



City of Phoenix

**Mission Statement**

To improve the quality of life in Phoenix through efficient delivery of outstanding public services.

**Project Team**

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**Project Number**

1230062

This report can be made available in alternate format upon request.

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## Finance Department Purchasing Cards

May 3, 2023

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### ***Report Highlights***

**Governance**

*Finance updated the purchasing card procedures to include the processing of travel expenditures.*

**Cardholder Agreements**

*Purchasing cards were in the custody of those assigned, and cardholder agreements are on file for all cards assigned to departments/employees.*

**Transactions and Reconciliations**

*Purchasing card transactions were properly approved and had supporting documentation. Credit card activity reconciled to the bank statements and SAP.*

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## **Executive Summary**

### **Purpose**

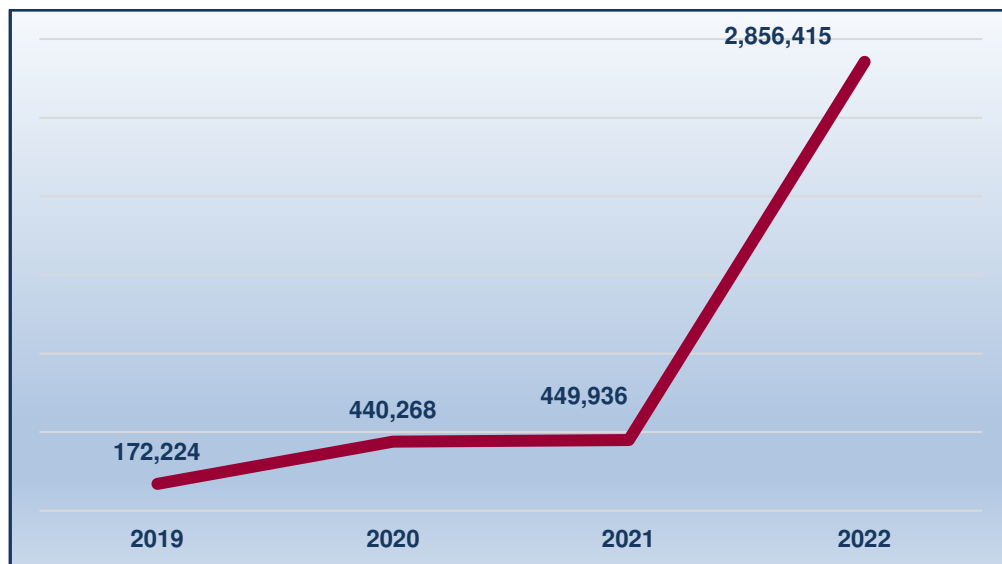
Our purpose was to review Finance's oversight and monitoring of the City's credit cards (purchasing cards) to ensure compliance with policies.

### **Background**

In 2015, the Finance Department (Finance) started the purchasing card program with a small number of credit cards used by the City Controller for purchases that could not be made through a warrant. The City Controller's office is responsible for the oversight and monitoring of the purchasing card program. With the rise of on-line transactions and the growing number of merchants that only accept credit cards, there has been a steady increase in the use and spending associated with purchasing cards since the program's inception.

In calendar year 2022, there was a large increase in purchasing card spending due to a \$985,000 purchase of COVID-19 test kits, and an increase in travel-related expenses once COVID-19 restrictions were lifted. The total purchasing card expenditures for calendar year 2022 was \$2.86M.

**Purchasing Card Usage CY 2019 – CY 2022**



**The recent increase was due to a large purchase of COVID-19 test kits, and an increase in travel-related expenses once COVID-19 restrictions were lifted.**

The purchasing cards are either held in Finance to be used by other departments (with Finance's approval) or assigned out to departments and specific employees. When purchasing cards are assigned to specific divisions or employees, there must be agreements on file for those individuals who will have physical custody of the cards. Finance oversees the usage of all purchasing card activity. The documentation for these expenditures is sent to Finance for approval.

Currently, the City has 57 active Chase Bank Visa purchasing cards. Of those cards, 19 are assigned to individuals and small groups of employees outside the City Controller's office. In addition to the purchase of emergency supplies and travel expenses, the cards were generally used for the following types of transactions:

- On-line job or recruitment postings
- Web domain license renewals
- Court filing fees
- Certificates of inspection
- Fuel for out-of-county Police travel
- Meals for firefighters on prolonged emergency scenes or training

## **Results in Brief**

### **Overall, Finance had strong governance over the administration of purchasing cards.**

Finance had strong oversight of the purchasing card program. All transactions were reviewed to ensure purchases were authorized and had proper supporting documentation. Where required, valid cardholder agreements were in place. In addition, Finance performed monthly reconciliations on purchasing card transactions.

### **There are cardholder agreements on file for all cards assigned to other departments. The cardholder agreements matched the employee with physical custody.**

Nineteen purchasing cards are physically maintained by individuals outside Finance. We confirmed that the physical locations and owners of the cards matched the designated cardholder agreements. No exceptions were noted.

### **Purchasing cards transactions had proper approvals and appropriate supporting documentation. In addition, purchasing card transactions reconciled to the City's financial system (SAP).**

We tested 35 purchasing card transactions to confirm each transaction had appropriate approvals and supporting documentation. We reconciled the credit card activity to the monthly Chase account statements by generating a vendor expenditure report in SAP for calendar year 2022. We tested all twelve months of statements and reconciled the transactions to payments in SAP. No exceptions were noted. The credit card activity reconciled to the Chase statements and payments in SAP.

# **1 – Governance**

## **Background**

*City Administrative Regulation 3.10 (AR) – General Procurement Procedures* provides limited guidance on purchasing card use and management. The AR simply states that purchasing cards are not to be obtained and used for any purchases, except with written authorization from the Chief Financial Officer.

In August 2020, Finance formalized the purchasing card procedures into written guidance. The Department's policies identify the intended use of the cards, who is responsible for the cards, the requirement of cardholder agreements, and the immediate submission of supporting documentation for all purchases. The policy requires cardholder agreements for all cards that are permanently assigned to departments.

In late 2021, the City acquired Concur, a module within SAP, which provides travel and expense management services. The application allows travelers to initiate their own travel requests, which are then assigned to a department travel liaison. In addition, Concur has designated workflows which route travel transactions for approvals. Once travel plans are approved, travel liaisons make an appointment with Finance's Travel Team, who provides the liaisons with card numbers to process payments. Liaisons must contact Finance each time a travel payment is needed. In July 2022, Finance updated purchasing card procedures to include the processing of travel expenditures.

To ensure that Finance had appropriate controls in place for the oversight and monitoring of purchasing cards, we interviewed the City Controller and other Finance staff, obtained policies and procedures, and observed purchasing card processes. In addition, we obtained the list of all purchasing cards and verified that designated individuals had physical possession of the credit cards assigned to them.

## **Results**

### ***The City Controller had procedures for the administration and monitoring of the purchasing card program, as well as for the processing of travel expenditures.***

The City Controller's office works with departments to obtain supporting documentation for all purchasing card transactions, and to identify the appropriate cost centers and general ledger (GL) accounts to allocate the charges. We determined that Finance had two layers of internal approval prior to the issuance of the final credit card payment. The City Controller's office reviews and approves all purchasing card transactions. All approved transactions are then routed to the Financial Accounting and Reporting (FAR) section of Finance, who performs a final reconciliation and prepares the journal entry for the total credit card payment.

The City has 27 purchasing cards designated for travel, which were used for the advance purchase of airfare, registration fees, and lodging. In the prior audit, we found that the internal procedures needed to be updated to document the process of travel

expenses made using purchasing cards. Finance updated the procedures to include the processing of travel related transactions.

**Purchasing cards are assigned to specific departments. Employees assigned cards had physical custody.**

According to Finance's purchasing card procedures, all department assigned cards are required to have a cardholder agreement on file for each user. Of the 57 active purchasing cards, 19 cards were assigned to departments other than Finance. We obtained the cardholder agreements for all assigned purchasing cards. We then contacted the designated cardholders and requested that they provide documentation confirming possession.

We were able to physically locate all 19 purchasing cards and all cards were in the physical custody of the person/division for which it was assigned.

## **Recommendations**

None

## **2 – Transactions and Reconciliation**

### **Background**

From January 2022 through December 2022, there were 3,054 purchasing card transactions totaling \$2,856,415. Transaction volume increased at the beginning of the fiscal year when cards started being used for travel-related expenses. Also, purchasing card transactions increased during the COVID-19 pandemic when departments needed PPE for employees.

We evaluated purchasing card transactions to ensure they conformed to City and Finance policies. We used data analytics to create a risk model so we could review the riskiest transactions, rather than a random sample. The transactions were scored based on the following tests and workflows:

- Benford's Law – Transactions identified as having higher than usual activity for the leading digits of the payment amount.
- Dollar Amount – Transactions over \$2,000.
- Day / Date Activity – Transactions taking place on a weekend or holiday.
- Location – Transactions taking place out of the state or country
- Merchant Type – Transactions where the merchant type is categorized as a questionable expense.
- Cardholder Name – Transactions where purchasing cards are assigned to a specific employee.

We gathered all transactions, assigned risk scores for each attribute, and assigned an overall risk score to each transaction. We reviewed the 30 riskiest transactions, totaling \$65,166. We also judgmentally selected five additional transactions, totaling \$989,182. The five included one large, one-time transaction, and four Police transactions that had a unique approval path.

We interviewed the City Controller and staff on policies and procedures related to purchasing card transactions. We tested the selected transactions for accuracy, explanation for purchases, supporting documentation, and cardholder agreements (where required). Finally, we reconciled credit card transactions to the monthly credit card statements and to monthly invoice payments recorded in SAP.

### **Results**

#### **Credit card transactions had proper approvals, supporting documentation, and cardholder agreements.**

We selected a sample of 35 purchasing card transactions that occurred from January 1, 2022, through December 31, 2022. The tested transactions totaled \$1,054,348 (37% of total expenditures). We tested for proper Finance approval, a reasonable explanation of

the expenditure, and adequate supporting documentation. We found that all the tested transactions had Finance approvals and explanations for the purchases.

**Monthly purchasing card payments reconciled to transactions in SAP.**

City Controller staff reported that after their division reviews and approves the transactions with Chase, they enter the appropriate cost centers and general ledger accounts for all transactions in the Chase payment file. The data payment file is then reconciled by Finance in SAP and the payment is then sent to Chase for processing.

We obtained a download of all purchasing card transactions from January 1, 2022, through December 31, 2022. We reconciled the downloaded transactions to the monthly Chase account statements by generating a vendor expenditure report in SAP for calendar year 2022. We also detail tested all twelve months of statements, the full year of expenditures, and reconciled the transactions to payments in SAP. No exceptions were noted. The credit card activity reconciled to the Chase statements and payments in SAP.

**Recommendations**

None

## **Scope, Methods, and Standards**

### **Scope**

We reviewed purchasing card transactions from January 1, 2022, through December 31, 2022.

The internal control components and underlying principles that are significant to the audit objectives are:

- Monitoring Activities
  - Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
- Control Environment
  - Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.

### **Methods**

We used the following methods to complete this audit:

- Interviewed Finance staff regarding purchasing card processes;
- Reviewed purchasing card policies and procedures;
- Obtained purchasing card activity for calendar year 2022;
- Reconciled purchasing card transactions to card statements and SAP payments;
- Tested purchasing card transactions for appropriate approvals, supporting documentation, and authorizations;
- Verified that the designated cardholders had physical custody for the purchasing card for which they were assigned; and,
- Verified that cardholder agreements were on file for all cards assigned by Finance to other departments/employees.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

### **Data Reliability**

We assessed the reliability of Chase's monthly statements and SAP payments by (1) performing electronic testing, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about



the data. We determined that these data were sufficiently reliable for the purposes of this audit.

## **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. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.