

Performance Audit 21-01: Purchase Card Process

June 2021

City Auditor

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OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

June 29, 2021

To: Mayor Tim Kelly
City Council Members

Subject: Purchase Card Process (Report #21-01)

Dear Mayor Kelly and City Council Members:

The attached report contains the results of our audit of the Purchase Card Process. Overall we found the Purchasing Department is generally doing a good job managing the purchase card process and adhering to the current policies and procedures. However, we found the policies and procedures need updating and opportunities exist to increase cash rebates.

In order to address the noted areas for improvement, we recommended actions to review and update the policies and procedures, and to explore ways to increase the P-Card spend in order to enhance the amount of rebates.

We thank the management and staff of the Purchasing Department for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
Brent Goldberg, Chief of Staff
Daisy Madison, Chief Financial Officer
Tanikia Jackson, Deputy Chief Financial Officer
Julia Bursch, Deputy Chief of Staff
Debbie Talley, Interim Purchasing Director
Jim Arnette, Tennessee Local Government Audit

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2021 Audit Agenda. The objectives of this audit were to:

- determine if the purchase card policies and procedures provide adequate internal controls to safeguard assets and ensure compliance with laws and regulations,
- determine if the purchase card policies and procedures are being adhered to, and
- determine if the cash rebates available through the SunTrust program are being maximized.

BACKGROUND

The City of Chattanooga's Purchase Card (P-Card) program is intended for purchase of non-repetitive items. It is designed to be an enhancement to the purchasing and payment process, and its use for authorized purchases is encouraged.¹

The P-Card program is currently a MasterCard product managed by SunTrust Bank and administered by the City. The City's Purchasing Division is responsible for program compliance, policy development, implementation and training. The Finance Department is responsible for periodic audits of original documentation and retention of sales receipts documentation.²

The department heads and cardholders are accountable for ensuring effective program management. The department head is responsible for card management and the approval of monthly statements and charges. The cardholder has the responsibility to review, reconcile and submit the appropriate receipts for processing and payment.³

Financial Information

During calendar year 2020, approximately \$1,700,000 in purchases were made from approximately 8,500 P-Card transactions. As of February 2021, the City had 189 credit cards outstanding with a total credit exposure of approximately \$1,000,000.

¹ City of Chattanooga Purchase Card Policy and Procedures, Revised October 2019, page 1.

² Ibid, page 3.

³ Ibid, pages 3 and 4.

FINDINGS AND RECOMMENDATIONS

Review and Update Policies and Procedures

The *City of Chattanooga Internal Control Manual* and the Tennessee Comptroller of the Treasury's *Internal Control and Compliance Manual* both indicate policies will be periodically reviewed and updated as necessary. Policy and procedures review and revision are an important part of effective management.

The *City of Chattanooga Purchase Card Policy and Procedure* was last updated October 2019. Since then changes have been made to the purchasing card process that are not reflected in the October 2019 policies and procedures. For example, approvals are now made online instead of a manual hand written signature approval on the invoice or cash register receipt.

Also, after reviewing the City's current policy and comparing it to other entities P-Card policy and procedures, we noted the following sections that should be considered for inclusion in the City's P-Card manual:

- Definitions
- Record Retention Requirements
- Internal Controls
- Encouraged Use of P-Cards
- Surcharges and Convenience Fees (Credit Card Processing Fees)

Recommendation 1:

We recommend the Purchasing Department review and update the *City of Chattanooga Purchase Card Policy and Procedures*.

Auditee Response: We concur with the audit finding and recommendation.

Opportunities Exist to Increase Cash Rebates

The agreement with SunTrust provides for an annual rebate based on the annual total "Net Spend".⁴ The calendar year 2020 "Net Spend" was \$1,607,252 resulting in a rebate amount of \$23,948. The previous year rebate amount was \$29,061.

⁴ Page 4 of the SunTrust Agreement: Net Spend = [Annual Spend (Purchases)] – [Cash Transactions] – [Large Ticket Transactions] – [Negotiated Interchange Transactions]

Based on the FY2018 Annual Report prepared by the Municipal Technical Advisory Service (MTAS), the City of Chattanooga ranks last (when compared to other Tennessee municipalities) when comparing P-Card purchasing volume as a percent of total purchasing volume. In FY18 Chattanooga's percentage was only .46% when compared to other municipalities which average 2.68%.

Additionally, the City of Chattanooga participates in SunTrust's Governmental Entity Commercial Card Agreement with Knox County TN, as well as Anderson County TN, City of Murfreesboro TN and the Electric Power Board of Chattanooga. This participation allows the City of Chattanooga to enjoy a larger rebate percentage because of the combined purchase volume. Knox County (annual budget of approximately \$900 million) receives an annual rebate of around \$550,000 based on a \$36 million spend. They maximize their rebate by charging a wide array of items such as office supplies, IT equipment, utilities under a certain amount, cell phones, health department purchases and library purchases.

The Government Finance Officers Association's (GFOA) best practice *Using Purchasing Cards to Streamline the Purchasing Process* indicates one of the benefits of using a purchasing card is "Rebate revenue". Not only are purchasing cards a cost-effective way of purchasing, but are also an opportunity to generate additional funds (rebates).

Recommendation 2:

We recommend the Purchasing Department explore ways and implement practices to increase the City's annual P-Card spend in order to enhance the rebates it receives.

Auditee Response: We concur with the audit finding and recommendation.

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers purchasing card activity from January 1, 2020 to December 31, 2020. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from the Purchasing Department and SunTrust Bank. Original records as well as copies were used as evidence and verified through physical examination.

To evaluate oversight of the purchase card process, we reviewed state law and city code, and selected a sample of calendar year 2020 P-Card transactions to test for compliance with requirements.

To develop our recommendations, we reviewed industry best practice documents and discussed certain areas with other local governments.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

We conducted this performance audit from January 2021 to June 9, 2021, in accordance with generally accepted government auditing standards. Those standards require 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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