OFFICE OF THE CITY AUDITOR

PERFORMANCE AUDIT

December 2021

Purchasing Cards Not Always Used as Intended, Additional Oversight Needed ▶

CITY OF KANSAS CITY, MISSOURI

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07-2021

CITY OF FOUNTAINS
HEART OF THE NATION

Office of the City Auditor

KANSAS CITY
MISSOURI

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December 13, 2021

Honorable Mayor and Members of the City Council:

This audit focuses on determining whether purchasing cards are used as intended and identifying program improvements needed to reduce the risk of card misuse. We analyzed a judgmental sample of purchasing card transactions identified as having red flags for potential program violations through our data analytics platform. Because the sample was judgmental rather than random, we cannot draw conclusions about the complete dataset.

The Finance Department has implemented controls to help prevent purchasing card misuse and many transactions followed the established rules. However, city staff using or approving purchasing card expenditures did not always apply these controls as designed. This resulted in some staff and departments not using purchasing cards as intended. The purchasing card program and city procurement rule violations we identified included:

- a potential ethics violation;
- payments split to avoid card transaction limits;
- lack of transaction receipts and required written approvals; and
- disregard for the contracting policies - not obtaining three bids or proposals for purchases over $5,000 and repeatedly purchasing near the transaction limit to avoid procurement rules.

Departments could not readily locate receipts for transactions in our sample. Cardholders were not required to upload receipts to the purchasing card system. Maintaining electronic documentation for purchasing card transaction makes it easier to access and review transactions. The Finance Department's transaction compliance reviews did not target departments with higher spending or transactions with the potential for policy violations, fraud, or abuse. The department has also not addressed new risks posed by purchasing card transactions made through online 3rd party platforms (e.g., Amazon, Square, etc.). Federal government security agencies identify these online 3rd party platforms as high-risk areas where fraudulent activity may occur. Additionally, more than a quarter of the cards issued to departments were underused, making zero to five purchases over 13 months. The more cards that the city has available for use increases the city's risk of loss, theft, fraud, or abuse.

We make recommendations directed towards improving the guidance and training provided to cardholders and staff approving purchases. We also make recommendations to strengthen program controls and oversight and mitigate risks.

During the audit, we identified a situation that could indicate possible illegal acts. We reported the information to management for follow-up investigation. We do not provide details in this report to not interfere with the investigation.

The draft report was sent to the director of finance and the director of general services on October 7, 2021, for review and comment. Their response is appended. We would like to thank the Finance and General Services departments for their assistance and cooperation during this audit and city staff from all departments that responded to our information requests. The audit team for this project was Kara Jorgensen, Jonathan Lecuyer, and Sue Polys.

Douglas Jones, CGAP, CIA, CRMA
City Auditor

Purchasing Cards Not Always Used as Intended, Additional Oversight Needed

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Introduction

Audit Objective

Do employees use purchasing cards as intended?

Our audit of purchasing cards focuses on the types of purchases made by employees and the effectiveness of the city's checks and balances to ensure their adherence to city policies. To answer our objective, we interviewed city staff; evaluated processes developed to mitigate purchasing card risks; analyzed transactions between December 28, 2019, and January 27, 2021, against red flags to identify potential policy violations; and analyzed a judgmental sample of the flagged transactions to identify purchases that did not comply with city policies. The results from the judgmental sample cannot be used to draw conclusions about the entire set of the transactions.

We conducted this audit in accordance with Government Auditing Standards.

See Appendix A for more information about the audit objective, scope, methodology, and compliance with standards.

During the audit, we identified a situation that could indicate possible illegal acts. We reported the information to management for follow-up investigation. We do not provide details here to not interfere with the investigation.

We also sent the director of finance a memorandum related to updating the city's table of prohibited vendor codes to help ensure purchases of goods and services from vendors acceptable to the city are not unduly prohibited.

Background

What is a Purchasing Card Program?

Purchasing card programs are established to provide an efficient and cost-effective method of paying for small dollar and repetitive purchases. Cards can be used with any vendor that accepts credit cards. While this type of program is meant to be efficient and cost-effective, there are opportunities for fraud and abuse. There are also opportunities for noncompliance with the city's policies and procedures.

The City's Purchasing Card Program

The city began a purchasing card program in 2001. The Finance Department manages the cards. The General Services Department manages purchasing policies and contracts. The Finance Department has a training manual for purchasing cards that was last updated October 2020. This manual outlines policies, procedures, and documentation requirements for purchasing card use. Requirements include not making card purchases over $5000 and not making purchases of certain items, such as food, without prior approval. The finance director states many of these program improvements came in response to our audit of purchasing cards in 2009.

The city began contracting with Bank of America in 2013 to provide the city with purchasing cards and their online software called Works. There are four roles assigned to users in the Works software. (See Exhibit 1.)

Exhibit 1: Bank of America Works User Roles and Descriptions

User Role	Works Responsibilities
Cardholder	Makes purchases, allocates expenditures to appropriate funds, and verifies validity of all their transactions by approving transactions in Works after purchase.
Manager	Approver that reviews and approves purchases to ensure compliance with city policies.
Accountant	Approver that verifies purchases comply with city policies and expenses are allocated to proper funds. Retains transaction records.
Program Administrator	Activates new users, manages cardholder-manager-accountant groupings; manages card profiles and settings, and deactivates purchasing cards and Works users. Resides in Finance Department.

Source: Bank of America Works User Guide and Procurement Card Training Manual.

City employees made 7,808[1] purchasing card purchases totaling about $3.3 million between December 28, 2019, and January 27, 2021. (See Appendix C.) Cardholders made purchases from over 3,000 vendors. Exhibit 2 identifies the top ten vendors by dollar amount.

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[1] Total transactions were 8,185. We excluded 377 refunds and transactions that were less than $1 from our analysis.

Exhibit 2: Top Ten City Purchasing Card Vendors by Amount

Vendor Name	Amount
Amazon[2]	$268,120
Coale Electric	$111,500
E2 Embroidery and Screen	$107,074
Micro Center	$57,603
KC Rubber & Belt	$54,549
Partmaster	$40,955
Veritiv-Midwest	$38,675
Olathe Ford	$36,308
A1 Rentals	$34,975
MSC Industrial Supply	$26,500

Source: Bank of America Works software and City Auditor's Office analysis.

As of February 2021, the city had 213 active cards. Water, Fire, and Aviation departments have the most purchasing cards, make the greatest number of transactions, and spend the most money using purchasing cards. (See Exhibit 3.)

Exhibit 3: Departments' Card Usage December 2019 to January 2021

Department	Amounts	Transactions	Active Cards[3]
Water Services	$977,106	1,579	51
Aviation	$568,135	1,672	22
Fire	$526,185	1,026	26
General Services	$273,737	659	21
Health	$236,160	615	12
Parks And Recreation	$163,124	618	15
City Planning and Development	$120,147	304	13
Office of the City Manager	$118,278	382	5
Convention & Entertain Ctr	$51,860	147	13
Neighborhoods & Housing Serv	$50,270	284	10
Municipal Court	$44,903	182	5
Finance	$38,985	265	3
Public Works	$37,699	110	4
Human Resources	$25,877	77	5
Law	$11,650	58	3
Mayor and City Council	$7,264	126	2
City Clerk	$5,017	36	1
City Auditor	$4,860	27	1
Human Relations	$4,586	18	1
Totals	**$3,265,843**	**8,185**	**213**

Source: Bank of America Works software and City Auditor's Office analysis.

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[2] Includes 3rd party vendors selling on Amazon.

[3] Active cards are purchasing cards that are in the possession of the card holder and ready for use as of February 2021. The number includes cards that have not been used for any transactions.

Findings and Recommendations

Some Staff Not Using Purchasing Cards as Intended

Cardholders and Departments Violated Purchasing Card Policy and Procedures

We selected a judgmental sample of 583 transactions made between December 28, 2019, and January 27, 2021.[4] We identified 216 transactions that resulted in 256 purchasing card program or city procurement rule violations. The total value of the transactions with violations was $384,947.

The Finance Department has adopted rules and guidelines to prevent card misuse. These include spending limits, documentation requirements, contracting requirements, and the prohibition of the purchase of some items with a card.

Cardholders did not follow multiple purchasing and contracting procedures meant to prevent card misuse. (Exhibit 4.) Some transactions violated several policies/procedures. Those transactions are represented more than once in Exhibits 4 and 5.

Exhibit 4: Purchasing Card Transaction Process or Procedure Violations in Sample

Process or Procedure Requirement	Number of Violations
Keep a detailed receipt for a purchase	115
Do not repeatedly purchase at or near purchasing limit to avoid procurement rules	28
Obtain bids or proposals on purchases over $5,000	23
Do not split a single transaction into two or more transactions to circumvent purchasing limits	20
Do not purchase from family members without approval	18

Sources: Procurement Card Training Manual, City Code of Ordinances, City Procurement Guidelines, Bank of America Works software and City Auditor's Office analysis.

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[4] See Appendix A for explanation of our method for selecting the judgmental sample set.

Cardholders also violated policies prohibiting the purchase of certain items. (See Exhibit 5.) Ineligible items included computer hardware and software, food and entertainment, and office supplies which have a city contract.

Exhibit 5: Violations by Ineligible Purchase Types

Prohibited Purchase Type	Number of Violations
Purchase of computer hardware/software should not be made unless ITD gives approval	27
Purchase of office supplies should not be made on a purchasing card	16
Certain purchases (food, gift cards, etc.) should not be made unless prior authorization is given	9

Sources: Purchasing Card Training Manual, Bank of America Works software and City Auditor's Office analysis.

Examples of purchasing card transaction violations:

- *Potential Ethics Violation*: Cardholder made routine questionable, high dollar purchases from a relative without approval. It is a breach of ethics for a city employee to use their position in a manner that may financially benefit a family member.[5]

- *Splitting Payments:* A department fiscal officer directed cardholders and a vendor to split a large invoice into multiple smaller invoices and make payments among multiple cards.
    - o The fiscal officer's direction to cardholders conflicted with advice given by the Procurement Division on how to correctly make the payment.
    - o Use of the purchasing card resulted in the vendor passing on $3,000 in credit card fees to the city. These fees would not be owed had the department made the payment in accordance with city policies.

- *Documentation Problems*: Transaction records that should be retained were not complete or available for our review.
    - o 20% of transactions[6] sampled did not have acceptable, detailed receipts available for review.

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[5] Code of Ordinances, Kansas City, Missouri, Sec. 2-2020(a)(3).
[6] This includes 44 Fire Department transactions where the Fire Department did not respond to our documentation requests.

o Departments reported they received required IT or Director approval for some transactions, however no approval documentation was available.

- *Procurement Contracting Policy Problems*:
  o Cardholders purchased routine supplies from vendors in amounts that totaled just below transaction limits. If done purposefully, this is a circumvention of contracting requirements for bids or proposals.
  o Cardholders used cards for items over $5,000 without obtaining three required bids or proposals.[7]

Staff Training and More Clearly Written Guidelines Needed

Transaction approvers are not identifying violations and completing proper reviews. The Finance Department developed a three-level review process to help ensure cardholders use cards as intended. (See Exhibit 6). The cardholder verifies their own transactions, and the additional two layers of approvers are supposed to verify the purchase validity and detect and correct violations. As stated earlier, our judgmental sample of transactions identified 256 violations. Some cardholders and approvers ignored or forgot the city requirements or did not approve the transactions at all.

Exhibit 6: Purchasing Card 3-Level Review Process of Card Transactions

Cardholder Review
- Works emails cardholder to review transaction
- Verify purchase validity
- Allocate expense to proper fund
- Signoff

Manager Review
- Works emails assigned Works manager to review transaction
- Review receipt to verify eligible purchases and conforms with city policies
- Signoff

Accountant Review
- Works emails assigned Works accountant to review transaction
- Verify documentation correct
- Confirm eligibility
- Signoff and close transaction for payment
- Retain documentation

Source: Procurement Card Training Manual, City of Kansas City Finance and General Services departments, Revised, October 2020**.**

Two approvers said they were not aware that buying products from a family member was a potential ethics violation. Staff receive training before they begin their role as a cardholder or approver. However, more training is needed to remind approvers of the

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[7] Code of Ordinances, Kansas City, Missouri, Sec. 3-3 (a)(2).

purchasing card and procurement rules, the purpose of their role in the approval process, and the city's ethics code.

Recommendation

To ensure cardholders and approvers are aware of their roles and responsibilities in making and approving purchasing card transactions, the directors of finance and general services should require and provide cardholders and transaction approvers periodic refresher training of existing roles and incorporate the following additional topics:

- Conflicts of interest and ethics.
- Updated documentation retention requirements.
- Provide approvers examples of purchasing card red flags and the purpose of existing program guidelines.
- Procurement rules requiring bids or proposals on purchases over $5,000.
- Prohibition on purposely making monthly purchases for the same items just below the monthly limit to avoid procurement rules.
- Prohibition on paying a vendor with a purchasing card if the city has a contract with that vendor for the same item or service.

The city's purchasing card training manual and administrative regulation do not address contracting policies in detail. The review process relies on approvers to understand policies and procedures so they may detect violations. The city's purchasing card administrative regulation (AR) 3-19 and the training manual only says items purchased through contracted vendors should not be bought using a purchasing card. It is not clear what items or vendors have contracts or how to find this information. There is no specific reference to transactions over $5,000 requiring 3 bids or proposals prior to purchase. Contracting ethics and conflicts of interest are not noted.

Recommendation

To provide cardholders and approvers better guidance on contracting policy that is applicable to purchasing card transactions, the director of finance should work with the director of general services to ensure procurement rules are referenced and explained in AR 3-19 and the purchasing card training manual.

Not Following Contracting Policies when Using Purchasing Cards Creates Problems

Potential problems from not following city contracting policies:

- Procurement Division cannot adequately monitor spending including MBE/WBE (Minority/Women Business Enterprise) goals.
- Employees do not put purchases through a fair and competitive process.
- The city may not receive best value for money.

Recommendation

To help ensure the city receives the benefits of contracting from vendors used regularly for predictable purchases, the director of finance should establish criteria and periodically review purchasing card transactions to identify products and services that are purchased frequently or exceed established dollar thresholds from one vendor and provide this information to the Procurement Division so they may determine whether a contract is appropriate.

Some Transactions Not Reviewed Before Payment

About 8 percent (670 transactions) of all transactions during the 13-month period we reviewed did not complete the three-level review process before payment was sent to Bank of America.

Prior to the pandemic, the Finance Department suspended cards from future purchases when approvers did not complete transaction signoffs. To keep things running smoothly when the pandemic related stay-at-home order was issued in spring 2020, the Finance Department stopped suspending cards if the transactions did not complete the review process. Without undergoing the approval process, the city is at a higher risk for card transactions that do not comply with policy.

Recommendation

To make cardholders and approvers accountable for completing the approval process, the director of finance should reinstate the practice of suspending cards with outstanding transactions that do not complete the approval process.

Centralized, Easily Accessible Electronic Data Needed to Maintain Transaction Documentation

Departments are not using Works software to keep records of purchases. The Finance Department does not require cardholders to upload purchasing card receipt documentation to Works. Currently, departments are required by the purchasing card program to maintain hard copies of receipts. The Works software has the capability to upload supporting documentation, such as

receipt images or emails, linked to the corresponding purchasing card transactions. About one third of our sample had receipt problems. Frequently the problem was locating the receipt. Only about a third of the city's total purchasing card transactions had supporting documentation uploaded to Works between December 28, 2019, and January 27, 2021.

Requiring cardholders to upload receipts to Works would help ensure purchase documentation is retained in one easily accessible location.

Recommendation   To improve efficiency of document review and retention, the director of finance should require all receipts and related documentation be uploaded into Works and rescind the requirement to maintain physical copies of receipts.

Targeted Reviews Would Improve Oversight of Purchasing Card Transactions

The Finance Department does not consistently perform targeted reviews of transactions for compliance with city guidelines. The purchasing card manual states that the Finance Department will occasionally perform reviews to determine if spending is within budgetary constraints and whether procedures for reconciliation and oversight are being followed. Reviews should look for violations of city policy, identify gaps in existing controls, and impose consequences on cardholders if required.

The Finance Department has reviewed card transactions in 6 of 20 departments since 2018. These reviews have not included the two departments with the most purchasing card use. The Finance Department reviews were of all transactions in the selected departments during a specific period. Focusing transaction reviews rather than reviewing all transactions by a department could increase the time available to review more departments and address areas of higher risk. Departments with the highest spending or transactions with the potential for policy violations, fraud, or abuse should be a focus of reviews.

Recommendation   To strengthen and enforce accountability over purchasing card transactions, the director of finance should ensure the Finance Department conducts more reviews that are targeted on higher risk transactions and city departments with higher purchasing card use.

Finance Department Should Evaluate Need for Additional Controls

Transactions Made Through Online 3rd Party Platforms Pose New Risks

The Finance Department has not identified risks or designed controls related to purchases made through mainstream online 3rd party payment platforms (e.g., PayPal) and e-commerce marketplaces (e.g., Amazon). City cardholders used online 3rd party platforms (3rd party payment platforms and e-commerce marketplaces) for about 20 percent of overall transactions. (See Exhibit 7.)

Exhibit 7: City Transactions Through Online 3rd Party Platforms

	Transactions	Amount
marketplaces		
Amazon	1,369	$268,120
eBay	47	$6,642
Facebook	16	$926
payment platforms		
PayPal	102	$57,521
Square	127	$179,330
Total	**1,661**	**$512,540**

Source: Bank of America Works software and City Auditor's Office analysis.

Federal government security agencies identify these online 3rd party platforms as high-risk areas where fraudulent activity may occur.[8] The use of a 3rd party payment platform carries risk. For example, an employee used the purchasing card to pay through a 3rd party payment platform (Square) for purchases from a family member. The vendor's identity was obscured by use of the payment platform.

Use of e-commerce marketplaces includes risks from vendors and risks from employees. Federal security agencies identify the purchase of computer and IT related items on e-commerce sites as particularly risky because of potential security issues.[9] The use of unknown vendors on e-commerce sites makes the city vulnerable to faulty or counterfeit purchases.

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[8] *Combating Trafficking in Counterfeit and Pirated Goods*, Homeland Security Office of Strategy, Policy and Plans, January 24, 2020, p.20.

[9] Sheryl McCurnin, "How to Approach E-Commerce for Federal Government IT", *FedTech Magazine*, August 17, 2020.

Employees' use of these e-commerce marketplaces exposes the city to accidental and intentional employee misuse such as:

- Employees adding purchasing cards to personal accounts shared with family members, granting them access to the city card.
- Employees using the city's tax-exempt status for personal purchases.
- Purchasing a service, such as Amazon Prime, and using the benefits both personally and professionally.

While 3rd party platforms have risks, they also provide the city benefits. Benefits include ease of purchase and access to a large and diverse inventory. The city should consider the risks and benefits of using purchasing cards on 3rd party platforms when establishing a policy for their use. Federal government agency policies range from barring the use of 3rd party payment platforms to less restrictive policies.

Recommendation | To address risks posed when purchasing through an online 3rd party platform, the director of finance should develop a policy that purchasing card users and approvers should follow when purchasing through online 3rd party payment platforms and e-commerce marketplaces.

Unneeded Purchasing Cards Create Unnecessary Risk

Departments underused over one-quarter of cards issued. Departments should only issue purchasing cards to city staff who need them. As of February 2021, the city had 213 active cards. Of these, there were 18 cards with no purchases between December 28, 2019, and January 27, 2021. Another 42 cards were used to make 5 or fewer purchases during that same period. (See Exhibit 8.) The more purchasing cards that are in circulation, the more opportunity for misuse.

Exhibit 8: Departments with Underused Purchasing Cards

Department	Cards with more than 5 transactions	Cards with 1 to 5 transactions	Cards with No Transactions
Water Services	30	9	12
Fire	17	8	1
General Services	16	4	1
Parks And Recreation	12	3	
Convention & Entertain Ctr	3	8	2
City Planning and Development	9	3	1
Health	10	1	1
Neighborhoods & Housing Serv	9	1	
Office Of the City Manager	4	1	
Human Resources	3	2	
Law	1	2	
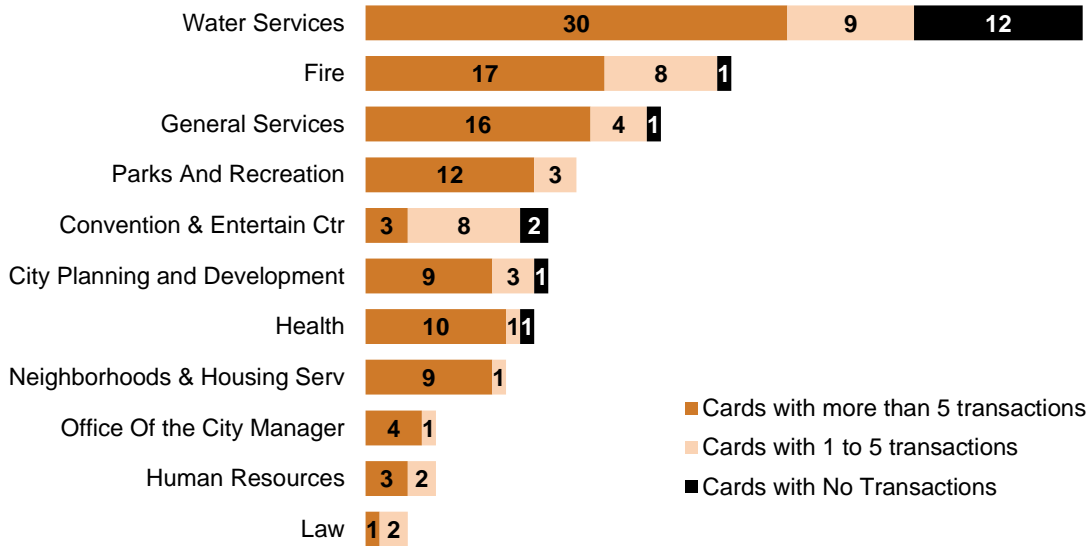
Source: Bank of America's Works software and City Auditor's Office analysis.

The Purchasing Card Administrator noted that cardholders and managers do not always report when cardholders no longer need their card. Managers who oversee cardholders should periodically review whether an employee needs a card and report to the program administrator those employees who no longer need a card. Cardholders should also report when they no longer need a card. The Finance Department does not have a policy to review infrequently used cards to identify those that are no longer needed.

Recommendation

To limit/mitigate the city's potential risk/exposure from purchasing cards, the director of finance should:

- review the number of purchasing cards currently issued and work with city departments to close underused or unnecessary purchasing cards
- develop a policy to periodically review and close underused or unnecessary purchasing cards.

Recommendations

1. The directors of finance and general services should require and provide cardholders and transaction approvers periodic refresher training of existing roles and incorporate the following additional topics:

   - Conflicts of interest and ethics.
   - Updated documentation retention requirements.

- Provide approvers examples of purchasing red flags and the purpose of existing program guidelines.
- Procurement rules requiring bids or proposals on purchases over $5,000.
- Prohibition on purposely making monthly purchases for the same items just below the monthly limit to avoid procurement rules.
- Prohibition on paying a vendor with a purchasing card if the city has a contract with that vendor for the same item or service.

2. The director of finance should work with the director of general services to ensure procurement rules are referenced and explained in AR 3-19 and the purchasing card training manual.

3. The director of finance should establish criteria and periodically review purchasing card transactions to identify products and services that are purchased frequently or exceed dollar thresholds from one vendor and provide this information to the Procurement Division so they may determine whether a contract is appropriate.

4. The director of finance should reinstate the practice of suspending cards with outstanding transactions that do not complete the approval process.

5. The director of finance should require all receipts and related documentation be uploaded into Works and rescind the requirement to maintain physical copies of receipts.

6. The director of finance should ensure the Finance Department conducts more reviews that are targeted on higher risk transactions and city departments with higher purchasing card use.

7. The director of finance should develop a policy that purchasing card users and approvers should follow when purchasing through online 3rd party payment platforms and e-commerce marketplaces.

8. The director of finance should review the number of purchasing cards currently issued and work with city departments to close underused or unnecessary purchasing cards.

9. The director of finance should develop a policy to periodically review and close underused or unnecessary purchasing cards.

Appendix A: Objective, Scope and Methodology, and Compliance Statement

We conducted this performance audit of purchasing cards under the authority of Article II, Section 216 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit provides "objective analysis, findings, and conclusions to assist management and those charged with governance and oversight, with among other things, improving program performance and operations, reducing costs, facilitating decision making by parties with responsibility for overseeing or initiating corrective action, and contributing to public accountability."[10]

Why We Did This Audit

Purchasing card use comes with inherent risks and vulnerabilities to the city. Our 2009 audit[11] found misuse of purchasing cards. The city gives cardholders significant discretion in purchasing decisions with their cards. Preventing misuse relies on management actively following adequate policies. Without preventive actions and after-purchase reviews, cardholders may freely use purchasing cards with little or no restrictions.

Audit Objective

This report is designed to answer the following question:
- Do employees use purchasing cards as intended?

Scope and Methodology

Our audit focused on purchasing card transactions. Our audit methods included:
- Interviewing city staff and reviewing city policies and ordinances to identify purchasing program requirements.
- Reviewing past audits and professional literature to understand issues related to purchasing cards.
- Evaluating the design, implementation, and operation of purchasing card controls to determine their efficacy.

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[10] Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2018), pp. 10, 11.
[11] *Performance Audit City Purchasing Card Program*, Office of the City Auditor, Kansas City, Missouri, April 2009.

- Analyzing all of the city's 7,808[12] purchasing card transactions downloaded from Bank of America's Works software for the period between December 28, 2019, and January 27, 2021, against 41 red flags to identify potential city policy violations.

    o We created red flags in our data analytics platform, ACL, using the following criteria:
      - Purchase day of the week
      - Vendor name compared to contracted vendor name list
      - Purchase amount
      - Key words in vendor names or comments related to prohibited and restricted purchases
      - Online 3rd party payment processors

- Selecting a judgmental sample of 583 transactions from the flagged transactions based on prioritization of risks associated with each flag and flag combinations and department representation based on department size.

- Reviewing the sample transactions by surveying cardholders and card approvers about the transactions and additional documentation to determine whether policy violations occurred.

    o Judgmental sample statistics cannot be used to make conclusions about the entire data set.

Statement of Compliance with Government Auditing Standards

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.

During the audit, we identified a situation that could indicate possible illegal acts. We reported the information to the Law Department and the operating department for follow-up investigation. We do not provide details here to not interfere with the investigation.

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[12] Total transactions were 8,185. We excluded 377 refunds and transactions that were less than $1 from our analysis.

We also sent the director of finance a memorandum related to updating the city's table of prohibited vendor codes to help ensure goods and services purchased from vendors acceptable to the city are not unduly prohibited.

Scope of Work on Internal Controls

We assessed internal controls relevant to the audit objective. This included evaluating the adequacy of control designs, confirming the implementation of controls, and evaluating whether management applied controls consistently and at appropriate times to determine their effectiveness. We identified internal control deficiencies related to how purchasing cards are used and reviewed. The details of these deficiencies are discussed in the body of the report.

Data Reliability

We assessed the reliability of Bank of America's Works transaction data while reviewing the operation of purchasing card controls. We tested the data for gaps, invalid or duplicate entries, duplicate field types, blanks, and unexpected date ranges. We determined the data was sufficiently reliable for our audit work.

Appendix B: Transaction Summary by Department and Division (December 28, 2019 to January 27, 2021)

Department/Division	Cards Used[13]	Total Transactions	Total Spent
Aviation	**25**	**1,672**	**$568,135**
Airport Engineering	2	28	$4,081
Airport Operations	1	38	$11,107
Airport Police	1	257	$47,035
Central Warehouse	5	491	$243,758
Charles B. Wheeler DT Airport	5	351	$79,798
Finance And Accounting	2	143	$58,568
Human Resources	1	50	$12,326
Information Services	1	104	$43,239
KCI Facilities-Structural	2	53	$6,775
KCI-Fleet Maintenance	1	19	$3,752
Marketing	4	138	$57,696
City Auditor	**1**	**27**	**$4,860**
City Auditor	1	27	$4,860
City Clerk	**1**	**36**	**$5,017**
City Clerk	1	36	$5,017
City Planning and Development	**14**	**304**	**$120,147**
Administration	3	81	$31,173
Citywide Planning and Research	1	40	$7,394
Development Management	2	75	$8,827
Financial Services	2	29	$48,785
Land Development Inspections	2	55	$16,656
Permits	1	3	$873
Plans Review	1	1	$29
Private Inspections	2	20	$6,410
Convention & Entertain Ctr	**14**	**147**	**$51,860**
Arc Event Support	2	16	$4,881
CEF Administration	2	52	$3,592
Event Coordination	2	11	$24,713
Facility Maintenance	5	64	$16,863
Sales	1	2	$168
Technical Services	2	2	$1,643

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[13] Cards Used represents all unique cards making purchases during the period under review. Some cards may have been replaced or deactivated during the timeframe under review.

Department/Division	Cards Used[13]	Total Transactions	Total Spent
Finance	**5**	**265**	**$38,985**
Administration	2	148	$24,684
Office of Management &Budget	2	37	$4,344
Treasury	1	80	$9,957
Fire	**27**	**1,026**	**$526,185**
Aircraft Rescue Fire Fight KCI	1	72	$18,065
Communication Operations	1	48	$19,808
Emergency Medical Services	5	18	$1,397
Emergency Operations Bureau	1	108	$58,534
EMS Education	2	41	$17,133
Financial Services	1	39	$49,887
Fire Dept-Hazardous Mat Team	1	26	$12,746
Fire Prevention Admin	2	60	$40,713
Fire Training	1	92	$23,384
Fleet	5	137	$77,259
Logistics	2	208	$146,250
Professional Development Admin	1	33	$8,078
Station Operations	1	77	$26,864
Systems	1	61	$23,801
Technical Rescue	1	4	$730
Technical Services Bureau	1	2	$1,536
General Services	**23**	**659**	**$273,737**
Administration	5	104	$19,753
Application Support	2	165	$96,892
Building Maintenance	2	16	$7,713
City Employee Safety	4	72	$31,895
Fixed Plant Operations	2	63	$32,684
Fleet Operations	4	45	$21,854
Police Facilities	2	91	$35,503
Procurement	1	25	$4,366
Security	1	78	$23,077
Health	**14**	**615**	**$236,160**
Aim 4 Peace	1	18	$10,767
Communicable Disease Prevention	3	136	$66,534
Director's Office	3	145	$32,000
Financial Services	3	142	$56,573
Food Inspection Services	1	36	$19,794
Health Education	2	130	$49,331
Lead Paint Poisoning Prevention	1	8	$1,161
Human Relations	**1**	**18**	**$4,586**
MBE/WBE Monitoring	1	18	$4,586

Department/Division	Cards Used[13]	Total Transactions	Total Spent
Human Resources	**6**	**77**	**$25,877**
Administration	4	61	$22,857
Education & Development	1	11	$2,239
Retirement	1	5	$781
Law	**3**	**58**	**$11,650**
Legal Serv-Cumulative Claim	1	4	$21
Legal Services	2	54	$11,629
Mayor and City Council	**1**	**126**	**$7,264**
Mayor's Office	1	126	$7,264
Municipal Court	**6**	**182**	**$44,903**
Court Administration	2	60	$20,905
Court Operations	1	24	$4,789
Municipal Court Revenues	1	40	$10,003
Specialty Court	2	58	$9,206
Neighborhoods & Housing Serv	**12**	**284**	**$50,270**
Animal Control	2	42	$3,606
CDBG Administration	1	45	$6,626
KCMO Land Bank	1	25	$2,217
NHS Administration	3	38	$11,714
Preservation Support Services	1	41	$3,404
Regulated Industries	1	9	$1,758
Solid Waste Administration	1	38	$15,475
Tow Service	2	46	$5,470
Office of the City Manager	**6**	**382**	**$118,278**
City Manager-Administration	2	140	$61,903
Emergency Management	3	201	$51,738
Environmental Compliance	1	41	$4,637
Parks And Recreation	**20**	**618**	**$163,124**
Accounting and Procurement Services	1	35	$21,353
Community Services	5	96	$24,350
Golf Special Services	1	28	$7,073
Gregg Klice Comm Center	1	51	$5,847
Kansas City North Comm Center	1	65	$9,792
Line Creek Comm Center	1	63	$6,073
Museum	2	39	$12,540
Natural Resources	2	51	$19,510
Park Facility Maintenance	1	12	$5,391
Parks & Rec Marketing	1	123	$39,272
Parks and Rec Administration	1	30	$6,897
Street Tree Service	2	14	$3,456
Tony Aguirre Comm Center	1	11	$1,570

Department/Division	Cards Used[13]	Total Transactions	Total Spent
Public Works	**6**	**110**	**$37,699**
Capital Project Administration	1	23	$14,213
Public Parking Administration	1	9	$598
PW Directors Office	1	12	$4,746
Streets And Traffic	2	31	$13,632
Transit Operations	1	35	$4,510
Water Services	**44**	**1,579**	**$977,106**
Accounts	1	6	$1,043
Building Operations	1	8	$4,752
Consumer Services	1	17	$5,880
Directors Office	2	16	$4,668
Div Of Rdng & Serv-Water Service	1	87	$28,644
Engineering - Overflow Control	3	18	$6,140
Engineering-General Services	1	30	$4,859
Household Hazardous Waste	1	8	$1,353
Human Resources	2	85	$36,014
Information Technology	2	393	$205,597
Laboratory Services	3	12	$4,193
Maintenance - Sewer Repair	1	90	$35,113
Maintenance-Inspection and Inv	1	3	$3,630
Marketing And Public Relations	2	22	$1,212
Revenue Protection	1	4	$460
Security Operations	1	4	$493
Supply - Maintenance	3	109	$148,175
Supply - Operations	3	53	$31,541
Training & Development	3	80	$35,525
Wastewater Treatment - Maintenance	9	426	$319,762
Wastewater Treatment - Operations	2	108	$98,052
Grand Total	**229**	**8,185[14]**	**$3,265,843**

Source: Bank of America Works software and City Auditor's Office analysis.

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[14] Total transactions were 8,185. We excluded 377 refunds and transactions that were less than $1 from our analysis.

Appendix C: Directors of Finance and General Services Response

CITY OF FOUNTAINS
HEART OF THE NATION

KANSAS CITY MISSOURI

Inter-Departmental Communication

Finance Department

RECEIVED

OCT 2 8 2021

CITY AUDITOR'S OFFICE

Date: October 28, 2021

To: Douglas Jones, City Auditor

From: Tammy L. Queen, Director of Finance
Yolanda McKinzy, Director of General Services

Subject: Response to Performance Audit: *Purchasing Cards Not Always Used as Intended, Additional Oversight Needed*

1. *The directors of finance and general services should require and provide cardholders and transaction approvers periodic refresher training of existing roles and incorporate the following additional topics:*
   - *Conflicts of interest and ethics.*
   - *Updated documentation retention requirements.*
   - *Provide approvers examples of purchasing red flags and the purpose of existing program guidelines.*
   - *Procurement rules requiring bids or proposals on purchases over $5,000.*
   - *Prohibition on purposely making monthly purchases for the same items just below the monthly limit to avoid procurement rules.*
   - *Prohibition on paying a vendor with a purchasing card if the city has a contract with that vendor for the same item or service.*

   Agree. Training is provided to cardholders and approvers at the time they become a part of the program. Finance will implement an additional training to be given annually. This training will emphasize the importance of following the policies set in place for both the cardholder and approver.

2. *The director of finance should work with the director of general services to ensure procurement rules are referenced and explained in AR 3-19 and the purchasing card training manual.*

   Agree. Finance and General Services will more fully incorporate procurement rules in AR 3-19 and in the revised purchasing card training manual.

3. *The director of finance should establish criteria and periodically review purchasing card transactions to identify products and services that are purchased frequently or exceed dollar thresholds from one vendor and provide this information to the Procurement Division so they may determine whether a contract is appropriate.*

   Agree. This review will be done in conjunction with the periodic review of transactions as outlined in recommendation no. 6.

4. *The director of finance should reinstate the practice of suspending cards with outstanding transactions that do not complete the approval process.*

   Agree. As of September 1, 2021, Finance has reinstated the suspension of cards when there are transactions that do not complete the approval process. In addition, the policy will be revised to reflect that cards will be suspended for one month and the cardholder will be required to retake the program training prior to card reactivation.

5. *The director of finance should require all receipts and related documentation be uploaded into Works and rescind the requirement to maintain physical copies of receipts.*

   Agree. Finance will implement the requirement to upload receipts and related documents to Works and review records retention policies to verify the ability to rescind the requirement to maintain physical copies of receipts. In addition, training will be enhanced to demonstrate to cardholders what additional documentation should be included.

6. *The director of finance should ensure the Finance Department conducts more reviews that are targeted on higher risk transactions and city departments with higher purchasing card use.*

   Agree. Regular reviews will be conducted with a focus on high risk transactions or departments. Finance will provide findings of the audit to the respective department director for transparency and recommendation of discipline for either cardholders or approvers, depending on the severity of the transgression.

7. *The director of finance should develop a policy that purchasing card users and approvers should follow when purchasing through online 3rd party payment and e-commerce marketplaces.*

   Agree. A policy will be developed jointly with General Services and will be covered in the purchasing card training. It will be critical that cardholders and approvers follow current and new policies and procedures to ensure purchasing cards are not used for transactions on employees' personal accounts.

8. *The director of finance should review the number of purchasing cards currently issued and work with city departments to close underused or unnecessary purchasing cards.*

   Agree. A review of existing purchasing cards will be conducted, and all unused, underutilized, or unnecessary cards will be closed.

9. *The director of finance should develop a policy to periodically review and close underused or unnecessary purchasing cards.*

   Agree. In addition to the review discussed in recommendation no. 8, an annual review of cards will be established.

cc: Brian Platt, City Manager

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