



**Office of the City Auditor**

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**Report to the City Council  
City of San José**

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**PROCUREMENT CARDS:  
CLARIFICATION ON  
POLICIES AND  
ADDITIONAL OVERSIGHT  
CAN IMPROVE THE P-CARD  
PROGRAM**

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**Report 19-07  
September 2019**

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September 12, 2019

Honorable Mayor and Members  
Of the City Council  
200 East Santa Clara Street  
San José, CA 95113

**Procurement Cards: Clarification on Policies and Additional Oversight Can Improve the P-Card Program**

The City of San José has a procurement card (p-card) program intended to streamline the acquisition of small dollar value goods and services. The overall program is overseen by the Finance Department, but oversight for transactions is decentralized to all City departments. In FY 2018-19, roughly 990 cardholders made over 50,000 purchases totaling \$14 million. The objective of this audit was to review p-card usage in the City.

**Finding 1: Most P-Card Transactions Complied with City Policy, However, Policy Clarifications for Some Types of Purchases Are Needed:** While our review of over 4,000 p-card transactions showed that most transactions adhered to the City's p-card policy, some exceptions were observed. These included recurring purchases of water for personal use, technology purchases made without approval from the Information Technology Department (IT), and not properly identifying and recording fixed assets with a purchase price greater than \$5,000. We also noted that several former City employees had active p-cards after their separation date from the City, and that many p-cardholders did not complete a required annual recertification quiz (without which a p-card should be suspended). Many of these same issues were observed in prior audits and are the subject of open audit recommendations. In addition, the Finance Department (Finance) should work with Public Works to clarify restrictions on vehicle-related purchases. Because City employees must be aware of and comply with myriad City policies and internal guidelines for p-card purchases, it would be beneficial if these were made available in a user friendly format.

**Finding 2: The City Can Better Monitor Expenditures From Commonly Used Vendors:** Finance negotiates with various vendors to receive preferred pricing and terms. Since 2007-08, Office Depot has had an agreement with the City to provide preferred pricing, discounts, and volume rebates for office supplies. However, it appears that many of these benefits were not correctly received. From July 2014 to June of 2018, we estimate that the impact from lost rebates and discounts may have been at least \$176,000. We recommend that Finance work with Office Depot to correct past issues, and develop a process to provide adequate oversight of the Office Depot agreement in the future. Additionally, Finance has also negotiated with a variety of other vendors to establish citywide and departmental open purchase orders that provide competitive pricing or other incentives. However, p-card data show that these have not always been used.

Finally, there have been significant levels of purchases at various other vendors which indicates an opportunity to determine the feasibility of exploring and negotiating preferred pricing and terms with those vendors.

**Finding 3: Parks, Recreation and Neighborhood Services (PRNS) Can Strengthen Oversight of Its P-Card Program:** PRNS provides San José residents with diverse services such as operating and maintaining City community centers, parks, and trails, and providing programs designed to serve San José communities. The Department's p-card purchases reflect these diverse services. In 2018-19, PRNS had the most p-card expenditures in the City, and had the most p-cardholders. However, some p-card purchases did not comply with City policies; other times staff purchased items when cheaper alternatives appeared available or when the item may have not been needed. Additionally, the Department can improve its controls to secure City assets purchased through p-cards. PRNS also incurred \$13,000 of late payment fees (compared to just \$1,000 for all other departments). Because of these concerns, PRNS could benefit from improved oversight of its p-card program by reevaluating the number of p-cards needed in the department and developing guidelines to help staff comply with City policy, secure City assets purchased with p-cards, and ensure that p-card payments are made in a timely manner.

The report includes nine recommendations. We will present this report at the September 19, 2019 meeting of the Public Safety, Finance, and Strategic Support Committee. We would like to thank the departments of Finance; Parks, Recreation and Neighborhood Services, Public Works, Information Technology, and others for their time and insight during the audit process. The Administration has reviewed this report, and their response is shown on the yellow pages.

Respectfully submitted,



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# Introduction

The mission of the City Auditor's Office is to independently assess and report on City operations and services. The audit function is an essential element of San José's public accountability, and our audits provide the City Council, City management, and the general public with independent and objective information regarding the economy, efficiency, and effectiveness of City operations and services.

In accordance with the City Auditor's Fiscal Year (FY) 2018-19 Audit Work Plan, we have completed an audit of procurement card expenditures. This audit is a recurring audit on the City Auditor's workplan.

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. We limited our work to those areas specified in the "Audit Objective, Scope, and Methodology" section of this report.

The Office of the City Auditor thanks the management and staff from the following City departments for their time, information, and insights: Finance, Parks, Recreation and Neighborhood Services (PRNS), Information Technology (IT), Fire, Police, Public Works, Library, and the Office of Economic Development (OED).

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## Background

City of San José (City) staff members routinely purchase supplies and materials using City procurement cards (p-cards). Typical p-card purchases include office supplies, tools, food, low-cost equipment, and travel expenses.

The City's p-card program is administered by the Finance Department with decentralized reviews of purchases by approving officials and department coordinators in other City departments. The City p-card policy from the City's Administrative Policy Manual 5.1.2 states:

*The Citywide Procurement Card program is established to streamline small dollar purchases and reduce the acquisition period [...] [A] Procurement Card is a City-issued credit card from a financial institution. The Procurement Card shall be used as a first purchase option for small purchases unless the items are available in a City Warehouse or through established contracts such as Citywide or departmental Open Purchase Orders.*

The policy clearly states that the City p-cards are “to be used for OFFICIAL City business and MAY NOT BE USED FOR PERSONAL PURCHASES UNDER ANY CIRCUMSTANCES.” (*emphasis in the original*)

### The City’s P-card Program Is Decentralized

The City’s p-card policy spells out rules for p-card usage and outlines roles and responsibilities of all parties involved in the p-card program. These are shown in Exhibit I.

#### Exhibit I: Roles and Responsibilities of Finance and Other Departments

Roles	Responsibilities
<b>Card holders</b>	<ul style="list-style-type: none"> <li>Retain receipts from purchases to document and justify purchases</li> <li>At the end of each monthly cycle, gather receipts, identify account code for each transaction, sign p-card statement, and submit packet to approving official</li> <li>Work with bank/merchant to resolve discrepancies</li> </ul>
<b>Approving officials (must be direct supervisor of card holder)<sup>1</sup></b>	<ul style="list-style-type: none"> <li>Review and approve p-card monthly statements</li> <li>Request a p-card based on business need</li> <li>Ensure destruction and cancellation of p-cards for employees who separated from the City</li> <li>Report violations to department p-card coordinator</li> </ul>
<b>Department p-card coordinators</b>	<ul style="list-style-type: none"> <li>Submit payment requests in the City’s financial management system (FMS) for payment of billing statements</li> <li>Submit department monthly statements and supporting documentation to Finance Department (Accounts Payable) for approval</li> <li>Prepare annual review summary of p-card usage and certify department compliance with the p-card policy</li> </ul>
<b>Department Directors</b>	<ul style="list-style-type: none"> <li>Assess need and approve issuance of p-card for city business</li> <li>Approve annual summary provided by the department p-card coordinator and submit to the City’s p-card administrator</li> </ul>
<b>Accounts Payable (Finance)</b>	<ul style="list-style-type: none"> <li>Issue payments to U.S. Bank based on department-submitted requests</li> </ul>
<b>Citywide p-card administrator (Finance)</b>	<ul style="list-style-type: none"> <li>Maintains and updates p-card accounts (dollar limits and card cancellations)</li> <li>Coordinates the annual review process</li> <li>Periodically checks for policy violations</li> </ul>

Source: Auditor analysis of the Procurement Card Policy.

### P-Card Spending

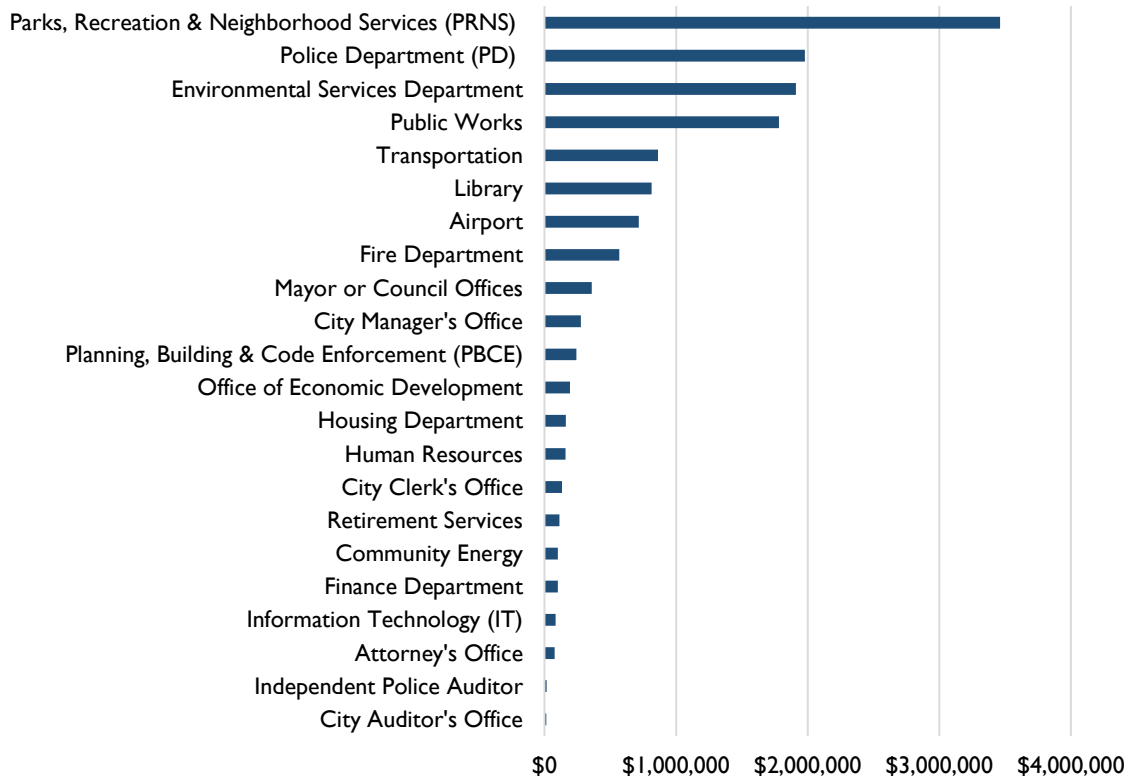
As of July 2019, there were 992 authorized card holders across the City. Between July 1, 2018 and June 30, 2019, City staff spent \$14 million across 50,000 p-card

<sup>1</sup> Council Appointees shall have their fiscal officers serve as approving officials and the City Clerk serves as the approving official for City Council and their staff.



transactions occurring across all City departments. See Exhibit 2 for a breakdown of FY 2018-19 spending by department.

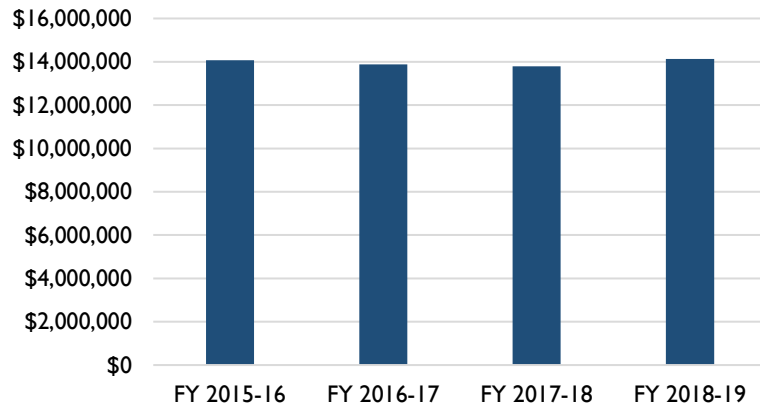
**Exhibit 2: Citywide P-card Transactions By Department (FY 2018-19)**



Source: Auditor analysis of U.S. Bank transactions (FY 2018-19).

These transactions ranged in value and merchant type, and spending patterns. The total dollar value spent using City p-cards has remained near \$14 million over the past four fiscal years (Exhibit 3).

**Exhibit 3: Total P-card Expenses From FY 2015-16 to FY 2018-19**



Source: Auditor analysis of U.S. Bank transactions (FY 2015-16 to FY 2018-19).

## **U.S. Bank Agreement**

The City's p-card program is part of the State of California's CAL-Card program. The State entered into a Master Services Agreement with U.S. Bank in the 1990s and has continued the program since that time. Under the terms of agreement, state agencies and local jurisdictions can participate in the program to use U.S. Bank p-card services. U.S. Bank then provides VISA p-cards to City employees.

The agreement with U.S. Bank allows for the City to place controls on the p-cards, beyond those typically placed on personal credit cards. Chiefly, the State and the City have blocked certain types of merchants (such as casinos) to control p-card usage.

The City also has single and monthly purchase limits to reduce the risk of fraudulent transactions. Typically, for purchases of goods, card holders have a single transaction limit of \$2,500 and for purchases of services, the single transaction limit is generally \$1,000, with a total monthly purchase limit of \$10,000.

## **Other City Policies and Guidelines**

P-card transactions are subject to a variety of City policies in addition to the City's procurement card policy. Together, these policies aim to provide guidance and set controls to ensure appropriate spending of City funds. For City departments, the relevant policies are:

- Food and Beverage Expenditure Policy (City Policy Manual 5.1.5)
- Procurement of Supplies, Materials, and Equipment (City Policy Manual 5.1.7)
- Procurement of Non-Professional Services (City Policy Manual 5.1.8)
- Procurement of Information Technology (City Policy Manual 5.1.9)
- Bottled Water Purchases (City Policy Manual 5.1.11 and Council Policy 1-19)
- Prohibition of City Funding for Purchase of Expanded Polystyrene (City Policy Manual 5.1.13)
- Code of Ethics (City Policy Manual 1.2.1 and Council Policy 0-15)
- Environmentally Preferable Procurement (Council Policy 4-6)
- Use of City and Personal Vehicles (City Policy Manual Section 1.8.1)
- Employee Travel (City Policy Manual Section 1.8.2)

Additionally, City employees have to comply with internal department/City guidelines for information technology and furniture purchases.

The Offices of the City Council are subject to slightly different policies for their expenditures. The primary policy guiding the expenditures of City Council funds is the City Council Expenditure and Reimbursement Policy (Council Policy 0-38).

### **Previous Audits**

Since 2006, the City Auditor's Office has conducted regular audits of p-card transactions to assess the appropriateness of p-card expenditures and sufficiency of related controls.

In September 2006,<sup>2</sup> the City Auditor's Office issued a report assessing the operational threats facing the City's p-card program and the administrative controls in place to prevent, eliminate, or minimize those threats. Additionally, the City Auditor's Office reviewed transaction information to identify potentially improper transactions. The audit revealed weaknesses concerning the use, processing, and monitoring of p-card transactions. The audit uncovered numerous examples of card holders violating City policies.

In January 2008,<sup>3</sup> the City Auditor's Office issued a second report to establish a baseline against which to track program improvement over time. That audit found non-compliance with approving official reviews, personal transactions, splitting transactions, and insufficient supporting documentation.

The third report published in September 2010,<sup>4</sup> found that the City needed to provide additional guidance on food and beverage purchases, require annotation of receipts for purchases, and identify high volume merchants and where possible, formalize agreements with them.

Finally, the last audit published in September 2014<sup>5</sup> found violations related to sharing p-cards among employees, a large number of technology purchases made without IT approval, and terminated employees still having active p-cards. The audit also recommended taking advantage of online transaction management tools available through US Bank.

Four recommendations from the past two audits remain outstanding. These included revising the p-card policy to require simple descriptive annotations on receipts and statements, emphasizing card holders' responsibility to make prudent purchases; changing the approval process for Council Appointees to require review by the Finance Department and referral to the Mayor's Office or City Council in cases of potential policy violations; clarifying the department coordinator's responsibility to notify Finance of all violations; requiring

<sup>2</sup> <http://www.sanjoseculture.org/DocumentCenter/View/3433>

<sup>3</sup> <http://www.sanjoseculture.org/DocumentCenter/View/3402>

<sup>4</sup> <http://www.sanjoseculture.org/DocumentCenter/View/3212>

<sup>5</sup> <http://www.sanjoseculture.org/DocumentCenter/View/35203>

documentation of IT approval for some purchases; and more effectively utilizing U.S. Bank's online approval system.

The Finance Department is currently in the process of revising the p-card policy to address the above recommendations, and developing an administrative guide to supplement the p-card policy.

# **Finding I      Most P-Card Transactions Complied With City Policy, However, Policy Clarifications for Some Types of Purchases Are Needed**

## **Summary**

While our review of over 4,000 p-card transactions showed that most transactions adhered to the City's p-card policy, some exceptions were observed. These included recurring purchases of water for personal use, technology purchases made without approval from the Information Technology Department (IT), and not properly identifying and recording fixed assets with a purchase price greater than \$5,000. We also noted that several former City employees had active p-cards after their separation date from the City, and that many p-card holders did not complete a required annual recertification quiz (without which a p-card should be suspended). Many of these same issues were observed in prior audits and are the subject of open audit recommendations. In addition, the Finance Department (Finance) should work with Public Works to clarify restrictions on vehicle-related purchases. Because City employees must be aware of and comply with myriad City policies and internal guidelines for p-card purchases, it would be beneficial if these were made available in a user friendly format.

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## **Most P-Card Usage Complied With Policies But Some Violations Were Observed**

We reviewed over 4,000 transactions spread across all City departments and found that most complied with City policy. However, we did observe some exceptions to policy and other potential violations that spoke to the need to implement open audit recommendations.

### **Some Policy Exceptions Were Noted**

The following are examples of policy exceptions observed:

- Recurring purchases of water for employee daily use – a violation of the Food and Beverage policy (See Finding 3 for additional details);
- Purchases of services an excess of the policy limit of \$1,000;
- Purchasing items when cheaper alternatives appeared available;
- Not properly identifying and recording fixed assets with a purchase price greater than \$5,000, (this policy enables the City to manage and monitor its fixed assets) and

- Making technology purchases without IT approval.<sup>6</sup>

We followed up on policy exceptions with the relevant departments.

### **Employees That Had Left the City or Were On Leave Had Active P-cards**

The p-card policy requires departments to notify the Finance Department's Purchasing Division (Purchasing) when a p-card holder separates so that the p-card can be cancelled. However, there were four instances in which this notification did not take place, resulting in active p-cards for separated employees, including one who had left the City in January of this year (2019). None of the four active p-cards had unauthorized transactions and all four were cancelled when we brought this to the attention of departments. We had noted a similar issue in our 2014 audit as well. To identify separated employees with active p-cards in the future, Purchasing could cross check the active p-card holder list against a terminated/separated employee report available in the City's human resource management system (PeopleSoft).

Further, in 21 instances, employees who were on leave still had active p-cards. This is also a violation of the p-card policy. Departments reported that they generally do not suspend p-cards for employees on leave. Instead, p-card coordinators will monitor whether unauthorized transactions occur while the employee is on leave. Employees can be placed on leave for disciplinary, medical, or personal reasons, and the length of the leave can range from a few days to several months or more, or can occur intermittently. We recommend Purchasing clarify its expectations of departments in managing the p-cards for employees on leave.

**Recommendation #1: The Finance Department should:**

- a) Periodically (at least monthly) review list of separated employees and ensure that p-cards of employees on that list are immediately deactivated, and**
- b) Reassess and clarify policy expectations to deactivate p-cards when employees are on leaves.**

<sup>6</sup> While reviewing the City's purchase history report from Office Depot, we observed that City employees had purchased four laptops totaling \$3,000 from Office Depot. It appears that these purchases were also made without IT approval.

## **P-Card Holders Did Not Always Complete the Required Re-Certification Quiz**

Departments are required to ensure that all their p-card holders complete an annual recertification quiz. Department annually attest to Finance whether their department is meeting this requirement. Finance's expectation is that p-card holders that have not passed the quiz should have their p-card suspended until they've passed. However, this expectation has not been memorialized in the current p-card policy and does not appear to be enforced.

We found that about 18 percent of all p-card holders did not complete or pass their recertification quiz for FY 2017-18, despite all departments reporting a 100 percent completion rate.<sup>7</sup> There are no consequences if a card holder does not complete the quiz—almost all the card holders that had not completed the quiz still had active p-cards.

Currently, department p-card coordinators are expected to monitor, track, and record recertification records for each department p-card holder—a highly manual process. Purchasing has data on who has taken or passed the quiz that could be used to help departments automate their monitoring of this requirement. We recommend Purchasing develop a process to share this data with departments. Purchasing should also update the p-card policy to require that a p-card be suspended should the employee not complete the recertification requirement.

### **Recommendation #2: The Finance Department should:**

- a) Develop a process to annually share recertification data with p-card coordinators so departments can easily cross-check and verify compliance with the recertification quiz,**
- b) Require p-card holders that have not completed the recertification to immediately do so, and**
- c) Suspend p-cards for employees that do not comply with the recertification requirements within an agreed-upon timeframe.**

<sup>7</sup> Many card holders pass after having taken the quiz multiple times. According to Finance, they intend to review and update the quiz as necessary.

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## Implementation of Some Previous Audit Recommendations Remain Outstanding

Many of the transaction observations of this audit are similar to those of past audit findings and open audit recommendations. This includes not annotating receipts or receiving IT approval for IT-related purchases as well as not always including approved travel statements as part of their supporting documentation for travel-related purchases.<sup>8</sup>

### *Travel Expenses Did Not Include Travel Statements or Proof of Travel*

Departments did not always include travel statements such as reimbursement forms, approved travel, and additional event details. P-card supporting documentation did not require proof of attendance because travel frequently occurs at a later date. It is unclear whether departments track and reconfirm whether the travel actually occurred—particularly important in departments where frequent travel occurs.

To receive a travel reimbursement for similar expenses, City staff are required to provide detailed proof of travel such as a boarding pass as evidence of having taken the flight. However, if the same travel was purchased through a p-card it does not require proof of travel.

Providing the necessary documents to confirm actual travel is an important step as it holds p-card users accountable for their travel. In one instance an employee cancelled their trip due to personal reasons, and the airfare was credited minus a cancellation fee of \$150. However, the department did not report the cancelled trip to Finance in their Travel Quarterly Report as required under the City's Travel Policy.<sup>9</sup> There was no follow-up on what happened to the returned credits or whether it was used for future City-related business travel.

### *Violations Are Not Being Reported to Finance*

Departments are not always reporting violations to Purchasing, as is required by the P-Card policy. This is important so Finance can track and analyze trends in Citywide violations, or ensure that frequent violators do not continue having a p-card. Departments reported that they generally resolve the violation at the department level, and if resolved, they will not report the violation to Finance. The difference between the policy and departments' practice was also observed in

<sup>8</sup> The 2013 audit of Employee Travel Expenditures recommended that the p-card policy be updated to require that procurement card approvers attach travel coordinator-approved Travel Statements as supporting documentation for travel-related procurement card expenditures. The recommendation remains open.

<sup>9</sup> The City's Travel Policy (1.8.2) states "If a trip is cancelled and the employee receives credit for the value of the airfare, the employee should use that credit for future business travel. If the credit is used for personal travel, the employee should reimburse the City for that amount. All cancelled trips must be reported on the Quarterly Travel Report submitted to the Finance Department."



the 2014 audit, resulting in the open recommendation to clarify departments responsibilities to report violations.

The above observations reaffirm the need to implement the above related recommendations to improve the controls of the City's program. As noted in the Background, Finance is currently in the process of revising the p-card policy to address some of the above recommendations, and is also developing an administrative guide to help employees comply with p-card processes and procedures.

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## **The Administration Should Clarify Guidelines for Certain Types of Purchases**

During our review, we noted multiple purchases for items that violated internal guidelines, or were for services that are provided by other City departments. These were related to vehicle-related expenses, furniture, and technology purchases.

### **Public Works Is Responsible for the City Fleet**

The City's Public Works Department (PW) is responsible for managing the City's fleet vehicles. The Use of City and Personal Vehicles Policy (1.8.1) states,

*The Department of Public Works, Fleet Management Division has the responsibility to manage the City's transportation vehicle fleet by working with departments to maximize utilization of vehicles, maintaining the fleet in good working condition, determining which vehicles will be removed from the fleet, and managing the acquisition and disposal of vehicles.*

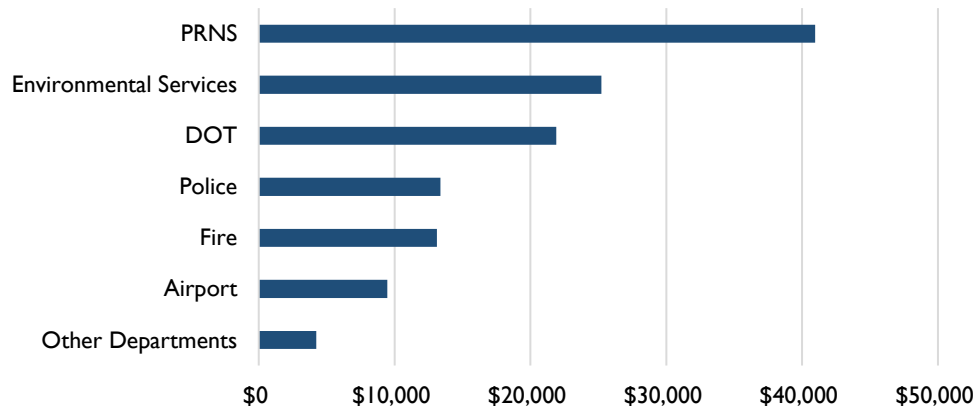
To manage and maintain City fleet vehicles, PW has eight facilities that conduct repairs and supply replacement parts. One of the facilities is open 365 days of the year, with PW staff on-call for any emergency. The City has designated fueling stations which enables City staff to refuel fleet vehicles without needing to use a p-card.

In general, departments should not need to incur vehicle related expenses on their p-card; however, non-PW departments spent at least \$128,000 in vehicle related expenses in FY 2018-19 (See Exhibit 4).<sup>10</sup> These expenses included vehicle parts, fuel, repair shops, car washes/detailing, and other expenses.<sup>11</sup>

<sup>10</sup> We should note that Public Works also had over \$150,000 in vehicle related expenses that are not included in the Exhibit. According to PW, these may be related to fleet-related purchases such as rare parts or time sensitive situations; as such, they were not included in the chart.

<sup>11</sup> According to PW, there are some exceptions in which other departments may use their p-cards for some types of vehicle-related expenses. This could include vehicles used for PRNS' Family Camp (e.g., fuel costs due to the distance to Yosemite), fuel for rental cars when traveling, using City vehicles to travel long distances, or emergency situations.

#### Exhibit 4: Vehicle Related Expenses By Department (FY 2018-19)



Source: Auditor analysis of US Bank transactions (FY 2018-19).

PW expressed concern that when departments manage fleet vehicles themselves, there are risks of safety, or costs associated with the early retirement of vehicles (because fleet does not have full knowledge of vehicle maintenance records). In addition to the safety risks and replacement costs, PW has open purchase orders (OPOs) for a variety of vendors that provide repair services, auto parts, and detailing (cleaning and car washes).

One reason for this a lack of clarity on whether these types of purchases can be made using a City p-card is because there is only an informal understanding that PW is responsible for making these purchases. There are no written guidelines on p-card use for vehicle expenses.

#### Furniture Purchases Were Not Approved By Public Works

Per internal City guidelines, furniture purchases that are less than \$2,000 require approval from PW and purchases greater than \$2,000 require approval from the Assistant City Manager (capital projects are exempt). These processes were implemented for cost control reasons so that PW can utilize their existing OPOs for office furniture, save money through the use of surplus items, and for safety concerns of City staff not equipped to install office infrastructure.

However, departments frequently used their p-cards for furniture purchases without PW approval. Purchases have included standing desks, office chairs, tables, and bookshelves. For example, between January 2017 and May 2019, departments spent \$113,000 on furniture through the City's purchase order with Office Depot. It should be noted that the City's agreement with Office Depot explicitly restricts furniture purchases.

PW has existing OPOs with two vendors for citywide furniture purchases. However, similar to the OPO for vehicle-related purchases, these are not available on the citywide list of OPOs.

On an annual basis, Purchasing disseminates the furniture guidelines to department fiscal officers and lists the guidelines in its Frequently Asked Questions page on the City's intranet site. However, p-card holders and coordinators may not be aware of the furniture requirement as these Citywide guidelines are not mentioned in the City's p-card policy or easily located on the City's intranet website.

### **P-Card Holders Must Comply with Many Policies and Internal Guidelines**

As previously mentioned in the Background section of this report, p-card users must comply with myriad City policies and guidelines. These include policies on food and beverage purchases, travel, technology purchases, vehicle use, purchasing policies, use of citywide and department-specific purchase orders, and others.

To reduce confusion and ensure compliance with the p-card policy, some departments have created their own internal compilation of related policies and guidelines. For example, the Fire department has a "cheat sheet" matrix and the Library Department has created a webpage that aggregates all policies related to p-card purchases with knowledge check quizzes integrated into it (Exhibit 5). The Finance Department has developed draft administrative guidelines to supplement the p-card policy which we will discuss later in the finding. Finance could also leverage one of these tools from Fire or Library to provide City staff aggregated policies related to p-card purchases for easy accessibility.

### **Exhibit 5: The Library Department Has a User-Friendly Resource for Its Staff**

Lesson 4 of 9

## Purchasing Furniture

### Purchasing Furniture

Below are the guidelines for purchasing furniture at SJPL. Supervisor approval is required before making a purchase. The Supervisor's responsibility is to ensure the funds are available in the budget and then to approve or deny the request accordingly.

#### Definition of Furniture

Small or large movable equipment such as tables, chairs, filing cabinets, shelves for public or staff library spaces.

Source: Library Department's "Purchasing Guidelines" internal website.

## **P-Card Administrative Guide Will Supplement the P-Card Policy**

As discussed above, to comply with the p-card policy City staff must comply with various related City policies and guidelines that they may not be aware of. As a result, staff may inadvertently violate policy and make purchases via their p-card. Finance is addressing the need to provide additional guidance by developing a p-card administrative guide to supplement the p-card policy. This would help City employees comply with applicable p-card policies. The administrative guide could be used to inform City employees on the restrictions of vehicle related expenses and furniture purchases.

**Recommendation #3: To help employees comply with applicable purchase requirements, Finance should:**

- a) Aggregate all policies and guidelines applicable to p-card purchases, including furniture purchases, in an easy and user friendly resource available on the City's intranet site; and**
- b) Work with Public Works to clarify restrictions on vehicle related p-card expenses and that any questions regarding such purchases be directed to Public Works' Fleet Division, and include such guidance in the p-card administrative guide.**

## **Cloud-Based Services Subscriptions**

Departments oftentimes purchase cloud-based software or other services. These subscriptions are paid using a City p-card and frequently exceed \$1,000 annually. For example, a department has a monthly subscription for cloud based services for office space reservations. These purchases not only did not receive IT approval, but may also violate the City's policy for services over \$1,000. Staff in a different department also made similar purchase for software.

The p-card policy does not provide any guidance on whether there should be exceptions for cloud-based subscriptions and it is unclear whether this would fall under the \$1,000 service restriction. We recommend that the policy be clarified to provide guidance on making these types of purchases and what, if any, approvals from IT would be required.

**Recommendation #4: The Finance Department should work with the Information Technology Department to clarify whether cloud based subscriptions are considered services and whether these types of services require Information Technology Department approval.**

## **Finding 2      The City Can Better Monitor Expenditures From Commonly Used Vendors**

### **Summary**

Finance negotiates with various vendors to receive preferred pricing and terms. Since 2007-08, Office Depot has had an agreement with the City for providing preferred pricing, discounts, and volume rebates for office supplies. However, it appears that many of these benefits were not correctly received. From July 2014 to June of 2018, we estimate that the impact from lost rebates and discounts may have been at least \$176,000. We recommend that Finance work with Office Depot to correct past issues, and develop a process to provide adequate oversight of the Office Depot agreement in the future. Additionally, Finance has also negotiated with a variety of other vendors to establish Citywide and departmental open purchase orders that provide competitive pricing or other incentives. However, p-card data shows that these have not always been used. Finally, there have been significant levels of purchases at various other vendors which indicates an opportunity to determine the feasibility of exploring and negotiating preferred pricing and terms with those vendors.

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### **The City's Office Depot Agreement Needs Additional Monitoring and Review**

Since 2007-08, the City has purchased office supplies on a citywide basis from Office Depot/OfficeMax (Office Depot)<sup>12</sup> based on a national cooperative procurement agreement known as the America Saves Program. The City's Open Purchase Order (OPO) with Office Depot adds customized incentives onto the general America Saves Program. Office Depot is the City's largest p-card vendor with average annual purchases totaling around \$1.1 million the last five fiscal years.

The current purchase order was signed in June of 2016 and was recently extended to June of 2019. Purchasing is currently in the process of negotiating a new purchase order with Office Depot.<sup>13</sup>

<sup>12</sup> The City's original contract was with OfficeMax which in 2013 merged with Office Depot. Office Depot is the surviving entity.

<sup>13</sup> In 2012, this Office performed an audit of the City's office supply agreement with OfficeMax (<http://www.sanjoseca.gov/DocumentCenter/View/3169>). The audit resulted in the City receiving a \$166,000 refund because the City did not receive the full discounts it anticipated when it entered the office supply agreement.

## The City May Have Not Have Received the Full Incentives Provided By Its Agreement With Office Depot

Incentives in the agreement have included volume rebates, discounted pricing on customized product lists, and others. However, it does not appear that the City has been receiving all the benefits outlined in the agreements. See Exhibit 6 for a description of various incentives and what has occurred in actual practice.

### Exhibit 6: The City May Not Be Receiving the Full Benefits of Its Agreement With Office Depot

Incentive	Actual Performance
Customized product list based on City usage and that provides fixed pricing for a length of time.	Customized product list proposed as part of current negotiations does not appear to be based on City usage.
The products and their prices can be periodically adjusted upon agreement between Office Depot and the City.	Office Depot changed the City's product list and associated pricing without notifying the City.
Sales volume rebates based on City sales.	City sales volume was underreported.
Rebates based on sales volume of local cities that have piggy-backed on the City's agreement with Office Depot.	City did not appear to have received these rebates.
Discounts on non-contract <sup>14</sup> items ranging from 30-50 percent off list price.	It's unclear whether the discounts were provided based on pricing data.
A price guarantee that the City won't be charged more for items than what is being charged to other Office Depot customers.	We observed examples of the City being charged more than what was being charged to the lead agency of the cooperative agreement or amounts quoted by Office Depot.

Source: Auditor analysis of the City's agreement with Office Depot.

As noted above, actual and potential discrepancies were observed in sales volume rebates, product pricing, and product discounts. From July 2014 to June of 2018, we estimated that these discrepancies may have resulted in at least \$176,000 in lost savings to the City. We recommend that the City work with Office Depot to review and reconcile the discrepancies and receive adjustments as necessary. This may require reviewing multiple years of sales and rebate data.

<sup>14</sup> "Non-contract" refers to items that are not included in the City's product list or the product list associated with the national cooperative agreement.

**Recommendation #5: We recommend Finance work with Office Depot to review past pricing and purchasing data to determine and ensure the City received:**

- a) Discounts on non-contracted items;**
- b) Appropriate rebates, including those based on the sales of “piggybacked” cities; and**
- c) Appropriate pricing under the terms of the agreement.**

### **The City’s Oversight of the Office Depot Agreement Needs Improvement**

Purchasing staff was unaware of the potential and actual discrepancies noted above as they were negotiating a new purchase order. According to Finance, this was in part because of turnover among the individuals who had managed the relationship for both the City and Office Depot. However, it was also because Purchasing had not been actively monitoring purchasing activity for compliance with the agreement, placing its reliance on Office Depot for the accuracy of rebates and pricing and to maintain a customized product list that reflected the City’s needs. We recommend that Purchasing improve its oversight of the Office Depot agreement to ensure that the City realizes the full benefits provided by the agreement.<sup>15</sup>

**Recommendation #6: Finance should develop procedures to ensure that current and any future purchase orders with Office Depot are subject to a review that includes:**

- a) Reconciling sales volume data to ensure that the City is receiving all the rebates it is entitled to;**
- b) Testing pricing data to determine whether the City is receiving accurate pricing, including applicable discounts, and that the amounts paid by the City for items are not more than what is being charged to other customers; and**
- c) Reviewing the City’s “customized product list” to ensure that it is based on actual City usage.**

<sup>15</sup> In coordination with Purchasing, we met Office Depot representatives to review our concerns. Purchasing has requested that Office Depot perform a lookback analysis to review the impact of the discrepancies and determine whether Office Depot owes the City additional money.

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## **P-Card Holders Are Not Utilizing Discounts From Vendors Through OPOs**

In addition to the purchase order with Office Depot, Purchasing has negotiated with a variety of other vendors to establish citywide and departmental OPOs that provide the City with competitive pricing or other incentives.

Citywide purchase orders are available to all City departments whereas departmental purchase orders are department-specific. The City's p-card policy instructs employees to make purchases through an existing OPO rather than a p-card, unless a purchase order specifically notes that use of a p-card is permissible.

Despite the City's policy, departments regularly used their p-card to purchase items which should have been made through an open purchase order. For example, we observed p-card expenses to some Citywide OPO vendors potentially totaling \$68,000.

While the list of Citywide purchase orders is available on Purchasing's intranet site, department-specific OPOs are not, likely explaining a portion of departments' non-compliance with the policy. For example, despite an existing department OPO, PW made p-card purchases of \$30,000 at Home Depot in FY 2018-19; the City could have received \$1,500 in rebates had these purchases been made through the department's OPO with Home Depot. P-card transactions are not regularly monitored to assess whether employees are using their p-cards when they should be using OPOs.

Employees may not always have access to key information related to citywide OPOs. The citywide OPOs that are listed on Purchasing's website are often accompanied by an excel file with a price list of discounted items to guide employees on their purchases. However, at the time of the audit the excel sheet was only accessible through the Internet Explorer browser and not through Chrome or Microsoft Edge browsers. Without access to the product list and costs, employees may not be making informed decisions on which products are discounted or whether the City is receiving the correct discounted price.



**Recommendation #7: The Finance Department should:**

- a) Include in its department p-card coordinator training expectations about on-going monitoring of p-card purchases to ensure that departments are appropriately utilizing Citywide and department-specific open purchase orders when applicable;
- b) Work with the Information Technology Department to ensure that related purchase order information is available in all browsers, or that purchase orders specifically clarify that the related information is only available through Internet Explorer Browsers.

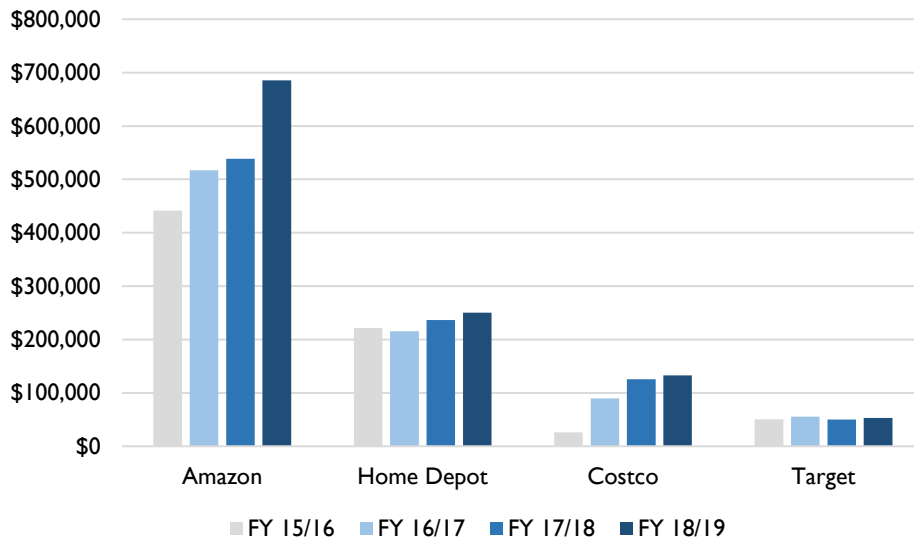
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**There May Be Opportunities to Establish Additional OPOs**

P-card expenses for certain vendors have increased steadily and some are at a level where it may make sense to establish an OPO with those vendors to consolidate the City's purchasing power and potentially realize purchasing incentives.

As Exhibit 7 shows, p-card purchases from Amazon, Home Depot, and Costco have steadily increased since FY 2015-16.

**Exhibit 7: City Staff Spent Nearly \$4 Million at Four Vendors Since FY 2015-16 Using Their City P-Cards**



Source: Auditor analysis of U.S. Bank transactions.

Government partnerships exist with some of these vendors and could help save the City money. For example, Home Depot offers procurement contract partnerships with federal, state, and local governments that includes competitive product pricing, low-cost delivery options, and a five percent annual rebate. There is no cost to participants, no minimum spending requirements, and City employees can use their p-card for purchases.

Taking into consideration the 5 percent annual rebate, the City could have saved \$12,500 based on Home Depot p-card purchases in FY 2018-19. If this were to be applied to all top vendors shown in Exhibit 7, for FY 2018-19 the City could have potentially earned \$56,000 in rebates not including any additional savings from discounted products we may receive.<sup>16</sup>

Finally, there may be opportunities to consolidate cable services purchased by the City. Departments' cable services are not coordinated, resulting in multiple service agreements with different cable providers within the same department. In FY 2018-19, cable services totaled in \$52,000 from Comcast, DirecTV, and DISH.

#### *Consolidating Purchases Across Departments May Provide Some Opportunities*

Due to vacancies, Purchasing has not been monitoring p-card purchases to identify possible opportunities to establish OPOs with individual vendors. Given the amount of time needed to establish an OPO and to continually monitor these agreements, Finance should develop a threshold where it makes financial sense for the City to establish an OPO. Finally, ensuring that these purchases are sufficiently reviewed and monitored will also be important.

**Recommendation #8: The Finance Department should develop and implement a process to:**

- a) Annually review and identify high usage vendors; and**
- b) Utilize criteria for establishing business partnerships that provide competitive rates and terms with those vendors.**

<sup>16</sup> Purchasing is currently discussing opportunities for a business partnership with Amazon and will be exploring opportunities with Costco. Purchasing is also exploring whether PW's department-specific OPO with Home Depot could be expanded Citywide.

## **Finding 3      Parks, Recreation and Neighborhood Services (PRNS) Can Strengthen Oversight of Its P-Card Program**

### **Summary**

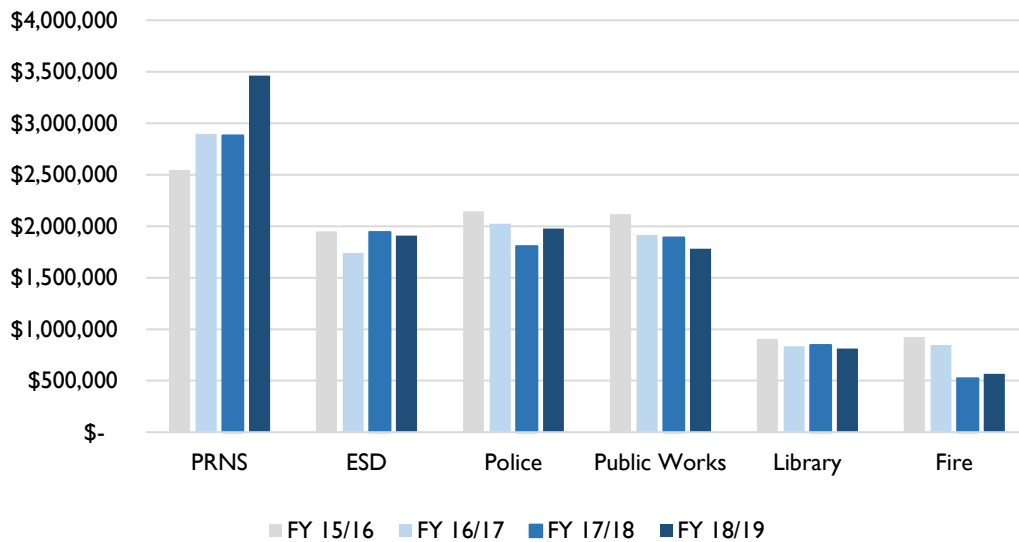
PRNS provides San José residents with diverse services such as operating and maintaining City community centers, parks, and trails, and providing programs designed to serve San José communities. The Department's p-card purchases reflect these diverse services. In 2018-19, PRNS had the most p-card expenditures in the City, and had the most p-card holders. However, some p-card purchases did not comply with City policies such as the City's Food and Beverage Policy; other times staff purchased items when cheaper alternatives appeared available or when the item may have not been needed. Additionally, the Department can improve its controls to secure City assets purchased through p-cards. PRNS also incurred \$13,000 of late payment fees (compared to just \$1,000 for all other departments). Because of these concerns, PRNS could benefit from improved oversight of its p-card program by reevaluating the number of p-cards needed in the department and developing guidelines to help staff comply with City policy, secure City assets purchased with p-cards, and ensure that p-card payments are made in a timely manner.

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### **PRNS Is the City's Largest P-Card Spending Department and User**

PRNS is the City's largest p-card spending department, accounting for nearly 25 percent of the \$14 million the City spent using p-cards in FY 2018-19. This is up from 18 percent in FY 2015-16. The Department's p-card expenses have also increased 36 percent over the past four fiscal years, consistent with the Department's growth in non-personal and equipment expenses over that same period. Exhibit 8 shows the p-card expenses of the City's six largest p-card spending departments and how the expenses changed since FY 2015-16.

### Exhibit 8: PRNS Now Accounts for the Most P-Card Expenses Among Large City Departments



Source: Auditor analysis of US Bank transaction data.

PRNS had nearly 16,000 transactions in FY 2018-19, and had 246 active p-card users as of this audit.

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#### PRNS' P-Card Controls Can Be Improved

PRNS employees are distributed throughout the City and the Department is one of the City's larger staffed departments, increasing the number of employees that may need p-cards. However, when compared to other larger City departments and given the findings of this audit, PRNS may have more p-cards than it can effectively manage and should reevaluate the number of p-cards needed.

Thirty-five percent of the department's full-time equivalent (FTE) employees have been issued a p-card. Other large City departments have no more than 18 percent of their budgeted FTE with a p-card. Part of the reason for the discrepancy is that PRNS provides different types of services than those of other departments.

**Exhibit 9: PRNS Has the Greatest Number of Staff With P-Cards Compared to Other Similar Sized Departments**

<b>Departments</b>	<b># of Active P-Cards (as of 4/17/19)</b>	<b>18/19 Budgeted FTE</b>	<b>Budgeted FTE to Active P-Cards</b>
<b>PRNS</b>	<b>246</b>	<b>711</b>	<b>35%</b>
Police Department	205	1,691	12%
Public Works	101	573	18%
Environmental Services	67	550	12%
Transportation	63	475	13%
Fire Department	40	823	5%

Source: US Bank Data and FY 18-19 Adopted Operating Budget.

*One PRNS Employee Provides the Final Review of P-Card Transactions*

While approving officials provide the first review of the appropriateness of transactions, the p-card coordinator is the final review. One PRNS staff person is responsible for providing the secondary transaction review for all department transactions. For context, PRNS had nearly 16,000 p-card transactions in FY 2018-19; the department with the second largest number of transactions in the fiscal year was the Police Department at 6,500. The Police Department, with about 12 percent of FTE holding p-cards, has at least two people providing secondary transaction review.

**Additional Policy Guidance Needed to Ensure Purchases Comply With P-Card Policy and to Secure City Assets**

PRNS staff made some p-card purchases which violated City policy and did not report such violations to Purchasing; did not appear to be cost effective or may have not been needed; or without having adequate controls in place to secure City assets. Examples of these included:

- Purchasing water services for employee daily use – a violation of policy; these recurring monthly charges totaled \$6,100 from January 2018 to June 2019;
- \$550 on 12 brand name polos for team shirts (or \$46 per shirt);
- \$500 for speakers and \$270 for an Xbox for use at community centers that had not been opened or used because staff was unaware of its existence or because of client preferences and theft concerns;
- Purchasing a \$1,000 bike for rental and staff use at the City’s Sport Action Park; staff noted that rental bikes at the park generally cost \$200-\$400;
- Purchasing a \$9,900 stage for a community center but not recording the purchase in the City’s fixed asset system in accordance with City policy;

- Purchasing cable and internet services from two separate providers for the same community center. These purchases, which totaled \$9,500 and occurred from July 2016 to August 2018, likely could have been combined to save the City money; and
- Purchasing gift cards without having sufficient controls in place.<sup>17</sup>

We performed inventory checks on the speakers, Xbox, and bicycle noted above. Although staff was eventually able to locate all the items, they did have difficulty locating the bike and speakers. None of the items were tagged or tracked as City of San José property, and one location we visited noted issues with thefts. The items appeared to be kept in locked areas when not in use. Staff at one community center we visited had developed their own internal guidelines to track and secure community center items; staff at two other locations expressed interest in uniform department-wide guidance in this area.

PRNS has also accounted for most of the recent late fees incurred by the City. Since July 2017, PRNS accounted for \$13,000 of the \$14,000 in City late fees. These late fees incurred over a period of eight consecutive months from September 2018 to April 2019. The remaining \$1,000 in late fees was spread out among several different departments. Staff in PRNS identified late fees as a significant issue and addressed it throughout the year, reducing late fees each month from October 2018 to April 2019. PRNS did not incur late fees in May or June 2019.

Finally, two of the four separated City employees with active p-cards (discussed in Finding I), were from PRNS.

#### *Additional Guidance May Be Needed for the Business Purpose of P-Card Purchases*

Because of the nature of PRNS' programs and services, the Department may have unique purchases, and staff may need additional guidance about the appropriateness and security of those purchases. For example, many of PRNS' operations include activities that provide the public and their participants food and beverages, resulting in staff regularly making food and beverage purchases.

However, there appears to be a need to provide guidance on making appropriate food and beverage purchases. For example, staff members at three different locations were making recurring purchases of water services for employee use – a violation of the food and beverage policy. Additionally, staff regularly used their p-

<sup>17</sup> As part of the Senior Nutrition Program, staff purchased gift cards for a gas station at \$25 each for a total of \$39,000 from January 2017 to May 2018. Staff maintained a roster of the individuals that received the gas cards for the month sampled in the audit, and for at least one community center kept participants' completed request forms acknowledging receipt of the cards. PRNS does not currently have written procedures for gift card purchases.

card to make purchases at grocery stores despite a department purchase order for such purchases.<sup>18</sup>

The Department has also accounted for most of the growth observed in citywide p-card food expenses over the last four fiscal years. Between FYs 2015-16 and 2018-19 citywide p-card food and beverage expenses increased 34 percent to \$653,000; PRNS accounted for 91 percent of this growth. Although most of the growth appears consistent with the increased services provided by the Department over that period,<sup>19</sup> it may also indicate that additional guidance is needed.

We recommend PRNS improve its controls to ensure proper use of p-cards and to improve the security of City assets purchased with p-cards, and to reevaluate whether the number of p-cards issued to the Department are commensurate with departmental controls.

**Recommendation #9: PRNS should develop procedures for p-card usage that include:**

- a) A review of p-card usage to reevaluate the operational necessity of individual staff having a p-card and cancel p-cards if not necessary,**
- b) Guidelines to establish the business need for purchases, including for food and beverages used for events or programs,**
- c) Providing expectations for tracking and securing high-value items purchased with p-cards,**
- d) Ensuring staff are using available purchase orders for food and beverage purchases,**
- e) Developing guidelines surrounding the purchase of gift cards that set expectations on dollar limits, usage, and supporting documentation, and**
- f) Ensuring that p-card payments are made in a timely manner.**

<sup>18</sup> The department has an open purchase order with Save Mart Supermarkets (which also includes Lucky's and Food Maxx stores) to provide food at public events. The purchase order is for \$100,000. To avail the pricing offered to City of San José staff, Save Mart has provided a Save Mart card. However, p-card holders made purchases from other grocery stores or using their p-card at Save Mart and not the Save Mart-specific procurement card provided, potentially resulting in loss savings. In FY 2018-19, PRNS p-card expenses totaled \$72,000 at grocery stores and of that total, \$2,500 were at Save Mart or associated stores.

<sup>19</sup> For example, as part of the fiscal year 2016-17 budget, City Council approved \$100,000 in funding to assist PRNS in transitioning towards case management as part of the Mayor's Gang Prevention Task Force. This budget action noted that the funding could be used towards food purchases.

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# Conclusion

The City's P-Card Program was established to streamline small dollar purchases. City employees spent over \$14 million in p-card purchases between June 2018 and July 2019. Even though departments generally complied with the existing p-card policies, the City should clarify expectations for some purchases to help employees comply with City policies and guidelines. The City can also improve monitoring and oversight of its agreement with Office Depot to ensure that the City realizes the incentives provided by the agreement. Further, opportunities exist for departments and the Finance Department to identify other high-volume merchants and where possible, formalize agreements with them. Finally, PRNS should improve its oversight and controls of its p-card program.

## RECOMMENDATIONS

### **Finding 1: Most P-Card Transactions Complied With City Policy, However Policy Clarifications for Some Types of Purchases Are Needed**

Recommendation #1: The Finance Department should:

- a) Periodically (at least monthly) review list of separated employees and ensure that p-cards of employees on that list are immediately deactivated, and
- b) Reassess and clarify policy expectations to deactivate p-cards when employees are on leaves.

Recommendation #2: The Finance Department should:

- a) Develop a process to annually share recertification data with p-card coordinators so departments can easily cross-check and verify compliance with the recertification quiz,
- b) Require p-card holders that have not completed the recertification to immediately do so, and
- c) Suspend p-cards for employees that do not comply with the recertification requirements within an agreed-upon timeframe.

Recommendation #3: To help employees comply with applicable purchase requirements, Finance should:

- a) Aggregate all policies and guidelines applicable to p-card purchases, including furniture purchases, in an easy and user friendly resource available on the City's intranet site; and
- b) Work with Public Works to clarify restrictions on vehicle related p-card expenses and that any questions regarding such purchases be directed to Public Works' Fleet Division, and include such guidance in the p-card administrative guide.

Recommendation #4: The Finance Department should work with the Information Technology Department to clarify whether cloud based subscriptions are considered services and whether these types of services require Information Technology Department approval.

**Finding 2: The City Should Monitor Expenditures of Commonly Used Vendors and Improve Its Agreement Oversight**

Recommendation #5: We recommend Finance work with Office Depot to review past pricing and purchasing data to determine and ensure the City received:

- a) Discounts on non-contracted items;
- b) Appropriate rebates, including those based on the sales of “piggybacked” cities; and
- c) Appropriate pricing under the terms of the agreement.

Recommendation #6: Finance should develop procedures to ensure that current and any future purchase orders with Office Depot are subject to a review that includes:

- a) Reconciling sales volume data to ensure that the City is receiving all the rebates it is entitled to;
- b) Testing pricing data to determine whether the City is receiving accurate pricing, including applicable discounts, and that the amounts paid by the City for items are not more than what is being charged to other customers; and
- c) Reviewing the City’s “customized product list” to ensure that it is based on actual City usage.

Recommendation #7: The Finance Department should:

- a) Include in its department p-card coordinator training expectations about on-going monitoring of p-card purchases to ensure that departments are appropriately utilizing Citywide and department-specific open purchase orders when applicable;
- b) Work with the Information Technology Department to ensure that related purchase order information is available in all browsers, or that purchase orders specifically clarify that the related information is only available through Internet Explorer Browsers.

Recommendation #8: The Finance Department should develop and implement a process to:

- a) Annually review and identify high usage vendors; and
- b) Utilize criteria for establishing business partnerships that provide competitive rates and terms with those vendors.

### **Finding 3: Parks, Recreation and Neighborhood Services (PRNS) Could Strengthen Oversight of Its P-Card Program**

Recommendation #9: PRNS should develop procedures for p-card usage that include:

- a) A review of p-card usage to reevaluate the operational necessity of individual staff having a p-card and cancel p-cards if not necessary,
- b) Guidelines to establish the business need for purchases, including for food and beverages used for events or programs,
- c) Providing expectations for tracking and securing high-value items purchased with p-cards,
- d) Ensuring staff are using available purchase orders for food and beverage purchases,
- e) Developing guidelines surrounding the purchase of gift cards that set expectations on dollar limits, usage, and supporting documentation, and
- f) Ensuring that p-card payments are made in a timely manner.

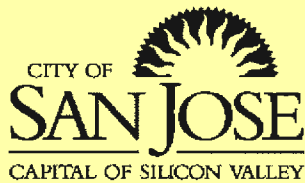
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## Audit Objective, Scope, and Methodology

The objective of our audit was to review p-card usage for compliance with City policies. We also reviewed compliance with previous audit recommendations. To achieve our audit objectives, we performed the following:

- To understand the p-card and all relevant policies and guidelines related to p-card purchases, we reviewed the various City policies:
  - Procurement Card Policy (City Policy Manual 5.1.2);
  - Food and Beverage Policy (City Policy Manual 5.1.5);
  - Procurement of Supplies, Materials, and Equipment (City Policy Manual 5.1.7);
  - Procurement of Non-Professional Services and Supplies (City Policy Manual 5.1.8);
  - Procurement of Informational Technology (City Policy Manual 5.1.9);
  - Bottled Water Purchases (City Policy Manual 5.1.11);
  - Ethics Policy (City Policy Manual 1.2.1); and
  - Various department-specific policies for providing guidance for p-card purchases.
- To understand the roles, responsibilities, and procedures of the Finance Department, we interviewed staff from Purchasing and Accounts Payable.
- To identify and analyze p-card expense trends including food and beverages, commonly used vendors, vehicle expenses, cable services, and vendors with an existing open purchase order, we reviewed and compiled P-Card transaction data from U.S. Bank from FY 2014-15 to FY 2018-19.
- Reviewed over 4,000 transactions occurring between May and June 2018 that were spread across all City departments. These transactions appeared on the June 22, 2018 US Bank Monthly statement.
  - We selected this month because per our review of annual transactions this month generally had the highest number of p-card expenses.
  - We reviewed statements to identify the reason for purchases (if given), evaluate the documentation provided, check for the appropriate signatures, and verify compliance with relevant City policies.

- Any exceptions or questionable transactions were noted and reviewed with department staff as appropriate.
- To follow-up on specific p-card expenses and understand departmental controls, we met or discussed with various departments including Parks, Recreation and Neighborhood Services; Information Technology; Fire; Police; Public Works; Office of Economic Development; Library; the Environmental Services Department; City Clerk's Office; Retirement Services; and the Independent Police Auditor.
- Reviewed the City's agreement with Office Depot to test compliance with agreement terms.
- Interviewed staff from Office Depot to discuss current and past agreement terms.
- To ensure all p-cards of former employees had been cancelled, we compared a list of terminated employees from the City's human resource management system (PeopleSoft) to the U.S. Bank list of current account holders.
- Compared recertification results data to list of department p-card holders to ensure all p-card holders completed and passed their annual recertification quiz per Purchasing guidelines.
- Confirmed inventory items and understood inventory procedures by interviewing Recreation Supervisors at the Lake Cunningham Sport Action Park and the Roosevelt, Berryessa, and Grace Community Centers.



# Memorandum

**TO:** Joe Rois  
City Auditor

**FROM:** Julia H. Cooper  
Jon Cicirelli

**SUBJECT:** SEE BELOW

**DATE:** September 10, 2019

Approved

Date

9-10-19

**SUBJECT: RESPONSE TO AUDIT OF “PROCUREMENT CARDS: CLARIFICATION ON POLICIES AND ADDITIONAL OVERSIGHT CAN IMPROVE THE P-CARD PROGRAM”**

The Administration has reviewed the Audit of *Procurement Cards: Clarification on Policies and Additional Oversight Can Improve the P-Card Program* and agrees with the recommendations identified in the report. The Administration’s responses to each of the auditor’s recommendations are provided in this report.

Consistent with other priority-setting processes, the City Council adopted a new framework for the Administration’s response to Audit recommendations in May 2015. As with other priority processes, the green, yellow, and red light system is utilized to convey the Administration’s operational readiness to undertake workload demands. Green administration responses represent items that are either in existing work plans or are part of work already underway. Yellow administration responses represent items that would take more than 40 hours including research and policy/ordinance development. Red administration responses indicate that the item is not feasible. The Administration’s response to each of the Audit’s recommendations is presented below employing the green, yellow, and red light system consistent with City Council direction in May 2015.

## **BACKGROUND**

The Procurement Card Program (the “Program” or “P-Card Program”) is designed to facilitate and expedite small dollar purchases of supplies, materials, and equipment and very limited services. The average p-card purchase is approximately \$300. In many instances, the staff time to process a traditional purchase order would exceed the value of a p-card purchase. The Program has allowed Finance-Purchasing staff to focus work efforts on larger and more complex procurements where the opportunities for purchasing value-add are significantly greater.

In accordance with the City Auditor’s Fiscal Year 2018-19 Audit Work Plan, the City Auditor completed an audit of the P-Card Program for purposes of improving the P-Card Program and compliance with City policy and procedures. This audit is a recurring audit on the City Auditor’s workplan.

## **RECOMMENDATIONS AND ADMINISTRATION'S RESPONSE**

### **Finding #1: Most P-Card Transactions Complied with City Policy, However Policy Clarifications for Some Transactions Are Needed.**

#### **Recommendation #1: The Finance Department should:**

- a) Periodically (at least monthly) review list of separated employees and ensure that p-cards of employees on that list are immediately deactivated, and**
- b) Reassess and clarify policy expectations to deactivate p-card when employees are on leaves.**

**Administration's Response:** The Administration agrees with this recommendation.

**Green:** The Finance Department will work on the following:

**#1a:** The Finance Department will work with the Human Resources Department to establish a process in which Finance will periodically obtains and reviews the list of separated employees to ensure the p-cards of those on the list are deactivated in a timely manner.

**#1b:** The Finance Department will reassess and clarify policy expectations to deactivate p-cards when employees are on leave of absence with the revised P-card Policy.

**Target Date for Completion:** December 2019

#### **Recommendation #2: The Finance Department should:**

- a) Develop a process to annually share recertification data with p-card coordinators so departments can easily cross-check and verify compliance with the recertification quiz,**
- b) Require p-card holders that have not completed the recertification to immediately do so, and**
- c) Suspend p-cards for employees that do not comply with the recertification requirements within an agreed-upon timeframe.**

**Administration's Response:** The Administration agrees with this recommendation.

**Green:** The Finance Department in coordination with City departments will work on the following:



**#2a:** The Finance Department will develop a process to share recertification data with P-card coordinators, so departments can cross-check and verify compliance with the recertification quiz; and

**#2b/2c:** The Finance Department will require p-card holders that have not completed the recertification to immediately do so and will suspend p-cards for employees that do not comply with recertification requirements within an agreed-upon timeframe.

**Target Date for Completion:** December 2019

**Recommendation #3: To help employees comply with applicable purchase requirements, Finance should:**

- a) **Aggregate all policies and guidelines applicable to p-card purchases, including furniture purchases, in an easy and user friendly resource available on the City's intranet site; and**
- b) **Work with Public Works to clarify restrictions on vehicle related p-card expenses and that any questions regarding such purchases be directed to Public Works' Fleet Division, and include such guidance in the p-card administrative guide.**

**Administration's Response:** The Administration agrees with this recommendation.

**Green:** The Finance Department will work on the following:

**#3a:** The Finance Department will aggregate all policies and guidelines applicable to P-card purchases, including furniture purchases, in an easy and user-friendly resource and make it available on the City's Purchasing intranet site, after the P-card policy is updated.

**#3b:** The Finance Department will work with Public Works Department (Fleet Division) to clarify restrictions on vehicle related p-card expenses to ensure they understand the restrictions and use the correct procurement method to purchase vehicle parts and related expenses and include the clarification in the resource that will be developed for #3a. The resource will be cross referenced from either the policy or the administrative guide, as appropriate.

**Target Date for Completion:** December 2019

**Recommendation #4: The Finance Department should work with the Information Technology Department to clarify whether cloud based subscriptions are considered services and whether these types of services require Information Technology Department approval.**

**Administration's Response:** The Administration agrees with this recommendation.

**Green:** The municipal code governs what constitutes a service; software is considered a service. The Finance Department will clarify in its policy that that cloud-base subscriptions fall under this definition and that such purchases require ITD approval.

**Target Date for Completion:** December 2019.

**Finding #2 – The City Can Better Monitor Expenditures from Commonly Used Vendors**

**Recommendation #5: We recommend Finance work with Office Depot to review past pricing and purchasing data to determine and ensure the City received:**

- a) Discounts on non-contracted items;
- b) Appropriate rebates, including those based on the sales of “piggybacked” cities; and
- c) Appropriate pricing under the terms of the agreement

**Administration's Response:** The Administration agrees with this recommendation.

**Green:** The Finance Department will work with Office Depot to review past pricing and invoicing to determine and ensure the City received the following:

**#5a:** Discounts on non-contracted items;

**#5b:** Appropriate rebates, including those based on the sales of “piggybacked” cities; and

**#5c:** Appropriate pricing under the terms of the agreement.

**Target Date for Completion:** June 2020

**Recommendation #6: Finance should develop procedures to ensure that current and any future purchase orders with Office Depot are subject to a review that includes:**

- a) Reconciling sales volume data to ensure that the City is receiving all the rebates it is entitled to;
- b) Testing pricing data to determine whether the City is receiving accurate pricing, including applicable discounts, and that the amounts paid by the City for items are not more than what is being charged to other customers; Appropriate pricing under the terms of the agreement; and
- c) Reviewing the City's "customized product list" to ensure that it is based on actual City usage.

**Administration's Response:** The Administration agrees with this recommendation.

**Green:** The Finance Department will work closely with the Office Depot to develop procedures to ensure current and future purchase orders with Office Depot are subject to a review that includes:

**#6a:** Finance will work annually with Office Depot to reconcile sales volume data to ensure that the City is receiving all the rebates it is entitled to;

**#6b:** Finance will set-up quarterly meetings with Office Depot to test pricing data to determine whether the City is receiving accurate pricing, applicable discounts, and that the amounts paid by the City for items are not more than what is being charged to other customers under the same terms and conditions of the contract; and

**#6c:** Finance will work with Office Depot to review the City's "customized product list" to ensure that the product list is based on actual City usage.

**Target Date for Completion:** June 2020

**Recommendation #7: The Finance Department should:**

- a) **Include in its department p-card coordinator training expectations about on-going monitoring of p-card purchases to ensure that departments are appropriately utilizing city-wide and department-specific open purchase orders when applicable;**
- b) **Work with the Information Technology Department to ensure that related purchase order information is available in all browsers, or that purchase orders specifically clarify that the related information is only available through Internet Explorer Browsers.**

**Administration's Response:** The Administration agrees with this recommendation.

**Green: #7a:** The Finance Department will continue to include in its quarterly p-card training sessions the expectation for ongoing monitoring of p-card purchases to ensure departments are appropriately utilizing citywide and department-specific open purchase orders when practicable. Additionally, the Finance Department will explore opportunities to underscore this expectation in either the Procurement Card Policy or the Administrative Guidelines, as appropriate.

**#7b:** The Finance Department has implemented this recommendation by publishing instructions to ensure City users can view complete purchase order information on all browsers.

**Target Date for Completion for #7a:** December 2019

**Target Date for Completion for #7b:** Implemented

**Recommendation #8: The Finance Department should develop and implement a process to:**

- a) **Annually review and identify high usage vendors; and**
- b) **Utilize criteria for establishing business partnerships that provide competitive rates and terms with those vendors.**

**Administration's Response:** The Administration agrees with this recommendation.

**Green:** The Finance Department will work on developing and implementing a process to annually review and identify high usage vendors including setting and utilizing criteria for establishing business partnerships with vendors where it makes financial sense for the City to establish an open purchase order with competitive rates and terms.

**Target Date for Completion:** December 2020

**Finding #3 – Parks, Recreation, and Neighborhood Services (PRNS) Can Strengthen Oversight of its P-Card Program**

**Recommendation #9: PRNS should develop procedures for p-card usage that include:**

- a) A review of p-card usage to reevaluate the operational necessity of individual staff having a p-card and cancel p-cards if not necessary;
- b) Guidelines to establish the business need for purchases, including for food and beverages used for events or programs,
- c) Providing expectations for tracking and securing high-value items purchased with p-cards,
- d) Ensuring staff are using available purchase orders for food and beverage purchases,
- e) Developing guidelines surrounding the purchase of gift cards that set expectations on dollar limits, usage, and supporting documentation, and
- f) Ensuring that p-card payments are made in a timely manner.

**Administration's Response:** The Administration agrees with this recommendation.

**Green:** PRNS has a broad scope and unique service delivery to the community, which can present challenges due to geographically distributed and decentralized staff and program locations. As recognized in the audit, service delivery and non-personal spending has increased in recent years, causing an increase in p-card transactions without a commensurate increase in fiscal staff responsible for the secondary review of p-card transactions. As new and unique programs are introduced, there must be an evaluation of the purchasing options available to field staff, including p-cards. Continuous training and support is necessary to give p-card holders the most success in properly administering policies. PRNS has already begun making recommended improvements and will work closely with the Finance Department to fully implement the recommendation.

**#9a:** PRNS is currently reviewing p-card usage across the department. Staff is evaluating frequency of usage as well as total purchases made by individual cardholder, and infrequently used or unused card accounts will be eliminated in accordance with operational needs by program and location. This process has already commenced and p-cards are being phased out, as appropriate. Staff is also evaluating one-time and monthly purchase limits by job classification, program, and location to determine whether there may be redundant purchasing capacities and/or inconsistent and excess purchasing limits.

**#9b:** PRNS will develop departmental guidelines regarding the appropriate business use of p-cards under various operational circumstances. As recognized in the audit, the increase in food and beverage purchases coincided with increased service delivery. In particular, a focus on case management in the areas of street outreach and gang intervention has led to increased food and beverage expenses by staff who are responsible for regularly meeting and nurturing positive relationships with at-risk youth. In addition, the growth of participation in

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afterschool programs, summer camps, and programs with grant-funded summer nutrition programs, has increased food and beverages purchases.

**#9c:** PRNS is currently categorizing *high-value items* in accordance with the definition of “fixed assets,” as articulated in the City’s Procurement Card Policy. This policy states that “...fixed assets... are pieces of equipment with a purchase price, including tax, of \$5,000 or greater.” In accordance with this policy, staff has been and continues to record these purchases in the City’s fixed assets system by annotating billing statements and posting the expense to the appropriate visible code details, when payments are processed. PRNS will collaborate with the Finance Department to identify what best practices and systems are available to record and track lower-cost supplies, materials, and equipment asset types.

**#9d:** PRNS is currently reviewing the assignment and usage of 46 Save Mart cards issued to staff to facilitate purchases under the Department’s open purchase order, and will redistribute underutilized cards to better meet operational needs. Staff has reported that vendor locations may be inconvenient for certain program sites; PRNS will work with the Finance Department to explore allowable alternatives for such cases where travel time may reduce cost savings.

**#9e:** PRNS takes seriously the purchase of gift cards and p-card process exemptions. In December 2016, when faced with an abrupt interruption in critical transportation services for seniors, staff prepared and the City Manager’s Office approved a request to purchase gift cards that participants in the City’s Senior Nutrition Program could use to travel to the program. This memorandum outlined procedures and dollar limits for the program. This same degree of caution and consideration is currently being applied for two additional programs requesting the use of gift cards as incentives for participation. PRNS is coordinating with the Finance Department, as well as the City Attorney’s Office, to determine controls and protocols before the new programs are initiated.

**#9f:** PRNS has demonstrated its resolve to process timely p-card payments by eliminating late fees during the months of May and June 2019. As noted in the audit, PRNS processes nearly 16,000 p-card transactions with only one staff person dedicated to providing the secondary transactional review. PRNS will work on implementation of the audit recommendations and will enhance supervisor training and accountability with respect to p-card statement review. These actions should reduce the centralized staff effort for p-card payment processing.

**Target Date for Completion for #9a:** December 2019

**Target Date for Completion for #9b:** March 2020

**Target Date for Completion for #9c:** March 2020

**Target Date for Completion for #9d:** December 2019

**Target Date for Completion for #9e:** Implemented

**Target Date for Completion for #9f:** Implemented

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## **CONCLUSION**

The audit report provides recommendations to clarify aspects of the P-Card Program and to address issues involving the Finance Department, the Information Technology Department and Parks, Recreation, and Neighborhood Services Department and departmental P-Card program participants. The Administration values these recommendations for opportunities to improvement in our processes and procedures. The Department would like to thank the City Auditor and staff for this operational review.

/s/

JULIA H. COOPER  
Director of Finance

/s/

JON CICIRELLI  
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