



Internal Audit of the
City's Credit Card
Program

REPORT

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INTRODUCTION

Scope & Objectives

The audit period covered credit card statement cycles ending during fiscal years 2018-19 and 2019-20. The objectives were to:

- Determine whether the city's credit card policies and procedures function as management intended and comply with applicable state laws
- Assess individual and departmental transaction, purchasing and issuance compliance

Methodology

- Interviewed city staff
- Researched state laws, regulations, guidelines and city policies governing the city's credit card program
- Analyzed city personnel and employment data
- Reviewed monthly credit card statement packets completed by cardholders
- Reviewed CAL-Card purchase program information and data from US Bank
- Analyzed credit card transaction and cardholder data from the city's accounting system and US Bank

Summary of Conclusions

This audit revealed several areas where the Finance Department should clarify and add language in its city credit card-related policies. A number of credit card purchases and the supporting statements and documentation did not comply with city credit card policies, including late credit card statement reviews and missing documentation, indicating a need for the Finance Department to track policy violations and revoke credit card privileges when appropriate. Several types of credit card purchases that related to meals, refreshments and employee appreciation were technically compliant with existing policies, but suggest a need for city leadership to consider issuing additional citywide guidance. Cardholders purchased a number of city business related flights cancelled due to COVID-19; as such, departments need to inventory and track these nonrefundable funds. The audit's review of a random selection of 100 transactions and additional data analysis did not identify any specific instances of fraud or abuse.

Background

The city participates in the CAL-Card program, a VISA purchase card program provided by a State of California-leveraged procurement agreement offered to State and Local Government agencies. The city must follow all related procurement laws, regulations and policies related to the use of this card. Additional applicable city policies and procedures include the city's:

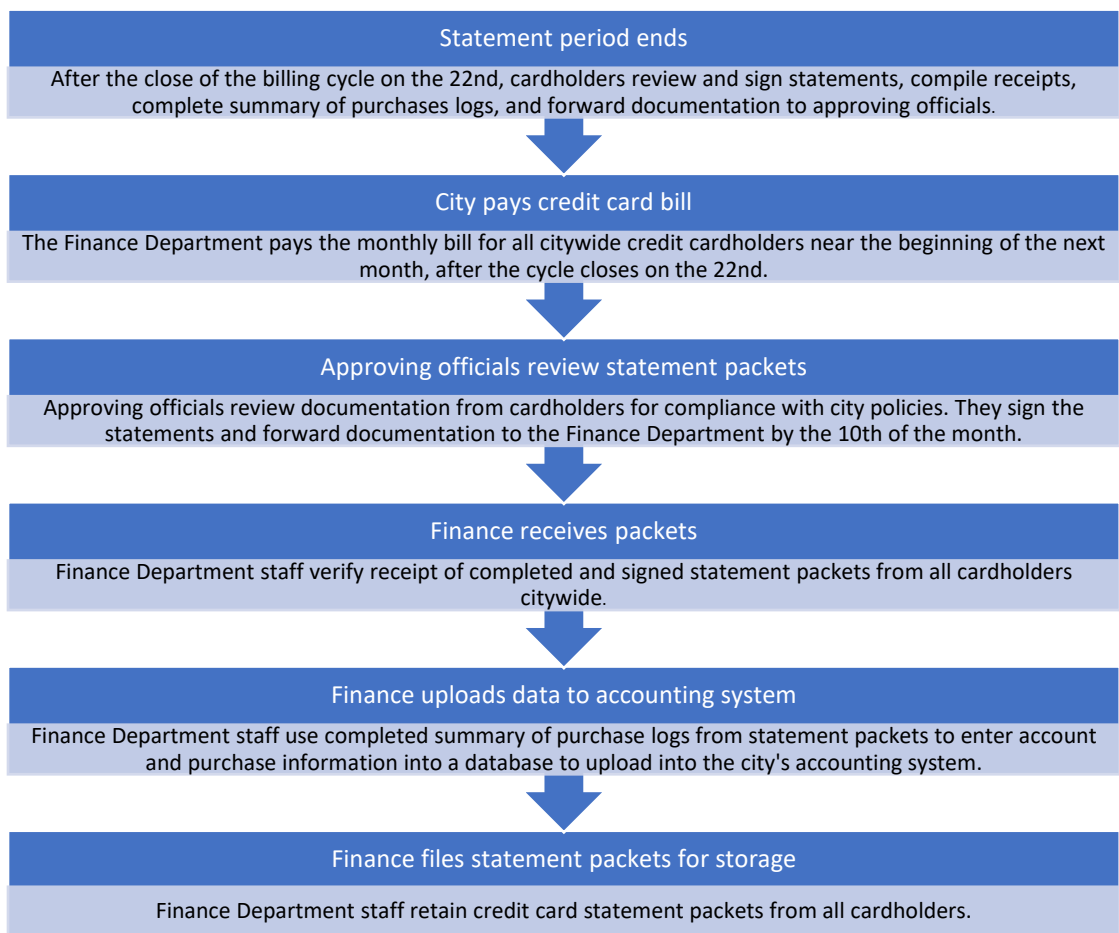
- Credit Card User's Guide
- Purchasing Policies and Procedures Manual
- Travel Guidelines & Procedures
- Council Policy No. 2 - Travel Policy

Employees may use city-issued credit cards to purchase supplies, services and equipment in the normal course of their job functions. Cards are issued in the name of the cardholder and billed to the city. Before being issued a credit card, an employee must sign a cardholder agreement, which indicates the maximum dollar amounts per transaction and a maximum total for all purchases made with your credit card within a given month. A single credit card transaction cannot exceed \$2,500 and the monthly statement period limit is \$5,000 total. Under certain circumstances, an employee may obtain a supervisor's and Finance Department approval for a one-time increase to these limits.

Cardholders must also sign a form acknowledging receipt of the physical credit card. These documents are kept on file with the Finance Department.

The cardholder is required to review and attest to the accuracy of each month's statement and forward it, with all receipts and logs of purchases, to the approving official, within five working days of receiving it. It is the approving official's responsibility to ensure that all cardholders' statements have been forwarded to him or her for review and processing. The approving official is required to verify items were purchased in accordance with the city's policies and to forward all completed statements to the Finance Department by the tenth day of the following month. Each department will designate approving officials by submitting the appropriate form, signed by a department head, to the Finance Department.

Figure 1: Monthly credit card procedures at the close of each billing cycle



Source: Interviews with city staff, credit card user's guide and Finance Department records.

The number of cardholders per department varies. As of 2019-20 fiscal year end, the city had 246 active credit cards. Table 1, below, illustrates the number of cardholders per department and other relevant spending information. Cardholders within departments may charge credit card purchases to other departments, depending on the nature of the purchases. Therefore, not all credit card spending charged to a department is necessarily made by cardholders within that department.

Table 1: Number of cardholders and credit card spending by department for fiscal year 2019-20

Department	Credit card spending charged to department	% of spending compared to department's adopted operating expenses budget	Number of cardholders	Full-time employees	Total monthly credit limit
Parks & Recreation	\$324,732	2%	40	53	\$210,000
Facilities & Fleet	315,956	3%	15	30	120,000
Police	302,596	3%	40	181	210,000
Fire	197,905	4%	43	97	220,000
Utilities	129,631	0.2%	23	56	115,000
Library & Cultural Arts	120,636	2%	21	50	105,000
Policy/leadership group*	109,589	4%	17	34	101,000
Information Technology	107,926	2%	6	37	30,000
Human Resources	86,245	1%	11	18	57,500
Transportation	75,960	1%	9	41	45,000
Community Development	58,241	0.4%	5	51	25,000
Public Works Administration	36,954	2%	8	23	40,000
Finance	32,327	1%	3	31	15,000
Housing & Neighborhood Services	27,647	4%	3	13	13,000
Environmental Management	9,263	0.4%	2	12	15,000
Capital projects	8,383		#		
Total	\$1,943,991		246	727	\$1,321,500

*The Policy/leadership group consists of the Offices of the City Council, City Treasurer and City Manager; the Office of the City Attorney; and Communications & Engagement.

There are no specifically identifiable credit cardholders for capital projects related credit card charges. Different departments charge to capital projects depending on the circumstances.

Note: Not all credit card charges are related to each department's maintenance and operations budget. For example, the Police Department may make credit card purchases related to a grant program, which is budgeted for separately than in its maintenance and operations budget. Further, not all credit card spending charged to a department is made by that department's cardholders. For example, a cardholder and employee within the Information Technology Department may purchase an IT-related item on behalf of another department, and charge that expense to that department in the city's accounting system.

Source: City personnel records, the city's accounting system and the US Bank system.

CITYWIDE CREDIT CARD SPENDING

Trends in citywide credit card spending

City credit card spending can be broken down by merchant category codes which are used by credit card companies to classify merchants and businesses by the type of goods or services provided. Table 2 below shows spending on city credit cards in the top 20 merchant category codes for transactions in fiscal year 2019-20. Amazon purchases comprised 99% of the total dollar value of credit card transactions in the book stores category.¹

There are a wide variety of reasons employees make purchases with vendors from the merchant category codes listed below. For example, employees on work-related travel may make hotel, airline and food purchases. The Fleet and Facilities Department may make purchases at home supply stores such as Lowe’s to maintain city facilities.

Table 2: Top 20 merchant codes based on transactions for fiscal year 2019-20

Merchant code description	Card transactions	Total dollar value
Book stores	2,415	\$224,200
Home supply warehouse stores	865	97,940
Business services (not elsewhere classified)	261	83,367
Eating places and restaurants	1,021	76,411
Organizations, charitable & social service	255	66,034
Computers computer equipment, software	102	61,902
Hotels (not elsewhere classified)	158	58,937
Membership organizations (not elsewhere classified)	222	54,753
Industrial supplies (not elsewhere classified)	139	44,133
Schools and educational supplies (not elsewhere classified)	156	39,892
Miscellaneous and specialty retail stores	128	38,303
Southwest Airlines	158	35,304
Fast food restaurants	418	33,659
Durable goods (not elsewhere classified)	45	30,368
Hyatt hotels	61	29,040
Grocery stores, supermarkets	523	28,547
Automotive parts & accessories stores	139	26,527
Auto and truck dealers—sales, service, repairs, parts, leasing	42	23,306
Direct marketing - continuity, subscription merchants	153	23,171
Marriott	51	22,553
Total credit card transactions for the 20 merchant codes	7,312	1,098,347
Total FY 2019-20 credit card transactions	11,744	\$1,943,991

Source: US Bank credit card transaction data for transactions occurring in fiscal year 2019-20

¹ This dollar figure does not indicate the total city spending at Amazon because the city’s Amazon Business account allows employee accountholders without city credit cards to also purchase items at Amazon using an invoice.

The city’s accounting system also allows city expenditures to be broken down by “object,” or spending category, which indicates the reason for each credit card transaction. Table 3, below, shows the top fifteen spending categories for purchases made by city credit cards in fiscal year 2019-20, including a comparison with the prior fiscal year.

Table 3: Comparison of the top fifteen spending categories for purchases made by credit card in fiscal year 2019-20 to 2018-19

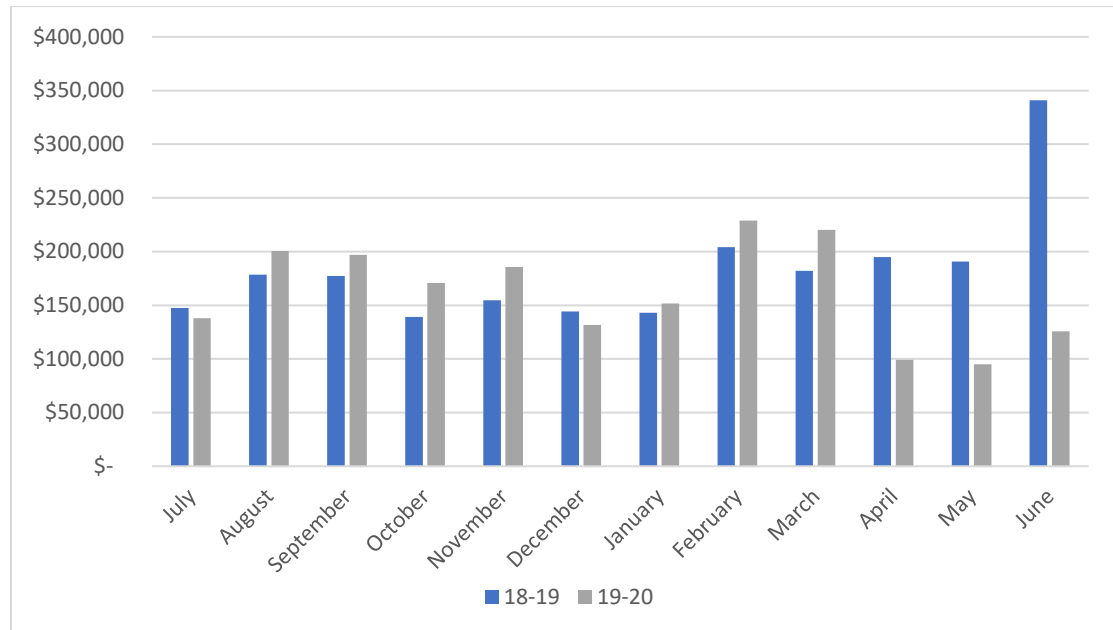
Spending category	2019-20	2018-19	\$ Change	% Change
Misc. supplies	\$470,702	\$581,070	(\$110,368)	-19%
Training, training-related travel	294,090	363,618	(69,528)	-19%
Conference, meeting travel	194,914	284,305	(89,391)	-31%
Dues and subscriptions	80,683	76,526	4,157	5%
Misc. meals, miles	78,609	88,381	(9,772)	-11%
Building maintenance	74,549	74,402	147	0%
Misc. outside services	64,822	44,007	20,815	47%
Misc. computer hardware	61,191	72,099	(10,908)	-15%
Vehicle maintenance	58,607	32,535	26,072	80%
Office supplies	49,638	51,639	(2,001)	-4%
Safety equipment	45,814	26,029	19,785	76%
Parts - vehicles	42,379	32,695	9,684	30%
Parts - equipment	28,193	28,312	(119)	0%
Small tools	26,135	22,603	3,532	16%
Office furniture & equipment	25,925	39,219	(13,294)	-34%
Remaining categories combined	347,741	379,670	(31,930)	-8%
Total	\$1,943,991	\$2,197,111	(\$253,120)	-12%

Source: The city’s accounting system

As shown in Table 3 on the previous page, citywide credit card sending decreased from fiscal year 2018-19 to 2019-20, largely in the categories of miscellaneous supplies and training and conference travel. This is reasonable given the COVID-19 health emergency and its effect on reducing in-person services for a period of time and limiting training and conference travel. Similarly, it explains why other categories like safety equipment spending increased from fiscal year 2018-19 to 2019-20. Although vehicle maintenance spending by credit card increased by a large percentage, the related budgets for this item did not change significantly. Therefore, this increase is reasonable and suggests the city is utilizing credit cards more for vehicle maintenance-related purchases, rather than relying on other purchasing mechanisms. Miscellaneous outside services also experienced a notable increase. Facilities maintenance incurred the largest portion of the increase in miscellaneous outside services. A representative from the Fleet & Facilities Department explained this was due to the lobby remodel at City Hall and COVID-19 related expenses.

There was a significant spike in credit card spending in June 2019, immediately before a policy change went into effect that eliminated contingency funding for all departments citywide – as illustrated in Figure 2, below. Prior to the budget year 2019-20, all departments had a contingency fund that allowed for a certain percentage of the budget each year to be automatically carried forward to the budget for the next fiscal year. The city manager eliminated this practice, effective July 2019. Based on conversations with several individuals, it is possible this change was a contributing reason for the spike in credit card spending in June 2019.

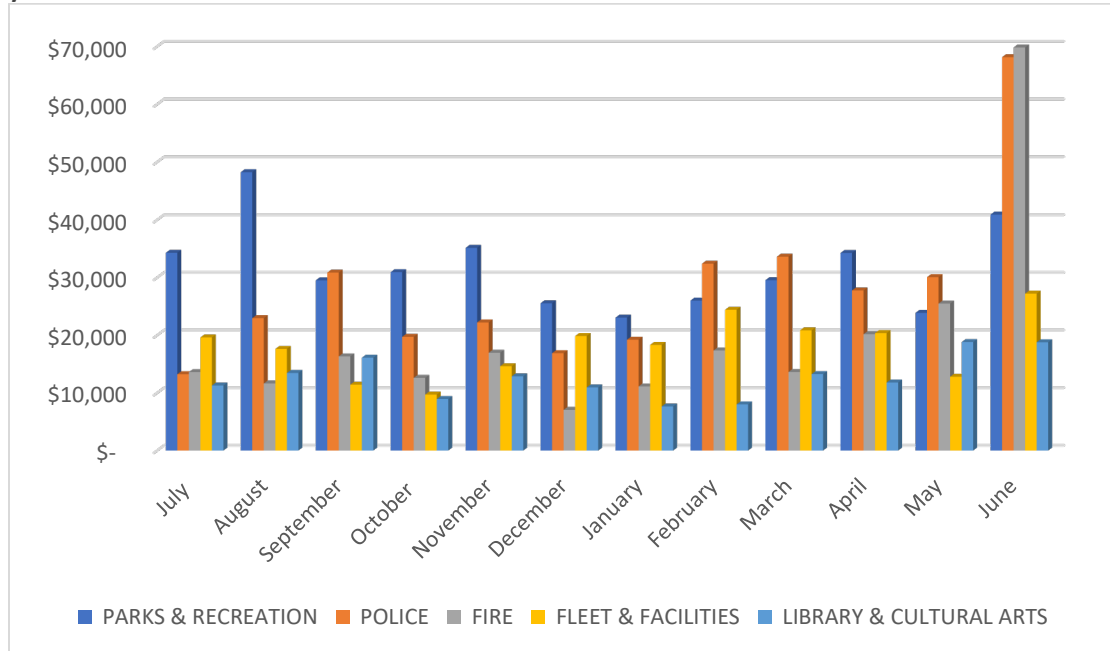
Figure 2: Total citywide credit card spending per monthly statement period for fiscal years 2018-19 and 2019-20



Source: Data from the city’s accounting system and US Bank system, which handles the city’s credit card

Additional analysis of the five departments with the highest credit card spending in fiscal year 2018-19 revealed that the police and fire departments increased credit card spending the most in June 2019, as shown in Table 4 below.

Table 4: Spending by month for the five departments with the highest credit card spending in fiscal year 2018-19



Source: City personnel data and the city's accounting system

The Police and Fire departments' purchases in June 2019 were appropriate and in support of department programs, but confirm that the increase was at least in part due to the policy change. A representative from the Police Department stated the increase in credit card expenditures from June 2019 was in response to the city's policy change on the elimination of automatic carryforwards the previous year. In June 2019, the police department had residual funds from the operating budget and identified supplies the department would need in the near future, such as batteries, evidence kits, office supplies, uniform accessories, safety gear and minor miscellaneous investigative tools. The department also took that opportunity to pay for upcoming dues and subscriptions, as well as outstanding ones from the same year.

Similarly, a representative from the Fire Department confirmed that, based on the discontinuing of contingency funds, personnel used credit cards to replenish and replace supplies prior to fiscal year-end including a fire hose, flashlights, headsets and microphones, chainsaw, wildland tools, automated external defibrillator (AED) battery and carrying case, radio harnesses, code books and public education and shelter supplies. The representative also stated that credit card spending increased due to two new programs: the North Zone Technical Rescue Team Program and the new year-round lifeguard program along North Beach. Additionally, the representative stated, the department postpones supply and equipment purchases to the end of the fiscal year when feasible to ensure there is available funding in the budget for day-to-day operations. This is because of timing issues with mutual aid expenses and reimbursements.

CREDIT CARD TRANSACTION TESTING

Review of selected transactions

The city's cardholders conducted over 23,500 purchase transactions in fiscal years 2018-19 and 2019-20 combined. The internal auditor selected a random sample of 100 transactions from credit card statement cycles that ended during the audit period and performed an extensive review of these transactions with an emphasis on whether:

- The transaction was allowable according to existing city policies
- The documentation for each transaction was adequate (i.e., contained itemized receipts, additional travel forms if necessary, etc.)
- The appropriate approving official reviewed the corresponding credit card statement for the selected transaction
- The corresponding credit card statement for each transaction was reviewed and submitted to the Finance Department in a timely manner

The testing of these 100 transactions resulted in the following:

- 99% of transactions were allowable according to existing city policies
- 98% of transactions contained supporting documentation as required by city policies
- 83% of selected transactions' corresponding credit card statements were reviewed and signed by a designated approving official
- 76% of selected transactions' corresponding credit card statements were reviewed and submitted to the Finance Department in a timely manner

Allowability

One of the 100 randomly-selected transactions involved a purchase of gift cards, which is expressly prohibited in the credit card user's guide. In July 2018, a Library & Cultural Arts employee purchased 25 ten-dollar Trader Joe's gift cards for a total of \$250 as part of the department's employee appreciation program. Records indicate that a manager in the Finance Department promptly contacted a representative in the Library & Cultural Arts Department to discuss this policy violation. Two months later, the same employee purchased an additional \$700 worth of gift cards from Amazon and Trader Joes for the department's employee appreciation program. Again, a manager in the Finance Department promptly contacted the representative in the Library & Cultural Arts Department to discuss this violation. According to the Director of the Library & Cultural Arts Department, the department's management did not immediately notify some cardholders in the department of this policy, which resulted in the additional gift card purchases. A manager in the Finance Department explained the city prohibits gift cards purchases because such cards can be easily misplaced, lost, or stolen. The library director confirmed that the department stopped purchasing gift cards as part of its employee recognition awards after this instance. Instead, it now provides employee recognition awards in the form of various small items, several of which are City of Carlsbad-branded merchandise.

This example also highlights the need for Finance to provide additional guidance to departments as to when to report additional taxable income for gifts or awards. The Internal Revenue Service states cash or cash equivalent items provided by the employer are never excludable from income. Gift certificates that are redeemable for general merchandise or have a cash equivalent value are not de minimis benefits and are taxable. The analyst stated the department purchased 230 gift cards during fiscal year 2017-18 using city credit cards for a total of \$2,335. The analyst also said staff did not report information regarding gift cards gifted to employees to the Finance Department as taxable income for employees who received them. The Finance Department should provide guidance to ensure that city departments give and report employee appreciation gifts in compliance with the Internal Revenue Code in the future.

Documentation

Nearly all the transactions reviewed contained adequate documentation, including itemized receipts and supplemental forms when necessary. The credit card user's guide requires that an employee submit a travel form for any purchases made relating to conferences and training-related travel. However, two travel-related credit card transactions did not have corresponding travel forms. In one of the instances, a representative from the department stated the department was under the impression that a travel log was not needed when the employee used a city credit card and provided all supporting information and no additional money was owed to or from the employee.

The city credit card user's guide states the use of the city credit card for payment of business travel, meals and entertainment does not preclude the use of the travel log, the travel log will still need to be filled out and approved in accordance with the city's Travel Policy. Given that these are policy exceptions — not indicative of patterns of fraud or misuse — the Finance Department could consider highlighting these aspects of city policy to cardholders, managers, and approving officials. One way to do this would be to invite credit card approving officials to the Finance Department's annual training and include this content.

Additionally, one of the transactions' supporting documentation revealed that an employee received reimbursement for a travel-related meal cost that the employee purchased using a city credit card. This occurred because the employee included the receipt as support of a credit card transaction in the monthly statement packet, but also used the same receipt to request reimbursement in a travel log submitted during the same time period. According to the employee, this was an oversight because the restaurant provided two receipt copies and the receipt didn't include a card number to help identify that the employee made the purchase with a city-issued credit card. Upon learning of the oversight, the employee promptly reimbursed the city.

It is possible employees could request reimbursement for larger travel-related purchases made using a city credit card, such as for lodging. Therefore, the city should try to reduce the likelihood of this incident happening again by requiring cardholders to provide a copy of the relevant city-issued credit card charges from the US Bank system or the monthly credit card statement associated with the time period of travel with their travel logs. This way, credit card approving officials could promptly review and identify this type of incident.

Approvals

Although all corresponding credit card statements for the transactions tested contained an approval signature, 17 of the 100 signatures were from staff who were not designated as authorized credit card approving officials. The Finance Department maintains forms for individuals authorized by their department heads to approve credit card statements. Seventeen of the selected transactions' associated credit card statements were signed by individuals that had no form on file. The department maintains two lists of approving officials: one for credit card statement and another for those responsible for reviewing items like accounts payable and petty cash. Based on multiple conversations, it appears city staff may have been unaware of the existence of two separate lists of approving officials. In addition, the Finance Department staff receiving departments' signed statement packets did not have access to the correct list of approving officials, so that they could tell who was and who was not designated as an approving official. To avoid confusion in the future, the Finance Department should consolidate these lists and clarify guidance in the appropriate city policies. During this process, departments should immediately provide any necessary authorization forms to the Finance Department.

Nearly a fourth of the credit card statements reviewed were not submitted to the Finance Department for processing within a timely manner. For each credit card statement period, the credit

card user's guide requires that a cardholder prepare a statement for approval by the fifth of the following month and ensure the statement is approved and submitted to the Finance Department for processing by the tenth of the following month. Twenty-four statements were approved after the tenth of the following month and therefore were not submitted by the deadline.² This is in part due to cardholders being late in providing credit card statements and supporting documentation to their approving officials for review and approval. The city's finance director noted that the longer cardholders wait to review and provide statement and support to approvers, the more stale information becomes to help the approver. Additionally, cardholders' delayed reporting negatively affects the accounting and financial reporting and closing processes. The delays often result in the accounts payable team falling behind in processing and then in reporting the associated expenses. As a result, the accounts payable team is forced to perform additional work tracking down and requesting information.

Although certain long-term plans to upgrade the city's accounting system could help remedy this issue, the Finance Department should consider changes to improve this in the short term. The city's procedure for processing, reviewing and inputting individual user credit card statements into the city's accounting system relies heavily on time-consuming data entry and extensive hard copy documentation. In the long term, the Finance Director stated, the city is contemplating a credit card module in the city's accounting system that could streamline the review and approval process, thereby promoting timely reviews and submissions.

In the short term, the Finance Department should update the credit card user's guide to address penalties for repeatedly late submissions. The current language calls for revocation of cardholder privileges for certain repeated policy violations but does not address late reviews and submission to the Finance Department. The credit card user's guide also states the Finance Department maintains an ongoing record of unauthorized credit card use, but records show the department has not tracked noncompliance with city credit card policy or unauthorized credit card use on an ongoing basis since 2016. Instead, the city maintains a file that documents cardholders' current status, which does not allow the city to track past events. Therefore, the Finance Department should begin to formally track late submissions, along with other policy violations, in order to revoke privileges when appropriate.

Recommendation #1: The Finance Department should communicate guidance citywide about the taxability of employee appreciation related items and gifts to ensure that city departments give and report them in compliance with the Internal Revenue Code.

Recommendation #2: To train all credit card approving officials on all relevant city policies—including the areas mentioned in this report—when reviewing credit card statements, the Finance Department should make sure to include credit card approving officials in the annual training it currently conducts.

Recommendation #3: To prevent employees from receiving reimbursement for purchases made using a city credit card, the Finance Department should require employees to attach any associated travel forms during the time period to the credit card statement packet before forwarding to approving officials for review.

² This does not affect the city's ability to pay the monthly credit card bill for all cardholders citywide. The Finance Department strives to pay the total U.S. Bank credit card bill for all cardholders before the tenth of the following month — before the submission deadline — because part of the city's quarterly rebate from U.S. Bank is based on prompt payment. Based on data published online, the city's rebate rate is adequate in comparison to other entities participating in the CAL-Card program and generally reflects prompt payment.

Recommendation #4: To ensure credit card statements are appropriately reviewed at the individual department level, the Finance Department should consolidate its list of approving officials, ensure updated documentation is on file for all approving officials, and ensure city staff are aware of this list.

Recommendation #5: To monitor cardholders and revoke privileges when appropriate, the Finance Department should immediately begin to track instances of noncompliance with policy on an ongoing basis.

Additional data analysis

The internal auditor judgmentally selected additional transactions during the audit period for further review and analysis, including:

- All single transactions above the standard purchasing limit of \$2,500 for a total of 19 transactions
- A selection of transactions that were just under and over the standard purchasing limit of \$2,500 and those that appeared to be potentially split to avoid exceeding the maximum threshold for a total of 16 transactions
- A selection of transactions from potentially questionable merchant category codes (i.e., florists, bakeries, gift and novelty shops, professional services, etc.) for a total of 48 transactions³

High dollar transactions

These 19 high dollar transactions above the standard purchasing limit of \$2,500 transactions were allowable, had adequate documentation and were reviewed by designated approving officials. Additionally, all except one of the transactions' corresponding credit card statements were approved and submitted on a timely basis. Records indicate the Finance Department first obtained approval from the cardholders' department directors for them to exceed the standard purchasing limit.

Potentially split transactions

Based on the review of 10 identified transactions or groups of transactions that appeared to be potentially split in order to avoid the \$2,500 maximum single purchase threshold, two were confirmed to be split. For one of these instances, records indicate that the Finance Department promptly notified the cardholder and explained how this type of purchase is noncompliant and would have needed prior approval from the Finance Department to exceed the purchasing threshold. The purchase itself was for business purposes and this singular instance did not indicate a more widespread issue. Because both individuals appeared unaware of this policy, the Finance Department should include this topic in its annual training with approving officials.

Transactions from certain merchant category codes

The internal auditor identified 228 purchases that could be considered more high risk based on the associated merchant category code. The internal auditor reviewed the supporting documentation for a selection of 49 of these transactions. In general, all of the purchases were compliant with city policies. However, cardholders made a series of purchases from florists during the audit period. Whether floral purchases are a permitted or prohibited use of public funds depends on whether the purchases are authorized and whether they provide a public benefit. Courts liberally construe the concept of public benefit and will generally uphold the city's determination an expenditure provides a public benefit as long as the decision is reasonable and not arbitrary.

³ Certain high-risk and cash-related merchant category codes are already excluded from the CAL-Card Program and restricted by U.S. Bank for all CAL-Cards. Therefore, this review focused on other merchant category codes that could also be more high-risk in nature.

In general, cardholders sent flowers to funerals for former employees or volunteers, condolences and get well soon wishes to current employees and current employees' family members. Most notably, the Fire Department made 19 floral purchases by credit card during the audit period for a total of nearly \$1,450. A representative from the Fire Department explained it has been a longstanding practice to purchase flowers to express compassion for those close to the department, and that the department was never instructed to discontinue floral purchases. The representative also said the department does not purchase any similar items for employees or volunteers that could be considered prohibited based on the information provided above. In response to this audit, the department will discontinue flower purchases. If city leadership wanted to discontinue these types of credit card purchases, it could consider prohibiting them in its citywide policy.

ADDITIONAL CREDIT CARD GUIDANCE

Meals, refreshments and employee recognition

A number of credit card transactions reviewed as part of this audit were for meals, refreshments or decorations for meetings, recruiting events, employee appreciation events, celebrations and training, for which there is no related city policy or guidance. Although the credit card and travel policies provide some general guidance, they do not dictate the appropriateness of certain food purchases. According to the deputy city manager of administrative services, the former chief operations officer provided verbal guidance to all deputy city managers in the spring of 2019 that the city will only purchase food for "all-hands" meetings involving attendees from across an entire branch or department. However, the review of transactions involved several food purchases for which there is no associated guidance:

- Donuts for a monthly meeting of division heads
- Several purchases of refreshments and meals for those involved in interviews or other recruitment-related events
- Pizza for staff in appreciation of completing a project
- Decorations and trophies or awards for a departmental employee appreciation event
- Lunch for those attending a City Council briefing over the lunch hour

Current data is not readily available to provide total dollar values for these types of purchases during the audit period. The frequency of these purchases in the randomly-selected sample for review in the previous section suggests the city might consider creating additional guidance in this area. Without it, it is more difficult to gauge the appropriateness of these purchases or reprimand a cardholder. According to a Human Resources manager, the department's long-term goal is to create a policy for reward and recognition, which could potentially add guidance for some of the examples listed above. If city leadership determines it is in the best interest of the city to provide additional guidance, it should provide direction to the finance and human resource departments to do so.

Travel

The city's travel guidelines and procedures address the appropriateness of hotel rates while on city business but does not set dollar value maximums. Annually, the federal and state government publish maximum allowable room rates for travel within each geographical region and require a written justification if actual room rates exceed those maximums. Although the city sets maximum meal reimbursement rates for business travel, it does not do so for hotel rooms. Instead, the city's travel guidelines and procedures presents questions to help employees assess whether a room rate is considered reasonable (i.e., Was the hotel a "standard chain" hotel or a "luxury" hotel?). To ensure that the city has a hotel room rate standard for what it deems reasonable for business travel, it

should consider adopting either the state or federal government's annual rates and requiring employees to submit written justification when rates must exceed these established maximums.

In addition, during the review of transactions, it became clear the Finance Department should work with other departments to inventory and track existing travel funds for cancelled flights purchased with city credit cards. For example, a cardholder within the Parks & Recreation department purchased Southwest flights for a total of four employees to attend a conference in New York. The employee purchased the tickets in February 2020 for flights in May 2020 that were subsequently cancelled due to COVID-19. According to the Parks & Recreation employee, the tickets were nonrefundable and travel funds for the cancelled flights are available until late 2021. Citywide, cardholders completed 41 transactions with Southwest Airlines for a total of nearly \$9,230 between February and June 2020. Unless the city tracks this information, employees could use unused travel funds for personal travel in the future. Therefore, the Finance Department should work with city departments to ensure departments are tracking unused travel funds or requesting credits for refundable flight purchases.

Closure of cardholder accounts

Cardholder accounts were not promptly closed for five employees when they left employment with the city. Two employees who left the city had open accounts at the time of this review, several months later. There was a substantial delay from when three other employees left the city to when the Finance Department closed their credit card accounts. Failing to promptly close these cardholders' accounts increases the risk that former employees may make additional purchases after they are no longer employed with the city. According to the credit card user's guide, it is the approving official's responsibility when a cardholder leaves to collect the credit card and provide notice of termination to Finance. Therefore, the Finance Department should include this in its annual training to approving officials as a reminder. Additionally, to promote prompt closure of accounts, the manager in Finance overseeing the credit card program should cross-check the automatic departure emails with the list of cardholders on a monthly basis and cancel any accounts as necessary.

Amazon purchases shipped to non-city addresses

A review of all Amazon purchases made using the city's Amazon Business Prime account during the audit period revealed purchases were shipped to over 25 non-city affiliated addresses. Near the beginning of the audit period, the city consolidated all existing city Amazon accounts into one master account from which all city Amazon purchases would be made. This was done to provide easy access to products, quick shipping and better reporting and tracking of purchasing trends. A number of employees used city credit cards to make business purchases and shipped them to non-city affiliated addresses. One of these cardholders explained that a number of the purchases were shipped to home addresses because of the COVID-19 related stay-at-home order. Another cardholder explained that USPS doesn't deliver packages to one of the city's facilities, making it easier to ship to a home address rather than travel repeatedly to the post office.

Although not specifically prohibited, a representative from the Finance Department explained that business purchases should only be shipped to business addresses. Allowing shipments to home addresses increases the risk that city property is lost because it is never delivered or never returned to city facilities. Because this is one of the elements approving officials can check for when reviewing monthly statement credit card packets, the Finance Department can include this in training attended annually by approving officials, as noted in a previous recommendation. Currently, the Finance Department is in the process of determining if it can prohibit shipments to non-city addresses on the Amazon Business account.

Additionally, this review revealed that a number of employees used the city's Amazon Business account to make personal purchases using non-city issued credit cards. Although the city did not pay

for these personal purchases, a fact sheet posted on the city's intranet states that no personal purchases are allowed using the city's Amazon Business account. Allowing personal purchases on the city's Amazon Business account limits the city's ability to track purchasing patterns. According to a Finance Department representative, the department is currently looking into way to use the reporting mechanisms in the Amazon Business account to help identify these types of instances in the future. Using these reports, the Finance Department can track instances of noncompliance in a tracking sheet and discipline appropriately, as noted in a previous recommendation.

Recommendation #6: To ensure that lodging purchases made during city business-related travel are appropriate, the Finance Department should update its travel guidelines and procedures to adopt either the state or the federal government's annual lodging rates by geographic location and require employees to submit written justification when rates must exceed these established maximums.

Recommendation #7: To assist the city in keeping track of employee flight purchases made using city funds, the Finance Department should inventory and track unused travel funds so they are used for city travel-related purposes in the future.

Recommendation #8: To promote prompt closure of accounts when a cardholder leaves employment with the city, the manager in Finance overseeing the credit card program should cross-check the automatic departure emails with the list of cardholders on a monthly basis and cancel any accounts as necessary.

SUMMARY OF RECOMMENDATIONS

Recommendation #1: The Finance Department should communicate guidance citywide about the taxability of employee appreciation related items and gifts to ensure that city departments give and report them in compliance with the Internal Revenue Code.

Management's Response: The Finance Department will send an annual citywide email reminding all employees and managers of the Internal Revenue Code, with specific examples to ensure compliance, and setup a process whereby departments report any remuneration to employees.

Recommendation #2: To train all credit card approving officials on all relevant city policies — including those related to required documentation — when reviewing credit card statements, the Finance Department should make sure to include credit card approving officials in its annual training.

Management's Response: The Finance Department will include all approving officials in the required annual training and specifically include material on reviewing credit card statements.

Recommendation #3: To prevent employees from receiving reimbursement for purchases made using a city credit card, the Finance Department should require employees to attach any associated travel forms during the time period to the credit card statement packet before forwarding to approving officials for review.

Management's Response: While this isn't a common occurrence, the Finance Department plans to review the travel policy and reimbursement request submission processes to ensure duplicative reimbursements aren't requested.

Recommendation #4: To ensure credit card statements are appropriately reviewed at the individual department level, the Finance Department should ensure departments immediately submit updated forms from approving officials and provide this list to the employee in the Finance Department who verifies an appropriate approving signature exists when receiving credit card statements.

Management's Response: The city currently identifies two types of approving officials: the credit card approving official who is authorized to approve city expenses procured on a city credit card (credit card user's guide) and the approving official for all city business expenses (Administrative Order No. 85 - Cash Funds Policy). Going forward, the Finance Department will only recognize approving officials as those that have been approved in accordance with the city's Cash Handling Policy.

Recommendation #5: To monitor cardholders and revoke privileges when appropriate, the Finance Department should immediately begin to track instances of noncompliance with policy on a historical and ongoing basis.

Management's Response: The procurement officer will setup a process to formally track all future instances of noncompliance with the city's credit card user's guide.

Recommendation #6: To ensure that lodging purchases made during city business-related travel are appropriate, the Finance Department should update its travel guidelines and procedures to adopt either the state or the federal government's annual lodging rates by geographic location, and require employees to submit written justification when rates must exceed these established maximums.

Management's Response: The Finance Department will update the travel guidelines and procedures to include a maximum reimbursement based on the Federal Travel Regulations, which may be overridden with appropriate justification and approval.

Recommendation #7: For the city to keep track of employee flight purchases made using city funds, the Finance Department should inventory and track unused travel funds so they are used for city travel-related purposes in the future.

Management's Response: The Finance Department will review the city's travel guidelines and procedures and travel reimbursement form (travel log) and explore the feasibility of tracking unused travel credits reimbursed to employees, and explore the possibility of using a travel agency or require only fully reimbursable travel purchases for future travel. The Finance Department recognizes that many travel plans were canceled due to COVID-19 and are exploring how to request reimbursement from all employees who received and used a credit due to the cancellation for personal use.

Recommendation #8: To promote prompt closure of accounts, the manager in Finance overseeing the credit card program should cross-check the automatic departure emails with the list of cardholders on a monthly basis and cancel any accounts as necessary.

Management's Response: In addition to closing credit card accounts as supervisors notify the Finance Department, the procurement officer will ensure prompt closure of city credit card accounts by reviewing a monthly termination report.