomplish the following:

- Efficiency: To provide an efficient method of procurement and paying for goods and services not exceeding $2,500 per purchase (or $5,000 in total purchases over a 30 day period).

- Compliance: To ensure Purchasing Card purchases are in accordance with City ordinances, policies and procedures. P-Card Policy clearly spells out (lists) purchases that are not approved.

- Efficiency: To reduce the time and costs spent by operating departments and Finance for processing small dollar amount transactions.

- Limit Liability: To ensure that the City bears no legal liability from inappropriate use of Purchasing Cards.

- Accountability: To provide for disciplinary action if the Purchasing Card is misused.

- Effectiveness: To improve service to the eligible users and vendor community.

The IAD used City P-Card Policy as **audit criteria** for analyzing purchase transaction data. For example:

- P-Card Policy stipulates that there is a single purchase limit of $2,500 and a monthly limit of $5,000 in total purchases. Policy stipulates that purchases cannot be "split" in order to circumvent these purchasing limits. P-Card Policy lists the steps involved in authorizing temporary ("emergency") overspending, so where this occurs, the IAD verified that proper authorization was provided and documented. The IAD tested transactions for compliance to these requirements.

- P-Card Policy also identifies specific items that are not allowed to be purchased with the P-Card. The IAD used data analytics and judgmental receipt sampling to test for purchases of items that are prohibited by policy.

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[1] Purchasing Card Policies and Procedures (Finance Department - Last Revision Date: 10/31/2013).

The flowchart below depicts the data source and analysis used in the project. Finance Department staff indicated that P-Card data from Bank of America (BOA) is downloaded by the Finance staff on a daily basis; then every month, the City's ERP (Naviline) is updated and funds are automatically deducted by BOA to pay the City's P-Card accounts.

The City's IT Department provided the Internal Audit Department (IAD) a database of twelve months of transactional data (FY20). The data base contained over 3,200 records from 77 P-Card users.

Flowchart: Project Methodology
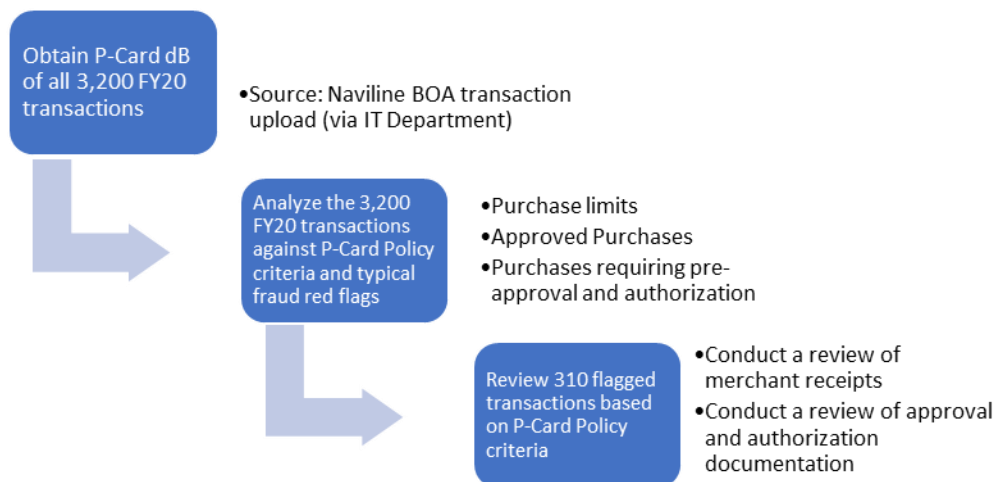
P-Card Process Characteristics

The data analytics performed on the FY20 transactions database yielded the following P-Card "process characteristics." It is interesting to note that the results that follow are from 6 months of pre-Covid, and 6 months of Covid data.

FY20 P-Card Transactions Characteristics

- Number of P-card transactions analyzed (from 10/01/19 to 9/31/20):   3,200

- Amount of P-Card transactions analyzed (from 10/01/19 to 9/31/20): $774,864

- Number of City P-Card: 77 (assigned cardholders)

- Table 1 & 2 on the following page documents where P-Card purchases are made, and by which staff.

Table 1: Top Merchants for P-Card Purchases

MERCHANT NAME (Top 10 No. of Transactions)	NO_OF_RECS	TRANSACTION AMOUNT SUM	MERCHANT NAME (Top 10 Dollars Spent)	NO_OF_RECS	TRANSACTION AMOUNT SUM
Amazon	397	$ 46,362.00	Home Depot	360	$ 53,380.00
Home Depot	360	$ 53,380.00	Amazon	397	$ 46,362.00
Office Depot	118	$ 19,606.00	Office Depot	118	$ 19,606.00
K & M Electric Lake Worth	58	$ 9,004.00	AMERICAS OFFICE SOURCE	17	$ 14,500.00
Walmart	53	$ 12,180.00	GRAINGER	43	$ 13,110.00
ACTION SUPPLY F ENT 3697	52	$ 5,560.00	Walmart	53	$ 12,180.00
REGAL DECORATING-LAKE WO	46	$ 5,834.00	JOHN RITTER SNAP ON	24	$ 10,766.00
USPS PO 1150270432	45	$ 1,991.00	JOHNSTON SUPPLY BOYTON	30	$ 10,258.00
GRAINGER	43	$ 13,110.00	GREAT WESTERN SCREEN PRIN	19	$ 9,957.00
ARCO SUPPLY	42	$ 3,618.00	WAL-MART #5882	21	$ 9,316.00

Table 2: Top City Employees for P-Card Purchases

STAFF NAME (Top 10 No. of Transactions)	NO_OF_RECS	TRANSACTION AMOUNT SUM	STAFF NAME (Top 10 Dollars Spent)	NO_OF_RECS	TRANSACTION AMOUNT SUM
Brian Ambrose	194	$ 36,851.00	McShane Murphy	32	$ 46,047.00
Michael Pierce	135	$ 25,883.00	Charles Lang	88	$ 43,314.00
Joseph Bogaert	132	$ 21,094.00	Brian Ambrose	194	$ 36,851.00
Artis Reeves	113	$ 21,721.00	Jeff Taylor	92	$ 34,606.00
Summer Wethern	109	$ 19,600.00	Judith Love	81	$ 26,630.00
Nelly Peralta	106	$ 10,287.00	Michael Pierce	135	$ 25,883.00
Christopher Cinque	99	$ 14,549.00	Silvina Donaldson	73	$ 23,314.00
Jeff Taylor	92	$ 34,606.00	Donna Ryan-Ruiz	46	$ 21,739.00
Charles Laing	88	$ 43,314.00	Artis Reeves	113	$ 21,721.00
Nicola Bohannon	84	$ 18,125.00	Joseph Boagaert	132	$ 21,094.00

P-Card Observations and Suggested Actions

The data analytics conducted by the Internal Audit Department (IAD) on the 3,200 P-Card transactions yielded 310 transactions for additional "receipt level" analysis. Following this analysis, transactions that appeared not to follow P-Card policy ("preliminary results") were forwarded to the Finance Department, and then subsequently to user departments, for their review and response.

The majority of concerns identified through data analytics were explained and deemed not to be in conflict with P-Card Policy. The remaining Observations are documented below – the **observations** and **suggested actions** are offered with the intent that through review and discussion of what is presented, the P-Card Process can be improved in the areas of efficiency, compliance, reduced liability, enhanced accountability, and improved effectiveness.

Observation 1: "Top Three" Vendor Account Opportunities

Based on data analytics, the Internal Audit Department (IAD) identified Amazon, Home Depot, and Office Depot as the "**top three**" places where the City's P-Card is used - from a *number of transactions* and from a *total dollars spent* standpoint (see **Table 1**).

Suggested Action

The Finance Department should evaluate the purchasing trends displayed in the tables above and determine if the City is utilizing P-Cards in the most efficient and effective manner. For example:

A. The City has an **Office Depot** corporate account. *Are internal controls in place to ensure that it is being utilized to the maximum benefit?*

B. The City *does not have* a **Home Depot** or **Lowes** corporate account. *Would one be beneficial?*

C. The City, as of December 2020, has established an **Amazon Business Prime** account. *Are internal controls in place to ensure that it is being utilized to the maximum benefit?* From the Amazon site: https://www.amazon.com/businessprime there is a list of eleven benefits, including: free delivery, progressive discounts, 5% back. The establishment of an Amazon Business account should be a very positive step for the City.

Observation 2: "Cash Back" Rebate Opportunity

The Purchasing Manager informed the Internal Audit Department (IAD) that the current P-Card servicer, Bank of America, was arranged through a "state contract" which does not offer a **"cash back" rebate** on purchases made with City P-Cards. The IAD surveyed several other PBC municipalities who have contracts with Bank of America (and others) that offer "cash back" rebates on purchases. The following tables provide information on these cities.

Table 3: P-Card Data for Surveyed Cities

City	No. of P-Cards	No. of Transactions	$/year on P-Cards (FY20)	$ / Transaction	Annual GF Operating Budget
Lake Worth Beach	77	3,200	$774,864	$242	$36,758,599
Greenacres	37	2,440	$317,661	$130	$30,900,000
Boynton Beach	147	4,694	$642,302	$136	$96,358,776
Riviera Beach	105	5,425	$2,137,567	$394	$77,743,783
Delray Beach	148	6,821	$1,567,292	$230	$139,895,460

The City of Boynton Beach indicated that their "cash back" rebate program with Bank of America (BOA) yields between $28-30,000 per year. The City of Boynton Beach uses BOA for e-payables, as well. An example of a typical rebate schedule is listed in **Table 4** (provided by the City of Riviera Beach). **The City of Riviera Beach is projected to receive a P-Card rebate of ~$27,983 for 2020.**

Table 4: City of Riviera Beach Rebate Schedule

Annual Purchasing Volume	Rebate%	Rebate$
$100,000.00 - $499,999.99	0.60%	$600.00 - $3,000.00
$500,000.00 - $999,999.99	0.80%	$4,000.00 - $8,000.00
$1,000,000.00 - $2,499,999.99	1.20%	$12,000.00 - $30,000.00
$2,500,000.00 - $4,999,999.99	1.22%	$30,500.00 - $61,000.00
$5,000,000.00 - $7,499,999.99	1.25%	$62,500.00 - $93,750.00

Suggested Action

The Finance Department should investigate obtaining a P-Card Service Provider that offers a "cash back" rebate.

IAD Note: As the P-Card project concluded, the Purchasing Manager informed the IAD that the Finance Department is scheduled to publish an RFP for banking services in February, and that the requirement of a P-Card rebate program would be included. The IAD applauds this initiative.

Observation 3: Authorization for Increased P-Card Limits should be improved

The Internal Audit Department (IAD) documented multiple instances (across several departments) where P-Card users exceeded both single and monthly purchasing limits. The IAD was provided "emergency" justification and authorizations to exceed the purchasing limits – primarily related to the City's Covid response - this explained some, but not all observations related to exceeding the P-Card purchasing limits.

The Finance Department's current position is that e-mail approval is used to authorize an increase in P-Card limits to expedite the process and improve efficiency. Increased purchasing limits are temporary; once the purchase requiring the increased limit is completed, the limits defined per policy are reestablished. *However, the IAD was not provided dates that P-Card limits were increased and dates that P-Card limits were returned per policy. The IAD was not able to establish if P-Card limits were returned to policy limits in a timely manner.*

Suggested Action

The IAD applauds the Finance Department for identifying practices which will aid the efficiency of temporarily raising P-Card limits during an emergency (email request and approval); however, being able to expedite increases in P-Card limits during an emergency situation should be complemented by also, at some later point, clearly documenting the action taken, documenting for example: date of requested change in P-Card limit, date authorized, reason for change, date that the P-Card was returned to policy limits, etc.

The Finance Department should adopt a timeliness standard (policy) for P-Cards that have been temporarily increased, to be returned to original limits specified by policy. This would include roles/responsibility and documentation requirements. The risk of not setting this expectation, and by not monitoring its adherence, is that the P-Card can remain at the increased amount, thereby increasing the risk of purchases not following P-Card Policy.

Observation 4: Food Purchases need Food Authorization Forms completed

The Internal Audit Department (IAD) documented a handful of instances (across several departments) where P-Card users purchased food for department programs and events (including food and flowers for employee retirement parties). P-Card policy stipulates that these purchases must be authorized via a Food Purchase Authorization Form. The IAD was not provided forms for the observed instances of food purchases.

P-Card Policy stipulates:

PROHIBITED USES OF PROCUREMENT CARDS

The following types of items may not be purchased with a Purchasing Card, no matter the dollar amount.

DO NOT USE THE PURCHASING CARD for the purchase of tangible property (capital assets) with a unit value of $1,000 or more. An item with a unit value of $1,000 or more may be subject to City inventory control if it has a life expectancy of one year or more.

- Gasoline, fuel, or oil, unless on authorized out-of-town travel
- Vehicle repairs on City Vehicles unless out of town and authorized by the City Garage
- Cash advances
- Personal items, i.e. medicine, toiletries, Kleenex, etc.
- Gifts to employees or outside persons
- Holiday, thank you or any type of cards
- Food of any variety
    - Exceptions based on City Manager Approval per Attachment 3 Authorization Form. Example:
        - City Clerk - for City Commission functions
    - Employees in travel status may use the card for meal purchases. However, the costs may not be in excess of the meal limits defined by the City Travel Policy. Amounts spent need to be entered in the "Final Expense Report" section of the travel authorization form.
- Telephone or Internet access charges unless in authorized travel status and necessary for City business
- Luxury items
- Beer, wine or any alcoholic beverages
- Any additional goods or services specifically restricted by the Department Director
- Payment of an outstanding balance from a statement or past due invoice

Per Policy, a **Food Purchase Authorization** form is to be completed in cases where approval is granted.

The Finance Department responded that Department Directors are responsible for approving P-Card expenditures and as such, the Finance Department does not monitor expenditures as part of the departments "processing" of P-Card transactions.

Suggested Action

The IAD suggests that the Finance Department reinforce the prohibition of food purchases as stated in the current P-Card Policy, unless the policy's Food Purchase Authorization Form is approved. The Finance Department may want to monitor P-Card purchases from Publix, Walmart, and restaurants, to ensure compliance with this part of the policy. The practice does not appear rampant, but at the same time several departments were engaged in the practice that runs counter to P-Card policy.