



**OFFICE OF INSPECTOR GENERAL
PALM BEACH COUNTY
AUDIT REPORT: 2013-A-0003
CITY OF PALM BEACH GARDENS
AUDIT OF PURCHASING CARDS**

Sheryl G. Steckler
Inspector General

"Enhancing Public Trust in Government"

SUMMARY RESULTS AT A GLANCE

The City of Palm Beach Gardens (the "City") ranked among the top Palm Beach County governmental entities using purchasing cards ("p-cards") based on our Office of Inspector General (OIG) survey of p-card activity. Over 8,000 purchase transactions totaling \$1.8 million were made between October 1, 2010 and June 30, 2012, which represents the period of activity in the scope of the audit.

We reviewed the City's p-card internal control policies and procedures relative to p-cards. In addition, we tested controls and the public purpose of expenditures around a sample of p-card activity, and applied various analytics to transactional data for all transactions.

Based on our review, we conclude that the City's p-card and related internal policies and procedures provide adequate control over p-card use. In addition, testing of transactions and interviews of personnel indicated operational compliance with those policies and procedures in all significant respects.

During detailed testing, we noted the following findings:

P-card transactions totaling \$4,218 had a questionable public purpose

The City strengthened controls concerning expenditures made for in-town

meals and other food and refreshment related items with revised procedures issued in September 2010. Although such expenditures do not constitute widespread or material practice, we identified fifty-seven (57) p-card transactions, totaling \$4,218, that, in our opinion, do not exhibit a clear public purpose or public benefit.

Examples include in-town food provided during meetings involving City employees, a holiday breakfast celebration, and miscellaneous association meetings. City policy specifically allows for food/beverages provided during City-hosted association meetings. The other examples are not allowed under the City's policy unless pre-approved by the Finance Department. Consistent with City policy, the transactions that we noted were pre-approved.

However, such expenditures are generally not allowable in the expenditure of State funds. Although municipalities have more latitude in the expenditure of municipal funds, we believe the State guidelines are a sound point of reference and we question whether these items have a clear public purpose or public benefit.

The City may benefit from additional p-card cash rebates

There may be an opportunity for the City to receive additional cash rebates from the p-card vendor by converting purchases currently paid by City checks to payments via the p-card.

We have made two recommendations to help improve the City's p-card program. We recommend that the City continue to monitor p-card purchases and avoid purchases that do not have a clear public purpose. We also recommend that the City identify other vendor payments that could be made using the p-card, thereby increasing the potential for additional cash rebates.

In response to our first recommendation, the City indicated that they believe the purchases, which were pre-approved, do serve a public purpose, however they will continue to closely monitor these types of purchases and approve only those that they believe provide a public benefit.

With regard to our second recommendation, the City expressed some concern with expanding use of the p-card for high dollar items. However, they will conduct a thorough review of policies and procedures to consider this method of payment. We have included the City's response in its entirety as an attachment to our report.

BACKGROUND

Purchasing card ("p-card") programs have been widely implemented at governmental entities across Palm Beach County. While p-cards present a wide range of financial and operational benefits, certain risks may also be present when p-cards, which are essentially credit cards with additional restrictions applied, are made available to users within those entities.

We conducted a p-card survey of thirty-nine (39) cities, municipalities, and special taxing districts to determine the extent of p-card use in terms of total spending, number of transactions, and number of employees authorized to use p-cards, among other factors. We used the results of the survey to assess risk and prioritize audits of the activity.

The City ranked third highest in total p-card transaction value. There are currently 91 employee p-cardholders. Over 8,000 transactions were made totaling \$1.8 million from October 1, 2010 to June 30, 2012. During this period, Bank of America served as the City's p-card vendor using the same terms as the p-card agreement initiated by the State of Florida.

The City's p-card program was introduced in 1999. The program's goal is to allow City employees to make approved purchases efficiently. The City departments established maximum transactional and monthly amounts that can be charged to each p-card. Transactions are reviewed by the respective Department supervisor, or the person to whom the supervisor reports in the case of their own charge activity.

The Purchasing Department reviews cardholder charge activity by vendor and type of purchase to identify opportunities to leverage purchasing activity into contracts with terms including more favorable pricing. The City hired its current Purchasing and Contracts Director in March 2012. Since then, the City has centralized its purchasing procedures and tightened its procurement policy. The City's purchases that are relative to purchase orders or contracts are normally paid by checks instead of p-cards. The City Finance Department verifies that p-card activity was reviewed and approved by the respective Departmental supervisor, and pays the p-card master bill.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of this audit were to:

1. Determine whether internal controls were in place and adequate to govern p-card use, including controls to prevent and detect fraud and misuse.
2. Determine whether p-card expenditures complied with such controls, including if expenditures were of a nature that have a clear public purpose or public benefit.

Our audit scope covered procurement card activities from October 1, 2010 to June 30, 2012.

Our audit procedures included but were not limited to:

- Evaluating the internal control procedures over monitoring and approving card expenditures;
- Evaluating compliance with applicable regulations and procedures;
- Using sampling software to select samples for testing;
- Interviewing personnel of the City of Palm Beach Gardens to gain an understanding of the controls and ascertain operational compliance;
- Reviewing supporting documentation.

This audit was conducted 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.

FINDINGS AND RECOMMENDATIONS

Based on the audit procedures performed, as outlined above, we concluded that the City has adequate policies and procedures to monitor and approve p-card expenditures. Testing of transactions and interviews of personnel indicated operational compliance with those policies and procedures in all significant respects.

Included in our sample of transactions were two exceptions to the City p-card policy with regard to splitting transactions such that each transaction would individually be below the maximum allowed. However, these exceptions were quickly detected and corrected by City management, prior to our audit.

During additional testing of transactions related to food purchases, we noted a finding specific to that category of purchases as outlined in Finding (1) below.

Finding (1): FIFTY-SEVEN P-CARD EXPENDITURES TOTALING \$4,218 HAD A QUESTIONABLE PUBLIC PURPOSE

In addition to our initial sample of thirty transactions selected and reviewed to test compliance with controls and public purpose, we requested details for an additional 108 expenditures totaling \$9,789 which were under certain merchant category codes identified in Bank of America transactional detail. The specific codes represent purchases in restaurants, grocery stores, and vendors offering food services, and typically are considered a general risk area with respect to substantiating public purpose when p-cards are utilized. Of these expenditures, fifty-one transactions were for supplies or were supported by public donation, however, we identified fifty-seven transactions totaling \$4,218 that were, in our opinion, of questionable public purpose or public benefit. Examples include in-town food provided during meetings involving City employees, a holiday breakfast celebration, and miscellaneous association meetings.

City policy specifically allows for food/beverages provided during City-hosted association meetings. The other two categories listed in the table below, Training, Employee, Council and Other Meetings, as well as the Holiday Breakfast, are not allowed under the City's policy unless pre-approved by the Finance Department. Consistent with City policy, the transactions that we noted were pre-approved.

However, such expenditures are generally not allowable in the expenditure of State funds. Although municipalities have more latitude in the expenditure of municipal funds, we believe the State guidelines are a sound point of reference and we question whether these items have a clear public purpose or public benefit.

Questionable Public Purpose / Public Benefit Items		
Description	# Transactions	Amount
Training, Employee, Council, and Other Meetings	39	\$ 2,821.31
Association Meetings	9	\$ 839.93
Holiday Breakfast	9	\$ 556.90
Total	57	\$ 4,218.14

It should be noted that the City's policy contains provisions that restrict spending categories often seen as allowable at other cities, and we consider this to be a positive statement of the City's desire to control such spending. City management indicated to

us that the policy was revised, in September 2010, to significantly reduce spending in these categories compared to prior years.

Recommendation

The City should continue to monitor compliance with its guidelines on food and beverage purchases, and avoid purchases of items that do not have a clear public purpose or public benefit. Department supervisors should not plan or approve such expenditures.

Management Response:

City management believes that the items outlined in our finding, which were pre-approved in accordance with City policy, serve a valid public purpose. The City notes several examples including:

- Meals during negotiating sessions that reduce the need to take breaks.
- Snacks to employees and Council during training to allow for extended sessions through the normal dinner period.
- Lunch during all-day fire apparatus training which reduces vendor time on-site and associated charges.
- Holiday breakfast to promote Council-employee contact and morale.

However, City management indicated they will continue to closely monitor these types of purchases and approve only those that they believe provide a public benefit.

Finding (2): ADDITIONAL P-CARD REBATES COULD BE RECEIVED

There may be an opportunity for the City to receive additional cash rebates from the p-card vendor, that are based on the City's p-card spending levels, by converting purchases currently paid by City checks to payments via the p-card. During the fiscal year ended September 30, 2011, the City received a rebate of \$11,537 on \$1.05 million of p-card expenditures.

The City permits p-cardholders to charge smaller value items that are not covered by a purchase order or contract as a matter of efficiency and convenience. However, we have noted that other municipalities have successfully negotiated with large vendors to use a p-card as a method of payment on higher value purchase orders and contracts, and therefore received more significant rebates from the p-card vendor based on their larger transactional dollar volume.

The City's new p-card agreement, with JP Morgan Chase as the p-card vendor and effective May 15, 2012, provides for the following potential rebates:

Combined Annual Charge Volume and Single Use Account Charge Volume	Rebate Rate
\$500,000 to \$1,000,000	1.21%
\$1,000,000 to \$10,000,000	1.60%
>\$10,000,000	1.65%

An additional rebate is received based on the average large ticket transaction size:

Average Large Ticket Transaction Size	Rebate Rate
Less than \$25,000	0.40%
\$25,000-\$99,999.99	0.20%
Greater than \$100,000	0.10%

Recommendation

The City should review its purchase orders and contracts for opportunities to use the p-card as the method of payment, and consider stipulating the p-card payment method as an additional item to consider in contract negotiation.

The City would need to ensure that adequate controls are in place prior to engaging in use of the p-card for the significantly higher transaction values that may be involved.

Management Response:

The City expressed concern that using the p-card for such purchases could reduce control over higher dollar purchases and create certain inefficiencies in accounting for such transactions. However, City management will conduct a thorough review of any revisions that would be necessary to policies and procedures to consider using the p-card for purchases where a purchase order or contract is required.

QUESTIONED COST AND COST AVOIDANCE¹

Questioned Cost: \$4,218.14

Cost Avoidance: \$7,664.32

ATTACHMENTS

Attachment 1 - – Complete Management Response

¹ Please see www.pbcgov.com/OIG for description

ACKNOWLEDGEMENT

The Inspector General's audit staff would like to extend our appreciation to the City of Palm Beach Gardens management and staff for the cooperation and courtesies extended to us during this audit.

This report is available on the OIG website at: <http://www.pbcgov.com/OIG>. Please address inquiries regarding this report to D. Schindel, Director of Auditing, by email at inspector@pbcgov.org or by telephone at (561) 233-2350.

ATTACHMENT 1 –Complete Management Response

**CITY OF PALM BEACH GARDENS**

ARY TRAIL PALM BEACH GARDENS, FLORIDA 33410-4698

January 4, 2013

Dennis Schindel, Director of Audit
Office of Inspector General Palm Beach County
P.O. Box 16568
West Palm Beach, FL 33416

Re: Draft Audit Report, Purchasing Card Controls and Activity

Dear Mr. Schindel:

Attached please find the City of Palm Beach Gardens' response to the Office of Inspector General's (OIG) draft audit report on purchasing card controls and activity.

Recommendation #1

The City should continue to monitor compliance with its guidelines on food and beverage purchases, and avoid purchases of items that do not have a clear public purpose or public benefit. Department supervisors should not plan or approve such expenditures.

Management Response

City policy specifically allows for food/beverages provided during City-hosted association meetings. The other two (2) categories listed in the audit report are not allowed under the City's policy ***unless pre-approved by the Finance Department. Consistent with City Policy, the transactions that were noted were pre-approved.***

Management believes that providing snacks, refreshments, and meals can serve a public purpose. Under current policy, certain items, with proper pre-approval, serve a public purpose and/or provide a benefit to taxpayers through realized cost savings or increased productivity. Examples include:

- Providing sandwiches to members of negotiating team to work through a short break in an all-day labor negotiation increases productivity, minimizes billable hours of labor counsel, and reduces staff costs
- Providing snacks for employees and council to attend mandatory ethics training immediately after normal working hours, (through normal dinner time), increases efficiency by eliminating disruptions during daily work routine, and reduces the number of required training sessions to be held

ATTACHMENT 1 (Continued)

- Providing lunch for an all-day fire apparatus training, minimizing time spent by vendor's personnel onsite thereby reducing vendor charges to the City and avoiding over-time incurred by employees
- Providing a minimal amount of funds for a holiday breakfast for all 455 employees for \$557 provides council members with one time a year to talk to employees and helps boost morale for employees that, in many cases, have been without a raise for 4 years

The City will continue to monitor compliance on these types of purchases very closely and approve only those purchases that are believed to provide a public benefit.

As noted in the OIG's audit report, the City's Purchasing Card Policy was revised in September 2010 and contains provisions that restrict spending categories often seen as allowable in other cities and considered this to be a positive statement of the City's desire to control such spending.

Recommendation #2

The City should review its purchase orders and contracts for opportunities to use the p-card as the method of payment, and consider stipulating the p-card payment method as an additional item to consider in contract negotiations.

The City would need to ensure that adequate controls are in place prior to engaging in use of the p-card for the significantly higher transaction values that may be involved.

Management Response

The City of Palm Beach Gardens Purchasing Program is designed to improve efficiency in processing low dollar purchases from any vendor that accepts the p-card and does not require a purchase order (PO). Management does not agree that the p-card is a preferred method of payment for items where a PO/contract is required when multiple general ledger (GL) expenditure accounts are charged because the ability to monitor and control such activity in a timely manner is lost. The vendor receives immediate payment via the p-card yet the accounts payable system still has unnecessary funds encumbered that can only be adjusted manually through cumbersome journal entries to liquidate and cancel the PO.

The City currently prefers a conservative policy regarding the payment of high dollar transactions. Under current policies and procedures, management believes the use of p-cards for these items to be potentially too risky. However, management will conduct a thorough review of the revisions necessary to our policies and procedures to consider this method of payment. This review will analyze the impacts on internal controls to determine if the benefits outweigh the potential risk and liability from the expansion of the use of the p-cards.

Sincerely,



Ronald M. Ferris
City Manager

Cc: City Council
Department Heads
Deborah Diaz, CPA, City Auditor
Budget Oversight Committee